

EVALUATING FISCAL STRATEGIES: THE INTERPLAY BETWEEN DEBT INFLUENCE AND PUBLIC INVESTMENT DECISIONS IN MALAWI

FINAL REPORT

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LIST OF ACRONYMNS

ADMARC	Agricultural Development and Marketing Corporation
AIP	Affordable Input Program
CHAM	Christian Hospitals Association of Malawi
CMST	Central Medical Stores Trust
CPRP	COVID-19 Preparedness and Response Plan
CS-EPWP	Climate Smart Enhanced Public Works Programme
CSR	Corporate Social Responsibility
CUCI	COVID 19 Urban Cash Initiative
DPO	Development Policy Operation
DRMS	Domestic Resource Mobilization Strategy
DSA	Debt Sustainability Analysis
ECD	Early Childhood Development
ECF	Extended Credit Facility
EDF	Export Development Fund
EMIS	Education Management Information System
ESIP	Education Sector Investment Plan
EU	European Union
FCDA	Foreign Current Denominated Account
FISP	Fertiliser and Input Subsidy Programme
GCF	Global Climate Fund
GDP	Gross Domestic Product
GER	Gross Enrolment Ratio
GIZ	Gesellschaft für Internationale Zusammenarbeit
HIPC	Highly Indebted Countries Initiative
HIV	Human Immuno-Deficiency Virus
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contributions
KfW	Kreditanstalt für Wiederaufbau – German Development Bank
KPA	Key Priority Areas
LIA	Lending in Arrears
MAIIC	Malawi Agriculture and Industrial Investment Corporation
MDA	Ministries, Departments or Agencies
MEFP	Memorandum of Economic and Financial Policies
MEGS	Malawi Economic Growth Strategy
MERA	Malawi Energy Regulatory Authority
MGDS	Malawi Growth and Development Strategy

MIP-1	Malawi 2063 First Implementation Plan
NAMA	Nationally Appropriate Mitigation Actions
NAPA	National Adaptation Programmes of Action
NER	Net Enrolment Ratio
NESIP	National Education Sector Investment Plan
NLGFC	National Local Government Finance Committee
NSO	National Statistical Office
OCHA	Office of the Coordinator for Humanitarian Affairs
ODA	Overseas Development Assistance
OECD	Organization of
ORT	Other Recurrent Transactions
PE	Personal Emolument
PECG	Pillar and Enabler Coordinating Group
PFM	Public Finance Management
PPP	Pubic Private Partnership
PTR	Pupil-Teacher Ratio
RBM	Reserve Bank of Malawi
SCTP	Social Cash Transfer Program
SDG	Sustainable Development Goal
SMP	School Meals Programme
SOE	State Owned Enterprises
SqTR	Student Qualified Teacher Ratio
SSRLP	Social Support for Resilient Livelihoods Programme
TDB	Southern and Eastern Africa Trade and Development Bank
TEVET	Technical Entrepreneurial, Vocational and Education
TEVET	Technical Entrepreneurial and Vocational Education
TMU	Technical Memorandum of Understanding
UHC	Universal Health Coverage
UNFCCC	United Nations Framework Convention on Climate Change
USDA	United States Department of Agriculture
WASH	Water, Sanitation and Health
WFP	World Food Programme
WTO	World Trade Organization

EXECUTIVE SUMMARY

Introduction

This study is part of a regional study that seeks to assess the fiscal strategies of Malawi, Zambia, Zimbabwe, and Mozambique by examining how debt levels, the domestic political economy, and negotiations with the IMF influence public investment and debt restructuring decisions, and their subsequent impact on economic stability, growth, and progress towards the Sustainable Development Goals. In the main, this final report reviews the Ambition: presents government's strategic efforts to align national development priorities with the Sustainable Development Goals (SDGs) and climate commitments under the Paris Agreement; then analyses impact of Shocks on Malawi's economic performance and ability to live up to its ambition. It then reviews Malawi's interaction with the International Monetary Fund and assess whether conditionality of IMF programs affect the governments allocation for social sector, particularly for health, education and social protection.

The Ambition

Malawi's earlier planning efforts in the last three decades rode on the euphoria that accompanied the political transition to multipartyism and the global development consensus anchored on the UN's Millennium agenda. Vision 2020 which guided development efforts from 1998 to 2020, was the first long term in post-Banda era and aimed at moving Malawi to a middle-income status with a real per capita income of USD1,000 by the year 2020. The last medium-term strategy under Vision 2020, the Malawi Growth and Development Strategy (MGDS III: 2017-22), was aligned to the Sustainable Development agenda and AU's Africa Agenda 2063. With a horizon of 43 years (2020-2063), in the current long-term vision, the Malawi 2063 Vision (MW 2063), Malawians aspire to become an upper middle-income country by 2063 with per capita income of USD 4500. While its planning and implementation horizons are aligned to that of the AU Agenda 2063, its first ten-year implementation plan (MIP-1) has also targeted Malawi's attainment of a lower middle-income status as well as the realization of all Sustainable Development Goals by 2030 and is aligned to the SDG Decade of Action.

Malawi's multi-year plans have been characterized by overly optimistic macro-fiscal frameworks that are hardly linked to the economy's present capacity or historic performance. Except for the Poverty Reduction Strategy (2002-05) the macroeconomic pre-requisites for all of Malawi's medium-term plans included achieving an average GDP growth rate of 6-7 percent and single-digit inflation throughout 2017-2022. These were accompanied by an ambitious fiscal program suggested rising total revenue and grants relative to GDP,

containment of government expenditure and achieving fiscal balance to fiscally sustainable levels.

Achievement of the multi-year plans is beset by structural bottlenecks, exogenous shocks, and policy induced inefficiencies. MGDS III and MIP-1 commenced during trying macroeconomic and balance of payment crises that undermined their macroeconomic frameworks. MGDS was launched against a backdrop of the cashgate scandal, donor withdrawal and onset of extreme weather events. MW2063 and MIP were launched in 2021 when Malawi was in the middle of the COVID pandemic which necessitated the formulation of a COVID recovery program to return the economy to its original path. Recurrent cyclones, fiscal imbalances, coupled with a misaligned exchange rate have resulted in a balance of payments crisis with forex shortages translating into fuel shortage and an import backlog. Recent devaluations of the currency added feedstock to inflationary pressures with inflation rate persisting around 30 percent.

Malawi's multi annual plans also fell short of needs due to failure to link development planning to the recurrent budget. Malawi's dual budgeting results in weak vertical linkage between national, sectoral and district plans leaving many priorities unfunded. Increasing patrimonialism has made the conduct of state affairs to follow a client-oriented political logic mostly aimed at rewarding political allies and keeping incumbent regimes in power at the expense of actual development and service delivery.

Shocks

Macroeconomic Performance

In the real sector, a weak economic recovery has resulted in a sluggish economy and declining standard of living. Between 2015 and 2024, GDP growth has averaged 2.9 percent with a peak of 5.7 percent in 2019. In the past three years, per capita income has declined as Malawi's economic growth (under 2 percent p.a.) lagged population growth (2.7 percent p.a.). In nominal terms, GDP per capita rose from USD450 in 2016 and peaked at USD617 in 2021 before declining to USD508 in 2024. Frequent climatic disasters and other exogenous shocks have exacerbated structural vulnerabilities and complicated the recovery. The agriculture sector is particularly vulnerable to other exogenous and policy induced developments. Limited access to foreign exchange continued to impede activity in the industrial and service sectors as the shortages of foreign exchange and the resulting rise in exchange-rate premium on the parallel market constrain imports of raw materials and other production inputs.

Malawi further faces a difficult fiscal environment due to growth in expenditures that is not linked to economic capacity for revenues mobilisation. In the past decade, as government revenues rose from 15 to 20.1 percent of GDP, they were outpaced by public expenditure which increased from 18.4 to 28 percent of GDP, resulting in an annual budget

deficit averaging 6.7 percent of GDP and resurgence of debt to about 88.2 percent of GDP. The Government is also facing a shrinking fiscal space due to dominance of protected expenditures in the budget which now consumed an average of 93 percent of domestic revenue. With interest payments on debt now averaging 5.3 percent of GDP, government is also facing growing debt financing needs, the bulk of which is domestic interest (4.9 percent of GDP).

High inflation rates continue to undermine the credibility of Malawi's monetary policy and harden inflationary expectations. Following a period of moderation, in late 2024 inflationary pressures re-emerged, with headline inflation consistently averaging above 30% annually, primarily driven by escalating food and utility costs, as well as depreciation of the parallel exchange rate, and elevated money supply growth resulting from persistent domestic fiscal financing. After hiking the policy rate from 14 percent in May 2022 to 26 percent in March 2024, the RBM has held the rate stable to date, with limited notable success. High interest rates have limited access to credit, depressed investment, and slowed down economic growth due to negative returns on financial assets. Money supply growth remains elevated, although it has declined from 48.2 percent during the first quarter of 2024 to 33.9 percent during the first quarter of 2025 still reflecting high deficit financing.

In the external sector, exchange rate policy-induced distortions accentuate structural vulnerabilities and undermine the RBM capacity to accumulate reserves. Reliance on a narrow range of agricultural products for exports has resulted in seasonality of foreign exchange earnings and volatile exchange rate. In the past decade, as exports declined from 12 to 10.1 percent of GDP, imports surged to 28.4 percent of GDP resulting in the current account deficit widening from USD1.1 billion in 2015 (11.2 percent of GDP) to USD2.4 billion, equivalent to 22.0 percent of GDP in 2024. Since 2020, Malawi's foreign exchange policy stance, characterized by fixed exchange rate regime and capital controls, has widened spreads between commercial bank's telegraphic transfer and bureau exchange rates, penalised formal sector foreign currency earners, moved remittances away from official into informal channels and undermined the RBM's ability to accumulate reserves. Since 2021, foreign exchange reserves have been below one month of import cover even.

Weather Related Shocks

Malawi is increasingly susceptible to a variety of natural disasters, including heavy rainfall and flooding, seasonal droughts and cyclones. Over the past five decades, Malawi has experienced more than 19 major floods and seven droughts, with varying frequencies, magnitude, and scope. The majority of these have occurred in the past fifteen years including 17 major flooding events, a rainfall-induced landslide, five storm disasters, and three severe droughts.

Tropical cyclones have been the most destructive force among Malawi’s recent weather induced disasters. Cyclone Freddy, which hit the Southern region of Malawi between 11-13 March 2023, has been rated as the most destructive cyclone variously affecting people and causing losses and damages estimated at USD 594.9 million with an estimated USD 764 million needed for recovery and reconstruction (see Table below). Of even more consequence was Cyclone Anna whose damage to Kapichira Hydroelectric Power Station took out 30% of the country’s power generation capacity. This destruction was aggravated by Cyclone Gombe which tracked Anna two months later. In general, these tropical cyclones have typically displaced close to a million people with associated loss and damages estimated to range between 0.5 to 2.7 percent of GDP.

Weather Event, Year	People Affected	People Displaced	Loss and Damage
Flooding, 2015	1 million	230,000	USD 400 – 500 million
TC Idai, 2019	975,600	86,976	USD 157.7 -USD 220.5 million
TC Anna, 2022	1 million	200,000	USD 183 – 328 million
TC Gombe, 2022	948,434	109,359	1.5 to 2.7 per cent of GDP.
TC Freddy, 2023	2.3 million	659,278	USD 594.9 million – loss & damage USD 764 million - reconstruction

CORONA Virus Disease (COVID-19)

Although Malawi did not have a lock down, the pandemic response measures had disruptive epidemiological, social and economic effects. The President of Malawi declared a State of Disaster on March 20 2020, although Malawi only registered its first cases on April 2, 2020. On April 4, 2020, the government recommended a series of restrictive measures including virtual working arrangements, limits on public gatherings, transport and international travel. On April 14, 2020, the President of Malawi announced a national lockdown slated to begin on April 18 and to last for 21 days. However, the lockdown was challenged in court, and a court injunction on April 18 prevented the lockdown from going ahead – a decision that was upheld by the High Court. As of 29 October 2022, when Malawi made her last public reports, the country had reported 88,073 confirmed COVID-19 cases, of whom 2,683 had died, representing an overall case fatality ratio of 3.1%.

Russia-Ukraine War

Following the Russia-Ukraine war’s disruption of global energy markets and the resultant increase in global prices of petroleum based commodities, Malawi witnessed an immediate increase in fuel and fertilizer prices which, in turn, caused a surge in prices of essential food

and non-food items. In May and June of 2022, the Malawi Energy Regulatory Authority raised fuel pump prices before eventually suspending operation of the Automatic Pricing Mechanism. The rise in global fertilizer prices and rise in bulk shipping rates coupled with a depreciation of Malawi's currency increased the landed cost of fertilizer in Malawi from MK38,000 in 2021 to MK60,000 in 2022. Fertilizer prices have remained high with Urea and NPK now selling for MK160,000 per bag.

Government and donor have usually been prompt but the financial and material response almost always falls short of needs. Following onset of the cyclones and COVID-19, the government declared states of disaster and launched disaster appeals to respond to and recover from them. Both the IMF and World Bank disbursed nearly \$700 million under the Rapid Credit Facility (RCF) and IDA's Crisis Response Window, respectively, to ease balance of payment and post-cyclone reconstruction for the latter. A national COVID-19 Preparedness and Response Plan (CPRP) with a budget of USD 212 million was launched on April 8 and a month later, the budget for the Plan was increased to USD 345 million, of which around three-quarters remained unfunded. While the IMF approved debt relief, the World Bank Group activated crisis response mechanisms in projects to rapidly deploy emergency funding. Donor pooled resources to support the COVID-19 Urban Cash Initiative (CUCI) which sought to mitigate the adverse impacts of the pandemic on urban poor in the Malawi's major cities with a cash transfer equivalent to the minimum wage at the time – MK35,000 (approx. USD45) – for a total of three months. In response to the Russia-Ukraine war the World Bank Group mobilized USD449.4 million in emergency response financing and triggered seven project Contingency Emergency Response Components (CERCs) as well as budget support under the Malawi First Growth and Resilience Development Policy Operation (DPO).

The IMF to the Rescue

Malawi's engagement with the IMF has long been characterized by non-compliance to agreed conditionality resulting in non-completion and cancellation of facilities. When one controls for Rapid Credit Facilities, since 1994 Malawi has contracted fourteen facilities and reneged on eleven of them and forfeited over half of the committed funds. The 2018 and 2023 extended credit facilities aimed at creating a sustainable fiscal position, achieving price stability and safeguarding financial sector stability, rebuilding international reserves and normalizing the market for foreign exchange while restoring debt sustainability and external viability.

Malawi has partially implemented agreed upon reforms. Malawi successfully completed two reviews under the 2018 ECF and managed to amend the Reserve Bank of Malawi Act to close avenues of RBM financing of the central government. Both the 2018 and 2023 ECF required government to implement market friendly reforms including exchange rate flexibility, consistent use of the automatic fuel price adjustment, and removal of trade barriers.

Government also committed to a rationalization of the wage bill, strategic review of ADMARC and reform of the Fertilizer and Inputs Subsidy Program (FISP). The 2018 ECF was cancelled by the Malawi government ostensibly because the conditionality was onerous while the 2023 ECF automatically terminated because of government's failure to complete a single review over an 18-month period. Consequently, Malawi forfeited USD70 million and USD148 million from the 2018 and 2023 facilities, respectively.

Debt Sustainability and Restructuring Negotiations

Although Malawi has made some headway in debt restructuring negotiations with bilateral lenders, much remains to be done. Malawi has agreements in force with China EXIM and the Kuwait Fund for Arab Economic Development but discussions are continuing with India EXIM and the Saudi Fund for Development. The external debt restructuring process with commercial lenders which was a major conditionality for the 2023 ECF has failed to reach any conclusion. In 2024, Malawi's external debt service, equivalent to 9 % of GDP, mostly reflected debt to two commercial creditors - AFREXIM (3 %) and South Eastern Africa Trade and Development Bank (4%) to whom Malawi was in combined arrears amounting to \$669 million¹. Malawi has prioritized bilateral negotiations over recourse to the common framework for debt negotiation because over two-thirds of Malawi's external debt is owed to multilateral lenders who are not subject to the Common Framework.

Spending Hits the Ground

With the exception of education, Malawi allocates relatively little public funding to key social sectors like health and social protection, and relies heavily on external aid to finance them. Both the 2018 and 2023 ECFs included government's commitment to safeguard SDG spending by providing floors on social spending. In the Memoranda of Economic and Financial Policies (MEFP) accompanying both facilities the government committed to safeguarding increased spending on infrastructure and social development, with the proposed increase in spending on health and education by 0.4 percent of GDP, to be financed by cuts to FISP and maize purchases. IMF program reviews and administrative records from Ministry of Finance seem to suggest that Malawi has consistently complied with and met the social spending floors for all review periods that Malawi was required to report on them as an indicative target.

¹¹ The most recent debt report, covering data through end-September 2024, was published in November 2024.

Trends in Education Sector Spending

As Malawi's largest employer with over 85,000 primary teachers and over 16,000 secondary teachers, the Ministry of Education has long been the single largest beneficiary of the public resources, accounting for about 16 percent of the budget. Yet this allocation was below the 20% threshold for meeting the African Union's Dakar Commitment on Education for All. However relative to the economy, education spending has averaged 4% of GDP, consistent with the Incheon Declaration of Inclusive Education, which recommends that government allocate between 4% and 6% of GDP to education sector to achieve the SDG 4 targets.

A higher budget allocation to primary school sub-sector masks the inequality underlying the education sector spending. Recurrent unit costs show a strong bias toward tertiary education, with government spending about MK1,676,499 (equivalent of USD 957) per year per tertiary student - 22 times the recurrent secondary school unit cost (equivalent amount of USD44) and 30 times the spending per primary student (USD31).

Primary school remains inefficient and wasteful with only 44.5 percent of primary pupils completing primary school due to high repetition rates (23.7 percent) and drop-out rate (averaging 4.3 percent). With Gross Enrolment Rates (GER) of 127 among boys and 132 among girls a lot of resources are spent on teaching students the same material many times over with about 65 percent of resources spent on repeaters and eventual drop outs (ESIP, 2009). Classes are congested with the primary pupil to permanent classroom ratio averaging 105:1. Although the number of pupils per qualified teacher has improved from 78 to 65, it is still way in excess of the target pupil qualified teacher ratio of 60:1 and higher than the Sub Saharan average of 42:1. Because of this weak learning environment, learning outcomes remain low - only 43 and 50 percent of grade 4 students achieve proficiency in English and Chichewa, respectively, while only 23 percent achieve proficiency in Mathematics.

Secondary education is characterized by unequal access, weak learning environment, resource inequity and big variations in achievement. With a primary transition rate of 49.7 percent, access to secondary education is still a problem as many youths in the official secondary-age bracket do not attend school. Between 2015 and 2024, the secondary school GER worsened from 38 to 27 percent of youth of the secondary school age. The quality of education is also compromised by lack of qualified personnel as one-third each of secondary school teachers are degree and diploma holders while the other third are under-qualified primary school teachers. There are over 200 students per qualified English teacher; 269 students per qualified Mathematics teacher while the SqTR for Physical science exceeds 500. The national average pass rate for Malawi Schools Certificate Examination of 54.79 percent in 2024 masks significant inequalities in quality of education across gender and school types. In 2024, three in every five males (60 Percent) passed in contrast to less than half (48 percent) of female form 4 students. Among government secondary schools, the pass rate declines from

an average of 96.6 percent for national secondary schools, to 88.7 percent in district boarding schools, to 82 percent in day secondary school and to 50 percent for community day secondary school.

Trends in Health Sector Spending

The health budget has nominally increased although it mostly funds recurrent expenditure.

Over the past decade, Government expenditure on health has steadily increased from MK125 billion in 2017/18 to MK550 Billion in 2023/24. Over the past five years, the health budget increased by 247 percent in nominal terms. The Recurrent Budget accounts for 78 percent of the budget dominated by Personal emolument (50 %) and ORT (28 percent). The Development Budget which accounts for 22 percent of the budget is dominated by resources from Foreign sources which typically accounts for 85 percent of development resources and 20 percent of the health budget.

The allocation to the health sector has trended upwards, yet it remains relatively too low for meeting national and regional benchmarks.

Relative to the national budget, the allocation to the sector has steadily declined from 9.7% in 2017/18 to 9.2% in 2024/25, short of the Abuja recommendation, which calls for African States to allocate at least 15 per cent of the total government budget to health spending. Relative to GDP, this health sector allocation is equivalent to 2.6 percent of GDP, and below the SADC threshold of 5 per cent for healthcare expenditure and inadequate to achieve Universal Health Coverage (UHC) and ensure financial protection for low-income countries.

In the past two decades, Malawi has become more donor dependent in health financing.

In FY 2023/24 the Ministry of Health received financial contributions totaling USD 545,250,973.46 from 15 donors and implementing partners. Donor funding accounts for about 54.5% of total health-care funding, while government (24.1%), households (12%) and companies through voluntary health insurance (9%) account for the rest (MoH, 2023). Malawi's per capita expenditure on health (USD 39.9) falls short of the USD 86 per capita expenditure as recommended by WHO for countries of Malawi's economic capacity to achieve universal health coverage. Government's own spending on health (USD 16) is below regional peers and comparators (USD141) and inadequate to deliver Malawi's Essential Health Care Package (EHP) free of charge estimated at USD 44.4 per capita.

Although Malawi has decentralized the Health sector, the share of the health sector budget that is centrally managed under the Ministry of Health has remained high.

The central level manages an average of 58 percent while the share of the decentralized health budget managed by Local Councils has averaged 40 percent. Due to this centralized management of resources, the devolved drug budget remains insufficient to address the persistent drug shortages at the

local level. In the 2024/25 budget, although MK57.4 billion was allocated to procuring medicines and medical supplies for central and district hospital (MK26.5 billion and MK30.9 billion respectively), only 10 per cent of the district drugs budget was directly managed at the district level while the rest was managed centrally. As of October 2024, the Central Medical Stores (CMST) was owed more than MK 30 billion by the National Local Government Finance Committee (NLGFC) and Treasury for sales made to district councils and central hospitals. This put the CMST at the risk of insolvency and the government had to source USD 13 million from the World Bank to recapitalize the CMST.

Despite relatively high expenditure on personnel emoluments, the health budget is insufficient to meet the sector's staffing requirements, resulting in critical shortage of health personnel. In the past five years, the total number of health workers increased by 32.7 percent from to 45,508 in 2023. Yet a number of health cadres including medical doctors, nurse midwife technicians and laboratory technicians and pharmacy technicians have vacancies in excess of 40 percent. All districts averaging fewer than one doctor per 1,000 people and most of those doctors are concentrated in the three main cities (Blantyre, Lilongwe, Mzuzu and Zomba) largely because that's where the country's central hospitals are, making them more attractive for health professionals.

Trends in Social Protection Spending

The case for social protection in Malawi has always been very clear. Despite Malawi's history of relative social stability since gaining independence, both monetary and multi-dimensional poverty is pervasive and unchanging over time. The 2019/20 Integrated Household Survey found that 50.7% of the population lives in poverty (NSO, 2021) while 75.4% of the population is estimated to be poor based on the international poverty line of USD 3 a day (World Bank, 2025). Although 25 percent of Malawians qualify as ultra-poor, social protection coverage is estimated at just 19.9% (2022) of the population and the coverage is projected to fall after 2027.

The Government of Malawi's National Social Protection Policy (2024), defines social protection as encompassing social assistance, social insurance, social welfare services, labour market policies, as well as a wide range of public and private instruments aimed at eradicating poverty, addressing vulnerability and combating social exclusion through risk management. The Government of Malawi has long operated several non-contributory social support programmes that include the Social Cash Transfer Programme (SCTP), the Climate-Smart Enhanced Public Works Programme (CS-EPWP), the School Meals Programme. In principle, social security includes pensions, health insurance and workers compensation, but most of the schemes are not operational and those that are active lack nationwide coverage. In recent years Malawi has reclassified FISP as part of social protection

The budget for social protection has grown in nominal and relative terms. In the past five years the total budget allocation to social protection (exclusive of FISP and pensions) has steadily increased by 300 percent to MK220 billion in 2024/25. Relative to the total government budget, social protection has averaged risen from 1.4 percent a decade ago to 3.7 percent in 2024/25. As a share of GDP, social protection spending averaged 0.9% over the period, record high of 1.2% in 2024/25. When we include FISP and Pensions, expenditure on social protection more than doubled in nominal terms from 2021/22 to 2024/25, rising from MWK 315.9 billion to MWK 636.3 billion. The budget for 2025/26 is slightly down on the peak of the previous year at MWK 555.6 billion but still well above the 2021/22 level.

Social protection as a share of total government expenditure has been in decline over the period, falling from 15.8% in 2021/22 to 6.9% in 2025/26. It has also fallen as a share of GDP although by a smaller margin, from 2.9% to 2.0%. these metrics would suggest the Government of Malawi has financed 74% of its on-budget social protection expenditure since 2020/21. Yet its funding has been concentrated almost exclusively on civil servant pensions and the Farm Input Subsidy Programme (FISP). The core elements of Malawi's social protection system that target people living in extreme poverty – the Social Cash Transfer Programme (SCTP), Climate-Smart Enhanced Public Works Programme (CS-EPWP) and the School Meals Programme (SMP) – have been almost entirely funded by official development assistance (ODA). Meanwhile development partner contributions have focused largely on the SCTP and public works programming while Government allocations to the SCTP and a broad coordination function have been negligible by comparison.

INTRODUCTION

In spite of achieving some economic growth, many governments in the South Eastern African region are grappling with high debt stress, a situation that presents them with the tough choice between debt service and funding investments in essential public goods. Although in the majority of cases debt stress reflects policy choices, in recent times exogenous shocks have served to aggravate the macro-fiscal impact of those policies. While public health, geopolitical and extreme weather events have severely contracted economies and disrupted current account balances; extreme weather events have caused widespread destruction of infrastructure, loss of life and property, as well as negatively impacting agricultural production, resulting in acute food shortages, rising commodity prices and additional pressure on already overstretched resources.

To that end Oxfam commissioned a study to assess the fiscal strategies of Malawi, Zambia, Zimbabwe, and Mozambique by examining how debt levels, the domestic political economy, and negotiations with the IMF influence public investment and debt restructuring decisions, and their subsequent impact on economic stability, growth, and progress towards the Sustainable Development Goals.

This final report is submitted as an intermediate deliverable in the Malawi portion of the study on **Evaluating Fiscal Strategies: The Interplay Between Debt Influence and Public Investment Decisions in Malawi, Zambia, Zimbabwe and Mozambique**. The methodology included quantitative analysis of debt data, budget allocations, and investment trends in each of the four countries for the last five years (2020- 2024); qualitative case studies and interviews with policymakers, financial experts, and community leaders.

In the main, this final report presents the following: after this introduction, the next section, the *Ambition*, presents government's strategic efforts to align national development priorities with the Sustainable Development Goals (SDGs) and climate commitments under the Paris Agreement. Section 3, *Shocks*, analyses macroeconomic performance in light of the ambition and shocks that may have derailed the plans. Section four, titled *the IMF to the Rescue*, presents Malawi's interaction with the International Monetary Fund while Section 5, *Spending Hits the Ground*, analyses governments allocation for social sector, particularly for health, education and social protection.

THE AMBITION

This section provides an overview of Malawi’s multi-annual national development plans between 2015 and 2024. These plans represent the government’s strategic efforts to align national development priorities with the Sustainable Development Goals (SDGs) and climate commitments under the Paris Agreement. The analysis focuses on seven critical sectors (education, health care, social protection, agriculture, water and sanitation, electricity, and roads) and on debt. Using available cost estimates, sectoral targets, and outcome data, the section assesses how well these plans addressed development needs in both ambition and financing.

In doing so, it responds to key questions: How did the plans relate to SDG and climate goals in terms of cost and outcomes? What were the financing assumptions, particularly around debt and external grants? What macroeconomic assumptions underpinned these plans? And finally, why did the plans fall short of fully meeting the country’s development needs?

1.2 National Plans and Global Development Agenda

2.1.1 Alignment to Sustainable Development Goals (SDG’s)

Malawi has been engaging in development planning for the past sixty years. Malawi has implemented two long-term national development strategies: Vision 2020 which guided development efforts from 1998 to 2020 and the Malawi 2063, which charts the country’s transformation agenda through 2063.

Vision 2020 was formulated in difficult times. The overriding goal for Vision 2020 was “Malawi to become a middle-income country with a real per capita income of USD1,000 by the year 2020.” The challenge was that for Malawi to attain the middle-income status, real income per capita needed to grow at a rate of 7 percent per annum. This was almost impossible since the Vision was formulated in a context of a devastating HIV and AIDS pandemic, nascent political pluralism, macroeconomic instability and continued implementation of Structural Adjustment Programs (SAPs). However, it benefitted from goodwill that accompanied the emergence of a global development consensus anchored on the UN Millennium Development Goals.

Vision 2020 was operationalized through five medium-term development strategies: the Malawi Poverty Reduction Strategy (MPRS, 2002–2005), and the three Malawi Growth and Development Strategies (MGDS I: 2006–2011, MGDS II: 2012–2016, MGDS III: 2017–2022). The first four strategies, were anchored on the Millennium Development Goals (MDGs) while MGDS III, was aligned with the Sustainable Development Goals (SDGs), and the African Union Agenda 63. Since

the TORs of this assignment require us to analyze plans since 2015, we only discuss MGDS III out of the medium-term plans under Vision 2020.

2.1.2 Malawi Growth and Development Strategy III (2017-2022)

The third MGDS sought to make Malawi a productive, competitive and resilient nation. It was organized around five priority areas: agriculture, water development and climate change management; education and skills development; energy, industry and tourism development; transport and ICT infrastructure; and health and population. Themed “Building a Productive, Competitive and Resilient Nation”, it integrated Sustainable Development Goals targets into its Key Priority Areas (see Table 1).

Table 1: Mapping of KPA to SDGs

MGDS III KPAs	SDGs
Agriculture and Climate Change Management	1,2,3,5,6,7,11,13,14 &15
Education and Skill Development	1,2,5 & 6
Transport and ICT infrastructure	1,2,3,5 & 7
Health and Population Management	1,3,5,6 & 7

Source: Government of Malawi (2016), MGDS III.

MGDS III Macroeconomic Assumptions

MGDS III outlined an overly ambitious agenda founded on optimistic assumption for the macroeconomy as well as debt sustainability. As Table 2 shows, the macroeconomic prerequisites included achieving an average GDP growth rate of at least 7 percent and single-digit inflation throughout 2018-2022. An ambitious fiscal program suggested that total revenue and grants would average 28 percent of GDP, of which domestic revenue would average 23.8 percent of GDP. Total government expenditure was expected to average 30 percent of GDP, giving an average fiscal balance of -1.98 percent of GDP. The implication for fiscal sustainability was that as the fiscal balance would reduce from 3 to 1.2 percent of GDP, overall debt would reduce from 55 percent in 2017 to 43 percent of GDP in 2022.

Table 2: MGDS III Macroeconomic Assumptions, Percent of GDP, 2018-22

	2018	2019	2020	2021	2022
Revenue & Grants	29.7	28.8	27.9	27.2	26.6
Domestic Revenues	24.8	24.2	23.7	23.4	23.1
Grants	5.0	4.6	4.2	3.8	3.5
Expenditure	32.8	31.1	29.7	28.6	27.7
Fiscal Balance	-3.0	-2.3	-1.8	-1.4	-1.2
Domestic Borrowing	18	16	16	14	14
External Debt	30	30	30	29	29
Total Public Debt	48	46	43	43	43

MGDS III Financing Needs and Achievements

Formulated during the transition in global development consensus from Millennium Development Goals to Sustainable Development Goals (SDGs) MGDS III set out to address sector-specific development needs in seven priority sectors: education, health care, social protection, agriculture, water and sanitation, electricity, and roads. Table 3 below shows the estimated financial allocations, sector-specific goals, and selected outcomes for the seven priority sectors. It was estimated that MK 834.8 billion was needed to implement planned projects in the education sector targeting improvement in quality and relevant education skills for all. The sector recorded moderate progress, including a reduction in the pupil-qualified teacher ratio and improved survival rates to Standard 8, although only 30.8% of performance indicators were met resulting in worsening quality, efficiency as well as survival rates for both boys and girls in primary schools

With an estimated cost of MK 495.9 billion, investments in the health sector targeted improvements in child nutrition, HIV/AIDS treatment coverage, and life expectancy. The agriculture and water and sanitation sector needed MK 878.9 billion to expand increased food security, irrigation, expand legume cultivation and increase household access to potable water. In the electricity sector, an estimated MK 446.2 billion was required to support expanded energy access and generation. However, the sector continued to face challenges, with a 78 MW deficit in power generation, reflecting limited expansion relative to national energy needs. Meanwhile, the roads sector, with an estimated cost of MK 628.4 billion, delivered only 128 km of paved roads against a target of 4,496 km.

Table 3: Sectoral Financing Needs and Selected Outcomes under MGDS III (2017–22) in 2017 Prices

Sector	Goal/Aspiration	Resource Required over five Years (MK Mn)	Selected Outcomes
Education	Improve quality and relevant education skills for all	834,814	<ul style="list-style-type: none"> ▪ Only 8 of the 26 indicators met (30.8% success) ▪ Only 14.3% success rate on construction of primary schools. ▪ Pupil Qualified Teacher Ratio down to 66.6:1 from 80:1. ▪ Survival rate to Std 8 (Girls at 37.2% from 29.0% and Boys at 44.5% from 35.0%)
Health Care	Improve health for sustainable socio-economic development	495,850	<ul style="list-style-type: none"> ▪ Wasted Under 5 children down to 0.50% from 2.70% ▪ Underweight Under 5 children down to 8.9% from 12% ▪ Life expectancy up to 63.7 from 57.6 years ▪ 92% diagnosed with HIV/Aids, 84% put on ART from 69% and 91% of those on ART should have viral load suppressed to undetectable level
Social Protection	Scale up Social Cash Transfer Programme from 18 districts to 28 (covering 319,000 HH).	91,255	N/A
Agriculture, water and sanitation	To achieve agriculture transformation and water development.	878,868	<ul style="list-style-type: none"> ▪ Only 15 of the 32 indicators were met (46.9% success) ▪ Hectarage under legumes up from 1,054,217 to 1,351,244 ▪ Households with portable water within 500 meters up to 87% from 26%
Electricity	Provide sufficient sustainable energy for industrial and socio-economic development.	446,195	<ul style="list-style-type: none"> ▪ 78 MW deficit in power generation
Roads	Develop a safe, affordable, reliable, equitable and sustainable transport and infrastructure	628,370	<ul style="list-style-type: none"> ▪ Length of paved roads 128km below target of 4,496km

Why Did MGDSIII Under-Achieve

Like many of its predecessors, MGDS III was never implemented in earnest for a number of reasons. Most of the donor resources that were contemplated never materialized. Following the Cashgate Scandal, a growing distrust of government public finance management system, caused donors to withdraw budget support in favor of dedicated and project support. Second, the planning horizon of MGDS III was two years beyond that of the Vision 2020 which it purported to actualize. With the expiry of Vision 2020, MGDS III no longer aligned with any long-term vision or national strategy and was silently abandoned. Third, MGDS III was mostly developed by the Department of Economic Planning and Development (DEPD) staff although at the time Government was also creating the National Planning Commission whose mandate would include formulating and implementing medium and long-term plans. When NPC formulated the new vision, MW 2063 and associated medium term plan, only selected and relevant issues were carried over and MGDS III was effectively replaced by MW 2063's first implementation plan (MIP 1).

2.1.3 The MW 2063 First Implementation Plan (MIP-1, 2021-2030)

In January 2021, Malawi launched the Malawi 2063 Vision as a successor to the Vision 2020. With a horizon of 43 years (2020-2063), the MW2063 seeks to make Malawi an inclusively wealthy and self-reliant industrialized upper middle-income country which primarily finances its own development needs by 2063. Achievement of MW2063 is premised on success in three pillars, Agricultural Commercialization and Productivity; Industrialization (including mining); and Urbanization (and Tourism). These pillars, in turn, will be catalyzed by seven enablers.

MW 2063 aspires that Malawi will be an upper middle-income country by 2063 (per capita income of USD 4500). MW2063 is also aligned with international development agendas. Malawi committed to domesticating the AU Agenda 2063 with the planning and implementation horizon of MW 2063 fully aligned to that of the AU Agenda 2063. Unlike Vision 2020, which was implemented through five-year medium-term plans and coordinated through Sector Working Groups, MW 2063 will be implemented through four 10-year medium term plans and implementation coordinated through Pillar and Enabler Coordination Groups (PECGS). In addition, the planning and implementation horizon of MIP-1 is aligned to the SDG Decade of Action.

The first ten-year implementation plan (MIP-1) has also targeted Malawi's attainment of a lower middle-income status as well as the realization of all Sustainable Development Goals. Table 4 shows how the pillars and enablers of the Malawi 2063 First 10-Year Implementation Plan (MIP-1) are aligned with the SDGs.

Table 4: MIP-1 and UN SDGs Commonality Profile

MW2063/MIP-1			UN SDGs	
	Pillar	Enabler	Aspiration	
1	Agriculture Productivity and Commercialization		An optimally productive and commercialized agriculture sector	1,2,3,4,5,8,12,13,14,15,17
2	Industrialization		A vibrant knowledge-based economy with a strong manufacturing industry driven by productive and commercially vibrant agriculture and mining sectors	3,4,5,7,8,9,13,16,17
3	Urbanization		World-class urban centers and tourism hubs across the country, with requisite modern socioeconomic amenities	3,4,5,7,8,9,10,13,16
1		Mindset Change	A united, patriotic and proud people that believe in our own abilities and are active participants in building our nation towards its development goals	3,4,5,8,9,10,11,12,13,16,17
2		Effective Governance Systems and Institutions	Effective and efficient governance systems and institutions with strict adherence to the rule of law	1,8,10,14,15,16,17
3		Enhanced Public Sector Performance	A world class high performing and professional public sector for efficient delivery of public goods and services	3,4,5,16,17
4		Private Sector Dynamism	A dynamic and vibrant private sector that effectively delivers on the industrialized upper middle-income status within the shortest time possible	7,8,9,12,17
5		Human Capital Development	A globally competitive and highly motivated human resource	1,2,4,5,6,7,8,9,10,11,16
6		Economic Infrastructure	A globally competitive economic infrastructure that will promote domestic economic activity and spur foreign direct investments for wealth creation	3,4,7,8,9,11,13,17
7		Environmental Sustainability	A clean, secure and sustainable Environment	5,6,7,9,11,12,13,14,15

Macroeconomic Assumptions

In order for Malawi to achieve lower middle income status (USD 1,064) by 2030 it was assumed that the economy would grow at an average of 6 percent per annum. Growth in real incomes was premised on low inflation in single digits and Malawi would be able to pay down its debt. Economic growth would be buoyed by a resurgent and more productive agriculture sector which would move more towards commercialization. It was further assumed that under MIP-1, at least four mines would become operational and provide the much needed balance of payments relief and prop Malawi's foreign exchange reserve to above three months of import cover.

Financing Needs for MIP-1

MIP_1 advocated various non-traditional financing mechanisms including Public Private Partnership (PPP) arrangements, blended financing, local and international bonds, South-South cooperation financing arrangements and philanthropic financing. Government's preference for development aid was for grants and concessional loans with the latter only contracted for projects with high rates of return and huge multiplier effects.

While MIP-1 outlines broad national priorities structured around pillars and enablers of Malawi 2063, many of its themes are high-level and cross-cutting, making it difficult to extract sector-specific investment needs directly from the plan. To address this, sector specific strategies which are aligned with both MIP-1 and the SDGs offer more detailed goals, cost estimates, and implementation frameworks for targeted sectors. Most of these strategies cover the same implementation period as MIP-1 and provide a clearer view of the financial and programmatic requirements for achieving SDG-related outcomes in key development areas. Table 5 presents the estimated costs and development goals for the seven core sectors. These estimates were derived from the respective sectoral policy documents.

MIP_1 requires a significant level of investment to meet sectoral development targets aligned with MW2063 and the SDGs (table 5). The health sector has the highest resource need, with an estimated cost of MK 32 trillion, reflecting the scale of investment needed to attain universal health coverage and improve health outcomes. This is followed by education, which requires MK 6.5 trillion to enhance access, quality, and governance in the education system. The electricity sector is projected to need MK 1.95 trillion to support the ambitious goal of increasing access to electricity from 25.9% to 70% by 2030.

Table 5: Selected Estimated Financing Needs for MIP-1 (2021–2030) in 2021 Prices

Sector	Goal/Mission	Estimated Cost over Ten Years (MK' Million)
Education	Promote equitable access and equity to education and improve relevance, quality, governance and management of the education sector.	6,493,839
Water and Sanitation	Promote sustainable development and management of water resources in order to provide water of sufficient quantities and acceptable quality and provision of potable water supply and waterborne sanitation services.	1,715,000
Roads	To promote road safety initiatives and responsible road usage through the development and enforcement of road safety policies, regulations, standards, and civic education of road users	40,035
Health	Improve the health status of all Malawians and increase client satisfaction and financial risk protection towards attainment of Universal Health Coverage	32,000,000
Electricity	Move towards Universal Access to Electricity – By 2030, Malawi aims to increase electricity access from the current 25.9% to 70%	1,949,500
Agriculture	To achieve sustainable food and nutrition security, increased incomes and wealth, and trade competitiveness in an inclusive manner in contribution to social economic development of the country	1,634,050

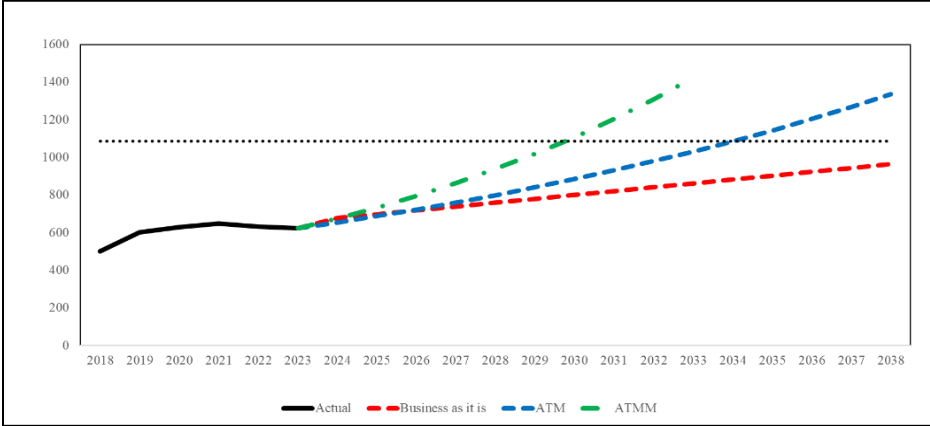
Resource requirements in agriculture (MK 1.63 trillion) and water and sanitation (MK 1.71 trillion), reflect the government's commitment to food security, sustainable natural resource use, and climate-resilient infrastructure. Meanwhile, the road sector has a relatively lower estimated cost, focused primarily on road safety and responsible road usage.

Why is MIP-1 Failing

MIP-1 has commenced during trying macroeconomic and balance of payment crises that has already undermined the underlying macroeconomic framework. Achievement of MIP-1 is

premised on a minimum economic growth rate of 6 percent. When MW2063 and MIP were launched, Malawi was in the middle of the COVID pandemic which reduced economic growth to 0.8 percent and necessitated the formulation of a COVID recovery program to return the economy to its original path. Recurrent cyclones, fiscal imbalances, coupled with a misaligned exchange rate have resulted in a balance of payments crisis with forex shortages translating into fuel shortage and an import backlog. Recent devaluations of the currency added feedstock to inflation which recently averaged 30 percent year-on-year.

Figure 1: Scenarios of MIP-1 Per capita income attainment, 2018 – 40.



Whether Malawi will achieve MIP-1 and MW2063 depends on efficiency of government expenditure. Simulations suggest that if Malawi make structurally similar investment as it does now, it will grow at the rate at which it has hitherto grown and will only reach lower middle income status by 2041. However, if it leverages Agriculture commercialization, Tourism and Mining the earliest it can reach lower middle income status by 2035. If Malawi revived manufacturing on top of the three sectors it could reach lower middle income status by 2030.

2.2 Malawi and the Climate Agenda

The Government of Malawi (GoM) is signatory to the United Nations Framework Convention on Climate Change (UNFCCC), Malawi supports the global goal of limiting temperature rise to 2°C, with efforts to pursue a more ambitious limit of 1.5°C, as outlined in the Paris Agreement. Recognizing the threat climate change poses to sustainable development, in the past decade Malawi too steps to strengthen its climate response. Key actions include the development of the National Adaptation Programmes of Action (NAPA) initially formulated in 2006 and revised in

2015 alongside the Nationally Appropriate Mitigation Actions (NAMA, 2015), the Intended Nationally Determined Contributions (INDC, 2015, updated in 2021), the National Climate Change Management Policy (2016) and the Malawi Strategy for Climate Learning (2021). A range of legislative and sectoral frameworks have been adopted to mainstream climate and environmental sustainability across socio-economic development plans, including MGDS III and Malawi 2063.

Climate Financing Needs

Malawi's environmental financing needs are huge but the actual funding has been paltry, with access to global facilities requiring onerous procedures. As previously outlined, Malawi committed to contribute to global efforts to limit the rise in average global temperature to 2°C, with aspirations of achieving the more ambitious 1.5°C target under the Paris Agreement. This commitment as expressed in the Updated Nationally Determined Contributions (NDC, 2021). The total estimated cost of implementing Malawi's climate commitments is approximately USD 46.3 billion (MK 81,025 billion) through 2040. Of this amount, USD 41.8 billion (MK 73,150 billion) is earmarked for mitigation measures, while USD 4.5 billion (MK 7,875 billion) is needed for adaptation interventions. Notably, one-third of this financing is required during the current decade (2020–2030), with the remaining two-thirds anticipated in the subsequent decade (2030–2040).

In reality actual access to finance has been limited and where funds exist onerous procedures and limits constrain access. Malawi stands to benefit from an expansion of African Risk Capacity (ARC) insurance coverage. The ARC provides parametric insurance for extreme weather events to member states in Africa and Malawi has been covered by ARC insurance since at least 2016. It has used previous received payouts of USD 14.2 million in 2022, USD 11 million in 2024 and USD 3.3 million in 2025.

Malawi has also benefited from the Global Shield against Climate Risks which was launched at COP27 in November 2022 and aims to substantially increase and enhance pre-arranged and trigger-based finance against climate and disaster risks. The GRiF provided a grant of USD 21 million towards the World Bank's Social Support for Resilient Livelihoods Project (SSRLP) project, which was used to finance a contingency fund for shock-responsive social protection. A further grant of USD 10 million towards INSPIRE-O is under discussion.

Malawi is also eligible for funding under the Green Climate Fund (GCF) and Global Environment Facility (GEF) which offer project-based financing. In addition to the Global Shield, Malawi hopes to benefit from the anticipated Fund Responding to Loss and Damage which has the potential to fund environmental mitigation and rehabilitation.

1.3 Why did Multi Year Plans Fall Short of Needs

The financing framework for the plans were more aspirational and based on desired outcomes than on Malawi’s historical capacity for resource mobilization. MGDS III outlined a relatively conservative financing framework with funding from traditional sources (domestic revenue collection, external grants from development partners, public-private partnerships (PPPs), and both domestic and external borrowing. In contrast, MIP-1 (2021–2030) adopted a broader financing framework with multiple sources of funding including innovative instruments such as Corporate Social Responsibility (CSR) contributions, venture capital, private sector contracting and local, international and diaspora bonds.

Both MGDS III and MIP-1 were also underpinned by macro-fiscal frameworks that were overly optimistic and not linked to the economy’s current capacity or historic performance. Under MGDS III, the government projected strong economic growth, starting from 6.9% in 2018 and stabilizing around 6.1% by 2022 (see Table 5). Prices were expected to be stable with inflation was projected to range between 5.6% and 7.7%; in the external sector, the share of exports to GDP was projected to gradually decline from 28.3% in 2018 to 27.2% by 2022, while domestic revenue was expected to decrease slightly from 24.8% to 23.1% of GDP over the same period.

Table 6: Key Macroeconomic Assumptions Relevant for Debt Sustainability: MGDS III and MIP-1

	2018	2019	2020	2021	2022	2023	2024
MGDS III							
Inflation	5.6	7.1	7.7	7.5	7.7		
GDP growth	6.9	6.4	6.1	6.2	6.1		
Exports (% of GDP)	28.3	28.1	27.7	27.5	27.2		
Domestic Revenue (% of GDP)	24.8	24.2	23.7	23.4	23.1		
MIP-1							
Inflation				≤10%	≤10%	≤10%	≤10%
GDP growth				6%	6%	6%	6%

On the other hand, MIP-1 assumed a GDP growth rate of 6% annually throughout the initial implementation years (2021–2024), along with inflation remaining below 10%. While MIP-1 does not provide explicit annual targets for overall external and fiscal sectors, it anticipated stable

interest and exchange rates and increased domestic revenue mobilization, although it does not specify quantitative targets.

Both plans also suffered from a failure to link development plans to the recurrent budget. Malawi's annual budget system has long been focused on the short term rather than the medium to long term. Not only are budgets prepared for one year, the recurrent and development budgets are subject to separate analysis. Since 80 percent of the development budget is donor funded, this leads to a strong upward bias in development expenditure and a shortfall in the recurrent expenditure needed to maintain the development projects (Simwaka, 2007)

The second is weak vertical linkage between national, sectoral and district plans. Most sectoral policies and investment plans tend to have a different implementation horizon from the multi-year development plans that they purport to align to. In addition, some donors negotiate directly with the Ministries, Departments and Agencies (MDAs) in sectors that they support, often bypassing central planning ministries. While a good chunk of sectoral development expenditures is project assistance provided by donors on fixed guaranteed terms, it often has an off-budget element.

In the multiparty era, the conduct of state affairs has followed the client-oriented political logic aimed at rewarding political allies and keeping incumbent regimes in power. In the multiparty era, election-driven short-termism has replaced medium-term planning and it has been enabled by a weak institutional framework for reporting on political campaign and party financing. A classic example has been the government owned microfinance institution Youth Development Fund (YERDEF) which the DPP administration renamed the Malawi Enterprise Development Fund (MEDF), the MCP renamed National Economic Empowerment Fund Limited (NEEF) and the new DPP has reversed back to MEDF. A recent Parliamentary report showed that instead of lending to economically empower the youth and small scale business NEEF learnt million of Kwacha to Ministers, Members of Parliament, large-scale farmers as well as civil servants all of whom are capable of accessing commercial loans from banks.

Although development plans in the multiparty era explicitly identify the private sector as the potential engine of growth, poor economic governance has manifested in unstable macroeconomic conditions, contradictory trade and industrial policies, an inefficient regulatory regime and general lack of economic infrastructure, all of which undermine vibrancy of private sector as well as its contribution to growth, job creation and development.

Conclusion

Malawi's long and medium terms plans have not performed according to plan. Both the MGDS III and MIP-1 were nominally aligned to global development frameworks but poor linkage to annual budget meant that many areas and priorities that would engender the SDGs remain funded. While goals of the plans were more aspirational, the implied funding mechanism was divorced from the economy's capacity. Rather than reflect plans or designs, Malawi's medium term plans are conceived as resource mobilization tools, intended to highlight resource gaps and incentivize donor to complement governments efforts. The financing mechanism was more aspiration just as the macroeconomic assumptions are overly optimistic and at variance with historical performance. Underlying both plans are assumption about fiscal sustainability arising from declining budget deficits relative to GDP and eventual shrinkage of the fiscal balance. In reality domestic revenue collection is always below target, grants are volatile while expenditures exceed target, thereby increasing annual deficits and accumulating debt.

MACROECONOMIC IMPACTS OF SHOCKS

This section analyses the impact of shocks (climate, pandemic, commodity prices, USD exchange and interest rates) on actual government expenditure and actual revenue compared to the multiannual plan(s).

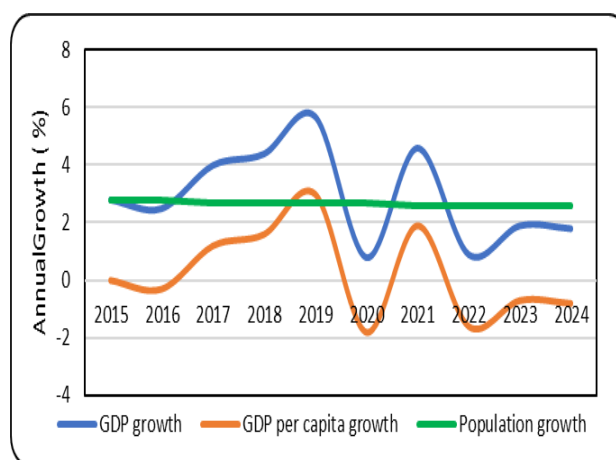
1.1 Macroeconomic Performance on Multi-annual Plans

3.1.1 Performance of the Real Sector

Frequent climatic disasters and other exogenous shocks have exacerbated structural vulnerabilities and complicated Malawi's economic recovery. Since 2015, Malawi has struggled to recover from a series of exogenous shocks principal among which was the COVID pandemic, Russia-Ukraine war, a cholera outbreak and some six tropical cyclones which have coincided with significant declines in the GDP growth rate. In fact, the World Bank estimates that Cyclone Freddy was the most destructive in this series of increasingly frequent extreme weather events affecting Malawi, causing USD505 million material loss and damage, as well as production losses equivalent to a real gross domestic product (GDP) loss of 0.5 percent for 2023.

The weak economic recovery has resulted in a sluggish economy and declining standard of living. Between 2015 and 2024, real GDP growth has averaged 2.9 percent with a peak of 5.7 percent in 2019. In the past three years, per capita income has declined as Malawi's economic growth (under 2 percent p.a.) lagged population growth (2.7 percent p.a.). In nominal terms, GDP per capita rose from USD450 in 2016 and peaked at USD617 in 2021 before declining to USD508 in 2024

Figure 2: Trends in Annual GDP and Per Capita GDP Growth and Population Growth



The agriculture sector has particularly been vulnerable to exogenous and policy induced developments. Following the 2023-24 drought, Malawi's economy faced significant challenges, with real GDP growth slowing to 1.8 percent. The drought is estimated to have contributed to a 21 percent drop relative to the previous season in the production of cereal grains, which fell to 3.8 million metric tons (MT). Although maize output reached 2.7 million MT, it fell short of the

national food requirement (estimated at 3.3-3.5 million MT). For the past two years, agriculture has also been affected by continued challenges around access to inputs even for beneficiaries of the Affordable Input Program (AIP).

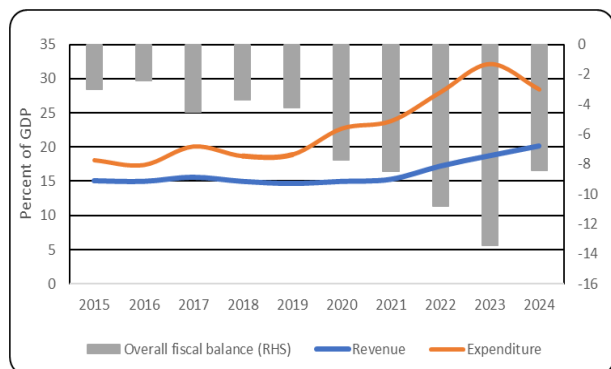
With the exception of the financial sector, other sectors of the economy have not fared any better. Limited access to foreign exchange continued to impede activity in the industrial and service sectors as the shortages of foreign exchange and the resulting rise in exchange-rate premium on the parallel market constrain imports of raw materials and other production inputs. Although in the past decade Gross investment has averaged 13.6 percent of GDP, in the past three years the ratio of gross investment to GDP has been on a downward trend from a peak of 16.3 percent in 2022 to 12.8 percent in 2024. Over this period, private investment has averaged 8.2 percent while public gross investment accounts for 5.4 percent of GDP.

3.1.2 Performance of the Fiscal Sector

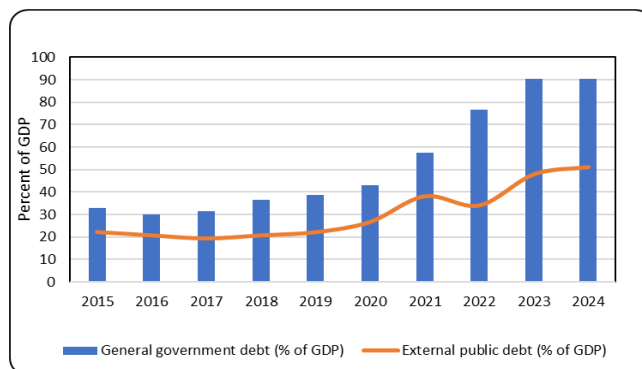
Over the past decade, Malawi's fiscal position has continued to deteriorate due to growth in expenditure not linked to economic capacity for revenues mobilisation resulting in growing budget deficits, net domestic borrowing and public debt. In the past five years, Malawi's level of tax effort has been above the African average with government revenues rose commendably from 15 to 20.1 percent of GDP. Yet these revenues were outpaced by public expenditures which increased from 18.4 to 28 percent of GDP. Consequently, Malawi's fiscal position has continued to deteriorate with widening annual budget deficits averaging 6.7 percent of GDP, resulting in exponential growth in the stock of public, especially in the past five years, rising from 43 percent in 2020 to 57.5 in 2021 and 76.7 percent in 2022 to 90.2 percent in 2025 (see Figure 3). The resurgence of debt and rising debt service have wiped out earlier gains from debt forgiveness. Malawi's qualification for debt forgiveness under the Highly Indebted Poor Countries (HIPC) initiative in 2006 created some fiscal headroom as it reduced the debt stock from 130 percent of GDP to 30 percent, mostly on account of forgiven foreign debt which fell from 108 percent to 14 percent of GDP.

Figure 3: Trends in Fiscal Metrics, relative to GDP, 2015-24

3A: Revenue, Expenditure and fiscal balance as Percentage of GDP



3B: Trends in Total Public and External Debt as Percentage of GDP



Dominance of protected expenditures in the budget limit discretionary spending. Over the past four fiscal years, protected expenditure (compensation for employees and public debt service) have consumed an average of 93 percent of domestic revenue. Debt-service obligations have increased rapidly, rising from 28 percent of domestic revenue in FY2020/21 to an estimated 43 percent in FY2024/25. Relative to GDP, interest payments on debt now averaging 5.3 percent of GDP, the bulk of which is domestic interest (4.9 percent of GDP). Between 2010 and 2024, interest payments rose from 8 to 27 percent of the budget, surpassing spending on wages and salaries, development and spending on goods and service. Yet domestic debt is also riskier because it has shorter time to maturity and refinancing, with almost one third of it maturing within a year, and attracting higher weighted interest rates (15.7 percent) than foreign debt (2.1 percent) as of mid-2023. Malawi’s borrowing costs remain locked at elevated levels due to the government’s reliance on debt rollovers that keep Treasury yields high, leading to wide interest rate spreads.

Table 7: Evolution of Protected expenditures as Percent of GDP, 2014/15 - 2025/26

	2014/15	2017/18	2022/23	2025/26
Total Expenditure	100	100	100	100
Recurrent expenditure	80	76	75	75
Compensation to Employees	24	24	25	20
Public Debt Interest	11	13	22	27
Interest payable to Residents	9	12	19	26
Interest Payable to Non-Residents	2	1	2	1
Goods and Services	33	24	14	17
Development expenditure	20	24	25	25

3.1.4 Performance of the Monetary Sector

Malawi continues to face cycles and seasons of persistent inflation. Following a period of moderation, in late 2024 inflationary pressures re-emerged, primarily driven by escalating food and utility costs, as well as depreciation of the parallel exchange rate. At the end of December 2025, non-food inflation stood at 18.1 percent while headline inflation remained high at 30.5 percent, largely due to elevated pre-harvest food prices. Much of Malawi’s imported inflation almost always follows a devaluation or depreciation of the currency (Figure 4) while internally driven dynamics track the growth of broad and reserve money (Figure 5)

Figure 4: Evolution of Exchange Rate Depreciation and Inflation

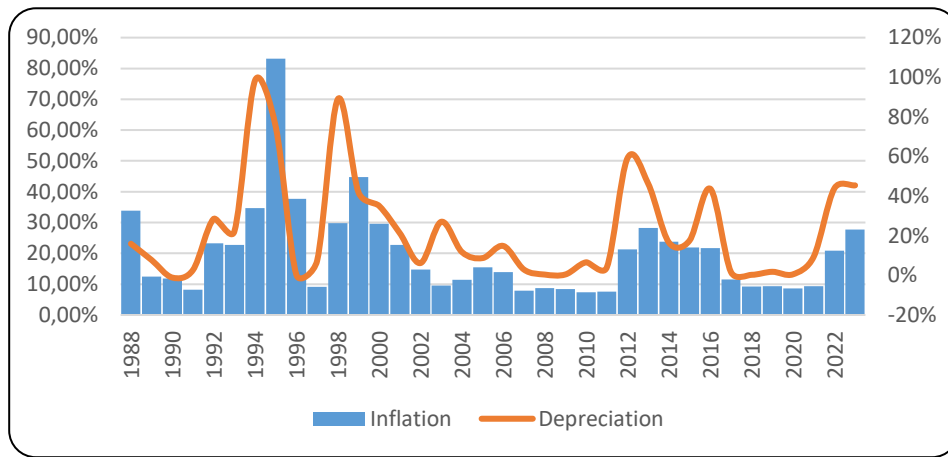
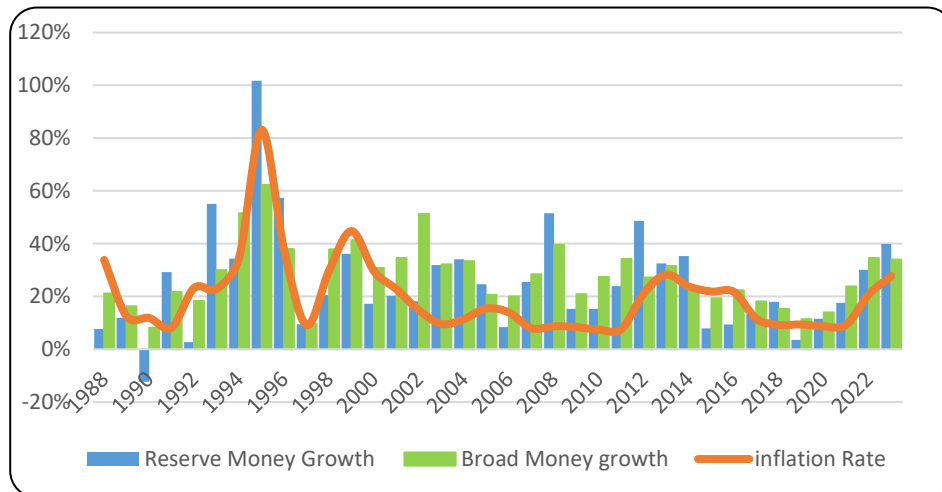


Figure 5: Inflation and Growth in Broad Money and Reserve Money

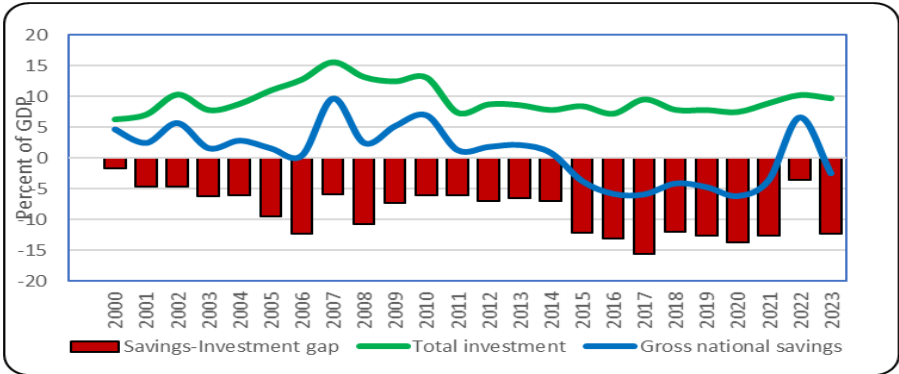


Source: Author’s derivation based on RBM data

High inflation rates have long undermined the credibility of Malawi’s monetary policy and hardened inflationary expectations, which substantially complicate the task of macroeconomic stabilization. In recent years, the ongoing economic crisis and its inflationary effects have led to tighter monetary policy, while fiscal policy remains loose. This policy mix creates challenges, as recent interest-rate hikes have driven up yields on Treasury securities, increasing debt-service costs that should have been offset by higher primary fiscal balances. Following the devaluation of May 2022 and November 2023, inflation rose and has persisted to date. After hiking the policy rate by a cumulative 12 percentage points, from 14 percent in May 2022 to 26 percent in March 2024, the RBM has held the rate stable to date, with limited notable success. In reality, high interest rates have limited access to credit, depressed investment, and slowed down economic growth due to negative returns on financial assets. At its most recent meeting, the Reserve Bank of Malawi has maintained the monetary policy rate at 26.0 percent which, with inflation of 30 percent, in effect gives a negative the real policy rate. Concurrently, money supply growth remains elevated, although it has declined from 48.2 percent during the first quarter of 2024 to 33.9 percent during the first quarter of 2025 still reflecting high deficit financing.

Large budget deficits have diverted private savings from investment, thereby hindering growth and contributing to large deficits in the external current account and to a significant build up in external debt. After a false start in 2007, private saving rates have actually decreased throughout the 2000s despite some progress in structural and banking reforms. The current low rate of private savings reflects in part an overall economic environment that is not conducive to private economic activity. Figure 6 shows increasing deterioration of the savings-investment gap. Except for the post-COVID rebound, the savings rate has been negative since 2014.

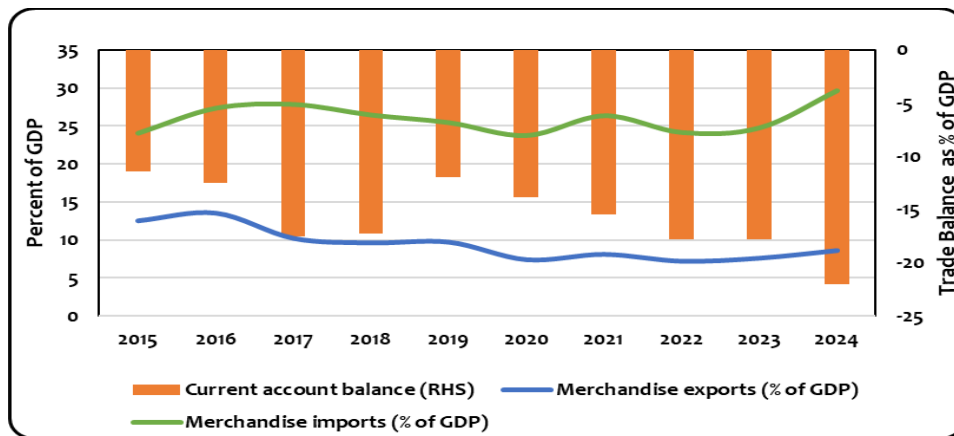
Figure 6: Evolution of Savings, investment and Savings Gap ratios as % of GDP, 2020-23



3.1.3 Performance of the External Sector

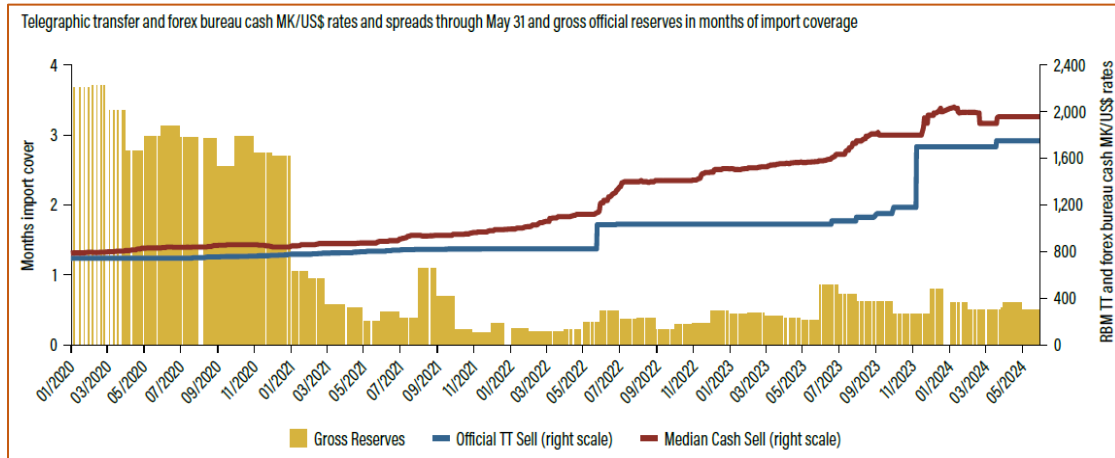
The external sector has deteriorated sharply in the past decade. An overvalued nominal exchange rate has caused stagnant or deteriorating net barter terms of trade and resulted in an imbalance between the growth of imports and exports and widened the deficits in the external current account and balance of payments. In the past decade, exports have grown at an average of 1.1 percent per annum while import growth averaged at 4.3 percent per annum. In relative terms, as export declined from 12 to 10.1 percent of GDP, imports surged to 28.4 percent of GDP resulting in the current account deficit widening from USD 41.1 billion in 2015 (11.2 percent of GDP) to USD 2.4 billion, equivalent to 22.0 percent of GDP in 2024 (see Fig 4).

Figure 7: Evolution of External Sector Indicators, 2015 - 24, (Current MK)



Malawi’s precarious external position reflect structural bottlenecks as well as policy induced inflexibilities. Structurally, Malawi’s continued reliance on a narrow range of agricultural products for exports not only means that exports are unable to support imports but also causes seasonality of foreign exchange earnings and volatile exchange rate. Agricultural products continue to dominate Malawi’s export bundle rendering the economy more vulnerable to extreme weather events. On the policy front, Malawi’s foreign exchange policy stance since 2020, characterized by fixed exchange rate regime and capital controls, has had a negative impact on foreign exchange markets and undermined the RBM’s ability to accumulate reserves. Between 2021 and 2024, as the Malawi kwacha continued to weaken, spreads between official and parallel rates widening to 54 percent (see Figure 8). This misalignment caused gross reserves to decline by half from USD388 million in May 2022 to USD195 million in May 2023, equivalent to around 0.8 months of import cover. Since 2021, foreign exchange reserves have been below one month of import cover.

Figure 8: Evolution of Forex Reserves and Exchange rate, MK/USD, 2020-24

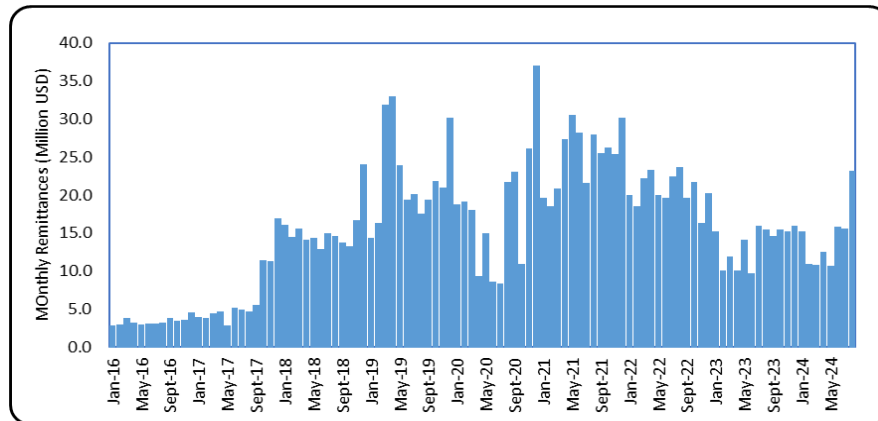


Source: World Bank (2024)

When the government devalued the currency as a pre-condition for the 2023 ECF agreement, it committed to a market determined exchange rate. Instead of the foreign exchange liberalization, the 2023 devaluation was subsequently accompanied by a cap on cash sales of foreign currency by banks and authorized dealers, a threat of prosecution for black market foreign exchange dealers. Additional measures promulgated in 2024 included restrictions on withdrawal of foreign exchange by embassies and diplomatic staff, cross-border traders, foreign exchange trading by bureaus and agents, as well as regulations on mandatory conversion of foreign exchange in FCDA's.

The mispricing and capital controls have put Malawi in a vicious cycle as they incentivized the use of informal channels, reduced official inflows which, in turn, exacerbated foreign exchange shortages further putting pressure on the local currency and potentially widening the gap further and worsening balance of payments and making it difficult to accumulate and manage foreign exchange reserves. Remittance receipts through official channels declining from a peak of USD298 million in 2021 to USD159 million in 2023. On a monthly basis, remittances fell from a high of USD37 million in January 2021 to a low of USD 9.5 million in June, 2023 (see Figure 7). In 2024 remittance receipts have averaged USD15 million per month.

Figure 9: Trends in monthly in-ward remittances, Million USD, 2016-24



Source: Author’s derivation based on Reserve Bank of Malawi (2024)

1.2 Weather and Climate Related Shocks

Malawi is susceptible to a variety of natural disasters, including heavy rainfall and flooding, seasonal droughts, and cyclones. Over the past five decades, Malawi has experienced more than 19 major floods and seven droughts, with varying frequencies, magnitude, and scope. The majority of these have occurred in the past fifteen years including 17 major flooding events, a rainfall-induced landslide, five storm disasters, and three severe droughts.

Drought in the past decade, Malawi has witnessed two major droughts. The 2015- 2016 drought was perhaps the most severe and extensive, causing losses and damages of approximately USD 370 million, 5.6% of the country’s GDP and left 6.5 million people (35% of the population) food insecure (Government of Malawi, DRF Strategy 2024).

In the 2023/2024 agriculture season, an El Niño induced drought affected 23 out of Malawi’s 28 districts, significantly impacting agriculture, with staple crops like maize registering a 16 per cent decrease, and about one-third of the population experiencing crisis-level food insecurity during the lean season (October 2023 to March 2024) and prompting the then president to declare a state of disaster in March 2023. The scenes played out again in the 2024/25 season, when another El Niño-induced drought led to a further decrease in maize production for the` fourth year in a row and causing severe food insecurity for over 4 million people forcing President Peter Mutharika to declare a state of Disaster and appeal for food aid in October 2025.

Flooding Historically, Malawi’s worst flood event occurred in 2015 when the country was hit by the highest amount of rainfall ever recorded in a single period with the brunt of felt in Nsanje,

Chikwawa, Phalombe and Zomba. Apart from affecting over one million people, the floods displaced 230,000 people and caused damage of USD 400 – 500 million (about 5% of GDP). The impact cut across many sectors of the economy including housing (USD 139.0 million), agriculture (USD 68.0 million), transportation (USD 50.0 million), water and sanitation (USD 26.0 million), education (USD 12.0 million), health (USD 12.0 million), and industry and trade (USD 11 million).

Cyclones: Malawi has recently witnessed a surge in the frequency and intensity of tropical weather systems. The historic record shows that from 1980 to 2001 there were seven tropical weather systems (cyclones), one of which was stronger than a category 1. However, since 2002 there have been nine, including six that were stronger than category 1 (Mwapata, 2023).

Cyclone Idai: In March 2019 **Tropical Cyclone Idai** struck Southern Africa causing huge damage and associated losses across Mozambique, Zimbabwe and Malawi. In Malawi, Idai heavily affected Chikwawa, Nsanje, Phalombe and Zomba districts causing 59 deaths, impacting nearly 1 million people, displacing 11,194 households and causing death of some 15,000 livestock of different species. The associated loss and damage from Cyclone Idai were estimated at between USD 157.7 -USD 220.5 million spread across the housing sector (USD 106.9 million), energy sector (USD 3.1 million), water and sanitation (USD 6.4 million) and transport (USD 37 million) (Government of Malawi, 2019). The vast majority of damage caused by this event was from torrential rain and associated flooding.

Cyclones Anna and Gombe: In January 2022 Tropical Storm Ana hit the Southern part of Malawi destroying over 70,000 hectares of crops, displacing nearly 200,000 people and impacting over 1 million people. Including infrastructure, damages from the event were estimated to be USD 183 – 328 million (1.5 – 2.7% of GDP) (International Food Policy Research Institute (IFPRI), 2023). Of particular consequence was the damage to Kapichira Hydroelectric Power Station, which provides 30% of the country's power. Cyclone Anna was followed two months later by Tropical Cyclone Gombe which hit Malawi in March 2022 and affected over 1 million people including causing seven report deaths. The total damage from Gombe alone was estimated to be between 1.5 to 2.7 per cent of GDP with ripple effects on power generation, negatively impact industries and residents.

Cyclone Freddy: Cyclone Freddy hit the Southern region of Malawi between 11-13 March 2023, bringing strong winds and torrential rains and causing substantial flooding and mudslides. The extent of damage was substantial and widespread across many districts in the south. Some 2.3 million people were variously affected across the many flooded areas, including displacement of 659,278 people, more than 1,000 people lost their lives (679 people confirmed

dead and 530 people declared missing) and 2,178 recorded injuries. Due to its exceptional severity and long life, this cyclone brought torrential rains to Malawi leading to catastrophic flash floods and river flooding that impacted buildings, destroyed huge areas of crop and crippled the country's power grid. The losses and damages amounted to USD 594.9 million (equivalent to 0.5 % of GDP) with an estimated USD 764 million needed for recovery and reconstruction.

Govt Response to Climate shocks

In 2019 and 2023, the President of the Republic of Malawi declared a state of disaster following the onset of TC Idai and TC Freddy respectively. Disaster appeals were launched to respond to and recover from the disasters. Notably, the government supported communities with construction of irrigation schemes in Phalombe, school reconstruction in Nsanje and Chikwawa districts. The Government of Malawi has also in recent years made budgetary allocations towards recovery of Tropical Cyclones Freddy and Idai. In addition, due to drought-related food shortages, the government with assistance from World Food Programme (WFP) and the European Union, facilitated grain imports from Tanzania to address food insecurity.

As we discuss below, Malawi strengthened its social protection system to support vulnerable populations affected by climate change and economic instability. Such measures include the Social Support for Resilient Livelihoods (SSRLP) which was implemented with support from the World Bank and targeted households from rural and urban settings.

Donor Response

The World Bank was the single largest helper, front-loading some commitments and disbursements while mobilizing nearly an additional \$400 million from the IDA's Crisis Response Window. World Bank budget support for post-cyclone reconstruction equivalent to 0.6 percent of GDP (\$40 million) was disbursed at end-FY 2018/19 and spent in FY 2019/20. The Bank also disbursed funds under the Post Cyclone IDAI Emergency Recovery for Malawi (USD 22.5 million) in June 2019. On its part, the IMF disbursed nearly \$290 million under the Rapid Credit Facility (RCF) (see Table 7). The IMF Executive Board also approved an augmentation of access under the ECF arrangement of SDR 27.76 million (about USD38.1 million or 20 percent of quota) to help the Government meet new balance of payments needs associated with post-TC Idai reconstruction.

The World Bank and the European Union also supported social protection programs such as the Social Support for Resilient Livelihood Programme (see under COVID-19). The World Bank, through the Malawi Resilience and Disaster Risk Management project (MRDRMP), and the UNDP supported catchment management for resilience by flood mitigation measures like

constructing dykes in flood plains and risk prone areas in Nsanje, Zomba and Chikwawa districts. The World Food Programme (WFP) supported the government in grain imports while the

3.3 CORONA VIRUS DISEASE (COVID-19)

The President of Malawi declared a State of Disaster on March 20 although Malawi only registered its first cases on April 2, 2020. On April 4, 2020, the Government of Malawi recommended a series of restrictive measures including virtual working arrangements, limits on public gatherings, transport and international travel. On April 14, 2020, the President of Malawi announced a national lockdown slated to begin on April 18 and to last for 21 days. However, the lockdown was challenged in court, and a court injunction on April 18 prevented the lockdown from going ahead – a decision that was upheld by the High Court. As of 29 October 2022, when Malawi made her last public reports, the country had reported 88,073 confirmed COVID-19 cases, of whom 2,683 had died, representing an overall case fatality ratio of 3.1%.

Government responses to COVID-19

- A national COVID-19 Preparedness and Response Plan (CPRP) with a budget of USD 212 million was launched on April 8. A month later, on June 4, the budget for the Plan was increased to USD 345 million, of which around three-quarters remained unfunded.
- Under the CPRP, between 2020 and 2022, the Ministry of Health recruited 5,622 health workers of different cadres. COVID-19 vaccines were launched in March 2021 starting with high-risk populations and the from January 2022, vaccination and boosters, were extended to all aged 12 years and older. The national target was to achieve at least 70% vaccine coverage in the Malawi population by the end of 2022 but high levels of vaccine hesitancy resulted in a low level of coverage.
- To obviate the impact of restrictive measures on the borrowers, the Government encouraged commercial banks and micro-finance institutions to observe a three-month moratorium on interest and principal repayments for all loans and to restructure, refinance or renegotiate loans terms. In turn, the Reserve Bank of Malawi lowered the Liquidity Reserve Ratio and Lombard rate, thereby releasing MK12 billion to the banking sector. The RBM also activated the Emergency Liquidity Assistance framework to support banks that would be liquidity constrained banks and expressed its willingness to accommodate banks that would breach the Prudential Capital Requirement Directive as a result of the COVID-19 measures

Donor Response

- Following the announcement of the CPRP there was coordinated response among the donors with the International Monetary Fund (IMF) approving debt service relief of USD 9.8 million on April 13 and the World Bank initially approving a USD 37 million package of COVID-related support on April 15. The World Bank Group activated crisis response mechanisms in projects to rapidly deploy emergency funding, including the COVID-19 and post COVID-19 response. The COVID-19 Emergency Response and Health Systems Preparedness Project committed a total of USD96.9 million to strengthen systems for vaccine procurement and deployment and other essential health services. The Emergency Project to Protect Essential Health Services (USD100 million) provided immediate financial resources and medicines to maintain essential health services.
- As part of the 2020 National COVID-19 Preparedness and Response Plan, the Government of Malawi initiated the COVID-19 Urban Cash Initiative (CUCI) to mitigate the adverse impacts of the pandemic on livelihoods, human capital accumulation and basic consumption for poor populations in the cities of Lilongwe, Blantyre, Zomba and Mzuzu. The intervention targeted 35 percent of each city's population and was implemented in the poorest hotspots, enrolling over 199,000 households in total. The monthly transfer level was equivalent to the minimum wage at the time - MK35,000 (approx. USD45) - for a total of three months. The design and implementation of the CUCI was led by the Government of Malawi with support of Development Partners including the World Bank, Kreditanstalt für Wiederaufbau (KfW), European Union Delegation to Malawi (EU), Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ), UNICEF, WFP, and ILO.

Cholera:

Tropical Cyclone Freddy struck when Malawi was experiencing one of the worst cholera outbreaks in recorded history with 59,060 cases and 1,769 cholera - related deaths reported across all 29 districts by the end of October 2023 representing an average case fatality rate for the outbreak was 3%, which was much higher than the target threshold of less than 1%. The UN in Malawi, with support from OCHA, developed a Cholera and Floods Flash Appeal calling for a combined USD115.9 million to support the national response. Of this amount, 39.6 per cent was mobilized to assist people affected by flooding induced by the cyclone and to respond to the deadliest cholera outbreak in recorded history, which impacted 4.8million people in 15 priority districts. Following a decline in the cases from August 2023, the Malawi Government declared that cholera was no longer a public health emergency during the same period.

Malawi secured climate financing worth \$36 million from the Green Climate Fund (GCF) of which USD31 million was allocated to Save the Children International (SCI) to implement climate adaptation and mitigation interventions aimed at improving the healthcare infrastructure and community resilience to climate-related shocks while \$5 million was designated for the Ministry of Health (MoH) to integrate climate risk management into health systems.

Malawi also developed a National Multi-Hazard RCCE Strategy as a comprehensive framework to improve risk communication and community engagement in times of crisis. The strategy focuses on building a more resilient population by enhancing public awareness and preparedness for multiple hazards, including climate-related disasters, disease outbreaks, and other emergencies.

3.4 Russia-Ukraine War

Most recently, the Russia and Ukraine conflict has added a new crisis to what was already a challenging global economic climate. Rising global fertilizer and fuel prices, which have been exacerbated by the war, are exerting additional pressure on external balances. These have resulted in deterioration of Malawi's terms of trade and are exerting upward pressure on inflation which rose to 25.5% in August, 2022 compared to the average annual inflation of 9.3% in 2021. The World Bank Economic Monitor of June, 2022 estimated that a price increase of 15% would result in the poverty rate rising by close to 3 percentage points. The impact on food prices will be disproportionate on the poor with Ukraine annually exporting 40% of its wheat and corn to Africa and is a source market for the World Food Programme that feeds 138 million people in 80 countries, including Malawi. With Ukrainian supplies affected by the crisis, food prices are on the rise across Africa.

Impact on Fuel Prices

Due to the Russia-Ukraine war disruption in global energy markets and the resultant increase in global oil prices, the Malawi Energy Regulatory Authority (MERA) announced in May 2022, an increase in fuel pump prices of petrol and diesel by 20 percent and 31.5 percent, respectively. However, immediately after the devaluation of the local currency was announced, further spike in fuel prices occurred. In June 2022, MERA announced another increase in petrol and diesel prices by 44.92 percent and 30.61 percent, respectively. The increase in fuel prices immediately caused another surge in prices of essential food and non-food items due to increase in the costs of production and transportation.

In a bid to mitigate further fuel price increases, from mid-2022, government suspended the use of the automatic pricing mechanism in favor of administered fuel prices which were set below cost recovery. These implicit subsidies persisted until the change in administration in September 2025. The new administration's attempts at cost-reflectivity a succession of pump price increases - initially pump prices were increased by 33.2 percent in October 2025 and then by 41 percent in January 2026. When MERA reviewed petroleum pump prices in January 2026, the Authority had accumulated MK1.2 trillion in losses, owed about MK1 billion to fuel suppliers and owed MK593.2 billion in unremitted levies to different levy beneficiaries.

Impact on Fertilizer prices

Global price movements had a knock on effect on Malawi. The conflict exerted some inflationary pressures on already rising fertilizer prices as global fertilizer prices increased by 300 percent. According to the United State Department of Agriculture's (USDA) Economic Research Services (ERS), prices for nitrogen fertilizers, anhydrous ammonia and urea, were relatively steady in 2020 but began rising sharply in 2021, reaching record highs in 2022. Anhydrous ammonia peaked above \$1,600 per ton, while urea surpassed \$1,000 per ton in 2022. Following their 2022 peak, fertilizer prices trended downward throughout 2023 and into 2024, though they remained above pre-2021 levels. As of early 2025, prices appear to have somewhat stabilized but are still subject to market changes resulting from shifts in fertilizer supply, demand, and trade conditions.

Before the conflict, fertilizer prices in Malawi were already on the rise and near an all-time high in 2020, driven primarily by rises in global prices. In 2021 both NPK and Urea were being sold for MWK 38,000 per 50kg bag which was 73% higher than the 2020 price of around MWK 22,000 per bag. In the same period, the Kwacha depreciated against the dollar by 9 percent from MK 756 /USD to MK 821/USD. To make matters worse, bulk shipping rates more than doubled in the 12 months ending July 2021, which further increased the landed cost of fertilizer in Malawi. By May 2022, the prices of a 50kg bag of Urea and CAN had moved to K61,000 and K44,000 from K49,700 and K37,000 in April 2022, respectively. As of August 2025, fertilizer prices have remained high with Urea and NPK selling for MK160,000 while CAN sold at MK140,000.

Response to Russia-Ukraine War

In the 2021-24 period the World Bank Group mobilized USD449.4 million in emergency response financing and triggered seven project Contingency Emergency Response Components (CERCs). Emergency response funding consisted of:

- i) USD361.8 million from IDA's Crisis Response Window;
- ii) USD57.6 million from a Catastrophe-Deferred Drawdown Option (Cat-DDO) tied to a Development Policy Operation (DPO); and
- iii) USD30 million to finance a project focused on De-risking the Importation of Strategic Commodities (DISC).

Other notable milestones included the provision of budget support for the first time since 2018 through a USD80 million Malawi First Growth and Resilience Development Policy Operation (DPO), which included the USD57.6 million Catastrophe Deferred Drawdown Option (Cat-DDO), and the delivery of Malawi's first-ever Program-for-Results (PforR) operation to incentivize the implementation of critical fiscal governance reforms

Conclusion

Malawi is increasingly susceptible to a variety of natural disasters, including heavy rainfall and flooding, seasonal droughts and cyclones. Over the past five decades, Malawi has experienced more than 19 major floods and seven droughts, with varying frequencies, magnitude, and scope. The majority of these have occurred in the past fifteen years including 17 major flooding events, a rainfall-induced landslide, five storm disasters, and three severe droughts. Government's response has typically been to declare states of disaster and issue an appeal for donor assistance. Apart from recourse to the unforeseen contingencies line, little reallocation of resources within its own budgets is done.

The disasters have weakened Malawi's economic recovery and undermined its ability to realize visions and goals in its multi-year development plans. Internal and external instability, a sluggish real sector and fiscal indiscipline have resulted in economic growth being less than population growth and reversed gains in standards of living. Inflation has remained elevated and imports continue to outpace exports and the external sector faces a balance of payments crisis. To the extent that deficit financing continues unabated, debt stock continues to grow and debt service continues to consume an increasing share of the budget crowding out our investment with high social returns.

4.0 IMF TO THE RESCUE?

This chapter focuses on the role of the IMF in Malawi's economic management in the past decade in view of the different shock that the economy went through. It reviews the nature and role of IMF conditionality and how it undermines national planning as well as Malawi's fiscal sustainability. In addition, the chapter presents an assessment of whether austerity measures that accompany IMF programs undermine SDG spending.

4.1 Conditionality vs Plans

Between 2015 and 2025 Malawi had three active Extended Credit Facility arrangement and three arrangements under the Rapid Credit Facilities window (see Table 7). As we show in the next section, both of the Extended Credit Facilities contracted after 2015 which are of interest for this assignment failed leading to forfeiture of approved funds. As once-off quick disbursing loans, the CF are not performance related and Malawi was able to draw on all resources.

Table 8: Malawi's Arrangement with the IMF (2015-25)

Loan / Arrangement Type	Date Approved	Expiration Date	Amount Approved (SDR Mn)	Amount Drawn (SDR Mn)
ECF	Nov, 15, 2023	May 14, 2025	131.86	26.37
ECF	Apr, 30 2018	Sep 24, 2020	78.08	53.85
ECF	Jul 23, 2012	Jun 29, 2017	138.8	138.8
RCF	Nov 21, 2022	Nov 23, 2022	69.4	69.4
RCF	Oct 02, 2020	Oct 06, 2020	72.31	72.31
RCF	May 01, 2020	May 05, 2020	66.44	66.44

4.1.1 The 2018 Extended Credit Facility

This three-year ECF arrangement was approved for SDR 78.075 million (about USD 112.3 million), equivalent of 56.25 percent of Malawi's quota in the IMF), to support the country's economic and financial reforms. Its adoption coincided with Malawi's adoption of the Malawi Growth and Development Strategy (MGDS) III which was to be implemented in 2018–23. The ECF adopted some of the MGDS III strategic emphasis including building productivity, competitiveness, and resilience through stepped-up investment in infrastructure and social sectors (education, health and gender issues).

Conditionality and Policy Commitments

- **Market friendly reforms** included measures for increasing access to and affordability of credit; alignment of export and import control systems with the World Trade Organization (WTO) norms; removal of trade barriers, exchange rate flexibility and commitment to the use of the automatic fuel price adjustment. Agricultural sector reforms including a strategic review of ADMARC, reforms to Fertilizer and Inputs Subsidy Program (FISP), and implementing the new land reform bills
- **Expenditure management:** to obviate recourse to monetary financing, Government agreed to align the Reserve Bank of Malawi Act with the Public Finance Management Act to eliminate avenues of RBM financing of the central government. The Government agreed to procurement reforms that would enhance commitment controls, avoid accumulation of domestic and external arrears, and limit domestic and external non-concessional borrowing. Other measures sought to lower interest payments, limit non-essential recurrent expenditures and allowances, reduced maize procurement, reforms to FISP, limit bail out to State Owned Enterprises²
- **Revenue mobilization:** Government agreed to shift the focus of tax policy from reliance on revenue from taxation of labor and investment to consumption; Repeal of the industrial rebate scheme, introduction of a thin capitalization or earnings stripping rule, and redesign turnover taxation; and to strengthen tax administration by shifting to a risk-based tax compliance approach.

An IMF review mission in December, 2019 concluded that the Government had complied with the conditionality to enhance the RBM's independence when in December 2018, Parliament approved a new RBM Act, which now prohibits monetary financing of the government (except for short-term advances that have to be repaid in cash) and limited future conversions of ways and means cash advances into government securities.

However, macro-fiscal stability remained elusive mostly due to exogenous developments. Revenues were 1.6 percent of GDP lower than projected under the ECF due to lower grant realization (1.4 percent of GDP) and slightly lower tax and non-tax revenue out turn (0.2 percent of GDP) while spending was higher by 0.2 percent of GDP, mostly reflecting higher post cyclone rehabilitation and reconstruction and additional security spending. The IMF's debt sustainability analysis concluded that while baseline external debt indicators were below their policy-

² These included the bail out to ADMARC, promissory notes related to the recapitalization of RBM, promissory notes for Malawi Savings Bank's toxic assets, and securitization of arrears.

dependent debt burden thresholds, the baseline present value (PV) of the public debt-to-GDP ratio exceeded the benchmark on account of domestic debt stock accumulated in the three years preceding the ECF and of primary deficits averaging 2.5 percent of GDP over the previous four years.

Following that review, Government committed to additional measures. To bolster revenues the government agreed to an upward adjustment of user fees and charges, introduction of road tolling fees, and enforcement of the revised dividend policy for State Owned Enterprises (SOEs). Additional austerity measures included containment of wage and pension increases to inflation; limiting new hiring to essential staff; a review of FISP eligibility and voucher value aiming to halve the cost over the medium-term; and reducing transfers to public entities by bolstering their revenue generating capacity and management.

Cancellation of 2018 ECF

In September 2020, just a month after assuming the reins of power, the new administration of President Chakwera voluntarily cancelled the ECF program, ostensibly due to disagreements with some policies and onerous conditionality that the outgoing administration committed to. The offending conditionality included the need for currency realignment, cutting public sector wage growth, raising fuel/electricity costs and halting recruitment. A consequence of the cancellation was that Malawi forfeited around \$70 million from the cancelled three-year ECF and future disbursements under that specific ECF ended.

4.1.2 The 2023 Extended Credit Facility Arrangement

It took over three years for the new administration to negotiate and conclude a new ECF. In November 2023, the IMF Board approved a new ECF for Malawi of USD 131.86 million against the backdrop of macroeconomic imbalances due to the multiple shocks that hit Malawi in the preceding three years, large budget deficit (10.8 percent of GDP in 2022) which necessitated domestic financing, as well as arrears of \$418 million on commercial external debt.

The high-level policy goals were essentially similar to those that characterized all ECFs including creating a sustainable fiscal position; achieving price stability and safeguarding financial sector stability; rebuilding international reserves and normalizing the market for foreign exchange; restoring debt sustainability and external viability.

Conditionality and Policy Commitments

Malawi committed to implement the following reform areas

- **Fiscal Reforms:** Broad fiscal areas targeting rationalizing and prioritizing expenditures; introduction and enforcement of commitment control measures; and rationalization of the wage bill and the Affordable Input Program (AIP).
- **Revenue mobilization.** Apart from commitment to step up implementation of the Domestic Revenue Mobilization Strategy (DRMS), the majority of revenue-enhancing measures disproportionately targeted motor vehicles, including imposition of a specific tax on second hand cars, repealing value-added tax (VAT) relief on motor vehicles for privileged individuals and groups; ensuring that supplies of a motor vehicle would be standard rated for VAT purposes.
- **External Sector.** IMF support was made contingent on commitment to restructure all external debt and meeting all conditions under the Lending-Into-Arrears (LIA) policy with respect to arrears to AFREXIM and Trade and Development Bank (TDB).
- **Market friendly reforms:** To increase access to credit and create economies of scale, Government through the RBM committed to work towards merging the Export Development Fund (EDF) with the Malawi Agricultural and Industrial Investment Corporation, PLC (MAIIC) given the similarity of their mandate.

Termination of the 2023 ECF

The 2023 ECF was still born. Since its approval, although discussions between the IMF Malawi government were on-going, not a single program review was completed. Macro-fiscal stability remained elusive due mostly to fiscal slippages due to elevated spending pressures, insufficient revenue mobilization efforts and growing public debt. Interventionist exchange rate policy and other capital control made it impossible for the country to rebuild international reserve buffers.

Although Malawi made some headway in debt restructuring negotiations with bilateral lenders, much remains to be done. Malawi get some minor debt relief from China EXIM which cancelled US\$20 million of Malawi's debt and extended repayment period for some loans to 48 years. Malawi also has agreements in force with the Kuwait Fund for Arab Economic Development but discussions are continuing with India EXIM and the Saudi Fund for Development. The external debt restructuring process with commercial lenders which was a major conditionality has failed to reach any conclusion. Afreximbank and the Eastern and Southern African Trade and Development Bank (TDB) were expected to provide debt relief as part of the authorities' debt restructuring strategy but no agreement has been reached. In accordance with the IMF's financing policies for low income countries, since no review had been completed over an 18-month period, the program automatically terminated on May 14, 2025. At the time, Malawi had only accessed USD 26.3 million of the USD 175 million.

The Role of Government in Failure of the ECFs

Since the past decade, Malawi has taken a lot of misguided positions to the detriment of its economic performance. These include the following :

First, the 2018 ECF could not continue even if the Chakwera administration wanted. Upon assuming office, the incoming administration realized that earlier reviews that Malawi completed were based on fraudulent and mis-reported external positions. The government of Malawi misreported on its observance of the performance criteria on the floor on the Net International Reserves (NIR) of the Reserve Bank of Malawi (RBM) when RBM's gross reserve assets were overstated due to inclusion of both: pledged term deposits, and foreign assets through contracting short-term swaps. The misreporting resulted in Malawi receiving noncomplying disbursements of SDR11.15 million (about US\$15.4 million) and SDR31.55 million (about US\$43.3 million), following the completion of the first, and combined second and third, reviews of the 2018 ECF.

When the Chakwera administration took office, the short-term forex swaps that Malawi contracted had matured. Without new foreign exchange sources Malawi fell into arrears. When Malawi was in arrears to its external commercial creditors and did not have access to international capital markets, to finance fiscal deficits, Malawi increasingly came to rely on the more costly domestic debt market. Government borrowing crowded out credit to private sector, heighten inflation and kept interest rates.

The 2023 ECF was equally doomed from inception because prior to the agreement, the government took policy positions that undermined the ECF's capacity for revenue mobilization and service delivery. Following internal fuel price rises due to the onset of the Russia-Ukraine war, Malawi did not allow pass-through from international fuel prices to local pump prices, in effect subsidizing fuel pump prices. Since 2022, use of the automatic pricing mechanism which mandates the Malawi Energy Regulatory Authority (MERA) to review fuel price when the in-bond landed cost exceeds + 5% was suspended. By 2025, fuel prices were 38 percent lower than they should have been, with disastrous consequences for funding for road maintenance, rural electrification and even fuel price stabilization.

Fourth, Malawi's foreign exchange regime has undermined the country's ability to deal with balance of payments crisis. As we argued elsewhere, mispricing of foreign exchange and frequent recourse to capital controls have penalized formal sector forex earners, moved foreign exchange into the informal sector and encouraged a thriving black market.

4.2 Debt Sustainability and Negotiations

4.2.1 Public Debt Overview

Malawi's public debt levels have risen significantly over the past two decades. Total public debt has risen from MK2.5 trillion in 2016 to MK17.4 trillion in 2024 representing a growth rate of 28 percent per annum. Relative to the size of the economy, the stock of public and publicly-guaranteed (PPG) debt rose sharply, from 27.7 percent of GDP in 2012 to 88 percent at the end of 2024. As a share of GDP, external debt almost tripled while domestic debt more than quadrupled over the past decade bringing Malawi almost back to where it was prior to the completion of the Highly Indebted Poor Country (HIPC) process in 2006.

External Debt

The stock, composition and growth rate of Malawi's external debt has shifted in recent years. External debt stock has increased from MK1.4 to MK7.5 trillion, representing an annual average growth rate of 25 percent although much of the growth is revaluation effects following the 25 % and 38% devaluation of May 2022 and November 2023, respectively. While the bulk of the country's external debt is held by multilateral creditors on highly concessional terms, bilateral official creditors make up a small but meaningful share of external debt.

In dollar terms, total external debt stock rose from USD 1.97 billion to USD 4.3 billion, representing an average annual growth rate of 10 percent. Multilateral debt continues to dominate the external debt portfolio (over 70 percent) and has increased from USD 1.4 billion to USD 3.1 billion with the World Bank group holding over half of that debt. While bilateral debt has relatively waned from 17 to 9 percent of external debt (USD 424 million to USD372 million) dominated by China EXIM (USD203 million) and India EXIM (USD 91.7 million). Other lenders include Kuwait Fund Saudi Fund.

Between 2016 and 2024, external debt service in local currency rose from MK6.6 billion to MK35.5 billion, the latter comprising MK31.3 billion in amortization and MK4.13 billion in interest payment. In dollar terms, debt service requirement rose from USD 9.1 million to USD 41.1 million. While amortization has risen from USD6.7 million to USD29.6 million, interest payments have increased four-fold from USD 2.4 million to USD 11.2 million

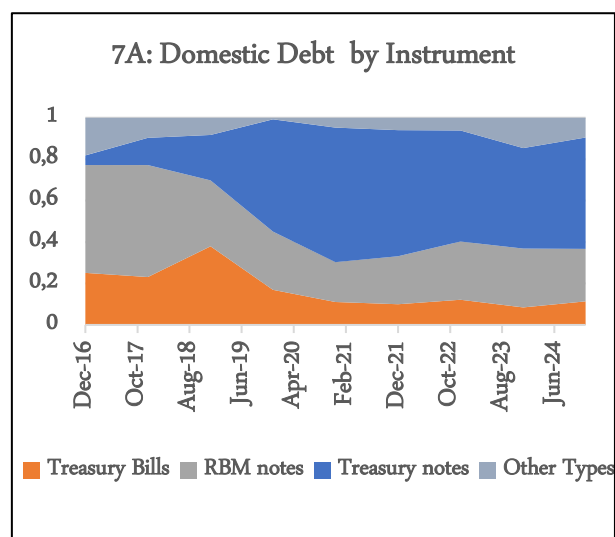
Except for the forex requirement, domestic debt is costlier and riskier than external debt. In 2024 total debt was 88 percent of GDP while debt service was 32 percent of GDP, comprising 23 percent in domestic debt service and 9 percent in external debt service, the bulk of which (7 percent) is to two commercial creditors - AFREXIM (3 %) and TDB (4%).

Table 9: Trends in External Debt Stock, Million USD, 2015-24

	2015	2020	2021	2022	2023	2024
Total External debt stock	1,895.60	3,377.80	3,842.87	3,835.30	4,099.40	4,220.30
Multilateral	1,187.0	2,188.8	2,323.6	2,563.9	2,939.3	3,086.00
<i>of which</i>						
ADF	228.8	377.2	426.8	432.0	469.8	463.3
IDA	589.9	1,097.5	1,177.8	1,319.6	1,554.1	1,718.00
IFAD	71.0	88.9	93.5	107.0	126.4	142.8
IMF	162.8	432.3	394.3	438.1	447.1	412
OPEC FUND	48.4	71.9	75.3	77.1	86.4	85.9
Other Multilaterals	289.0	121.0	155.9	190.1	255.5	264
Bilateral	449.6	426.0	449.5	429.4	391.1	372.3
<i>of which</i>						
EXIM-India	151.2	136.0	124.2	114.1	102.9	91.6
Exim-China	242.7	219.0	239.7	229.0	207.2	203.4
Kuwait Fund	39.7	43.2	46.1	50.3	50.4	47.5
Saudi Fund	7.4	23.0	29.3	29.7	28.1	27.7
Other Bilaterals		5.0	10.2	6.3	2.6	2.1
Commercial	259	763	1,069.77	842	769	762

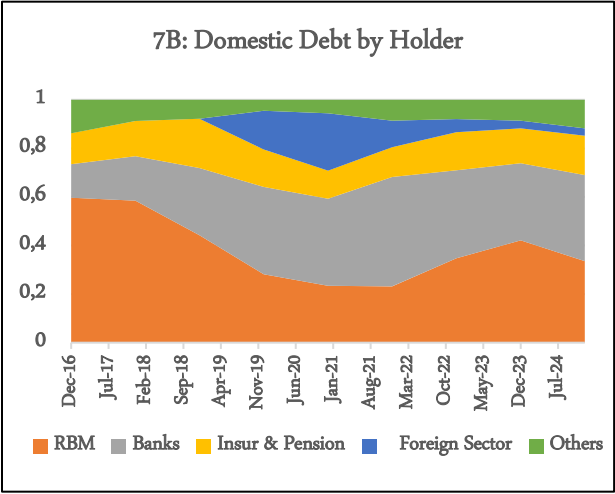
Domestic Debt

Since Malawi is in arrears to its external commercial creditors and does not have access to international capital markets, to finance fiscal deficits, Malawi has come to increasingly rely on the more costly domestic debt market. Domestic debt has increased from MK1.1 trillion to MK9.9 trillion over the past decade, representing an average annual growth rate of 32 percent. Since the passage of the RBM Act of 2018, the composition of domestic financing has changed in terms of both creditors and instruments. The main instruments for domestic borrowing are now



dominated by high-cost Treasury Notes (41.7 %), Reserve Bank of Malawi Notes (32.2 %) and Treasury Bills (averaged 17.4 %). Other instruments, including promissory notes, ways and means advances and zero-coupon notes constitute less than 10 percent.

The financial sector is heavily exposed to the government, heightening vulnerabilities. Although the RBM remains the main holder of the domestic debt its dominance has waned from 60 percent in 2016 to 33 percent in 2024. In contrast, the share of domestic public debt held by Commercial Banks rose from 13.8 percent to 33 percent, while Insurance companies and pension funds have averaged 15 percent.



4,2,2 Debt Restructuring Negotiations

As indicated above, following the conclusion of negotiations with two bilateral lender, the Government continues to negotiate with the remaining bilateral lenders and commercial creditors (Afreximbank and TDB), where arrears amounted to \$669 million as at end-2024³³. The timeline to complete this process is uncertain and there are risks of further delays. The delays reflect in part concerns over the medium-term implications of the restructuring (for Malawi, access to future financing; for their creditors, a precedent for others in the region) (IMF, 2025).

According to key informant interviews, Malawi’s choice to enter negotiations with individual creditors and not seek debt relief under the G20 Common Framework has been guided by the understanding that the inclusion of multilateral debt in the debt restructuring perimeter would not significantly impact the dynamics of the debt restructuring negotiations, on two grounds

First, the present debt restructuring negotiations cover just about one-third of Malawi’s external debt, rendering it unlikely to produce a meaningful change in Malawi’s fiscal space. As showed above, two-thirds of Malawi’s debt is owed to multilateral creditors, which under the OECD framework, are considered “super-senior creditors,” and generally excluded from the Common

³³ The most recent debt report, covering data through end-September 2024, was published in November 2024.

Framework's debt relief efforts. This limitation would hinder effective and meaningful debt restructuring through the framework. Second, is the perception that the Common Framework has yet to deliver for those that have tried it. It has been slow to deliver timely and lasting debt relief, with only a few countries having applied, and none of whom have completed the process to receive substantial relief as of mid-2025.

4.2.3 Realism of Macroeconomic Assumptions

The 2018/19 DSA baseline assumptions were significantly at variance with reality. The DSAs were too optimistic about trajectories of all macroeconomic sectors. It assumed that in the medium to long term GDP growth would stabilize at 5.5 percent. Similarly, it had more optimistic assumptions about the monetary sector, fiscal and external sector (see Table 10). In contrast, the macroeconomic assumption and projections underlying the 2023 DSA were closer to reality, if not more pessimistic. The DSA's GDP growth projection of 1.6 percent in 2023, and projected to recover and stabilize at 4.6 percent in the medium term was much closer to reality where GDP growth has averaged about 1.8 percent annum although the recovery has not commenced in earnest. Both DSAs were more optimistic about the external sector recovery and the RBM's ability to accumulate foreign exchange reserves.

The key macroeconomic assumptions underlying the government's 2025/26 budget projections are broadly consistent with the baseline of the IMF's 2025 Article IV staff report. The IMF's baseline was that the fundamental impediments to growth and fiscal dominance would not be meaningfully addressed, resulting in lower growth and higher inflation over the medium-term relative to the baseline under the 2023 ECF. Some fiscal, monetary, and exchange rate adjustment was assumed starting late 2025 after the elections, forced by limits on domestic financing and continued foreign exchange shortages. However, the external adjustment would fall short of what was needed: the baseline assumes higher imports (and lower exports) over the medium term, with limited accumulation of foreign exchange reserves. No debt restructuring is assumed.

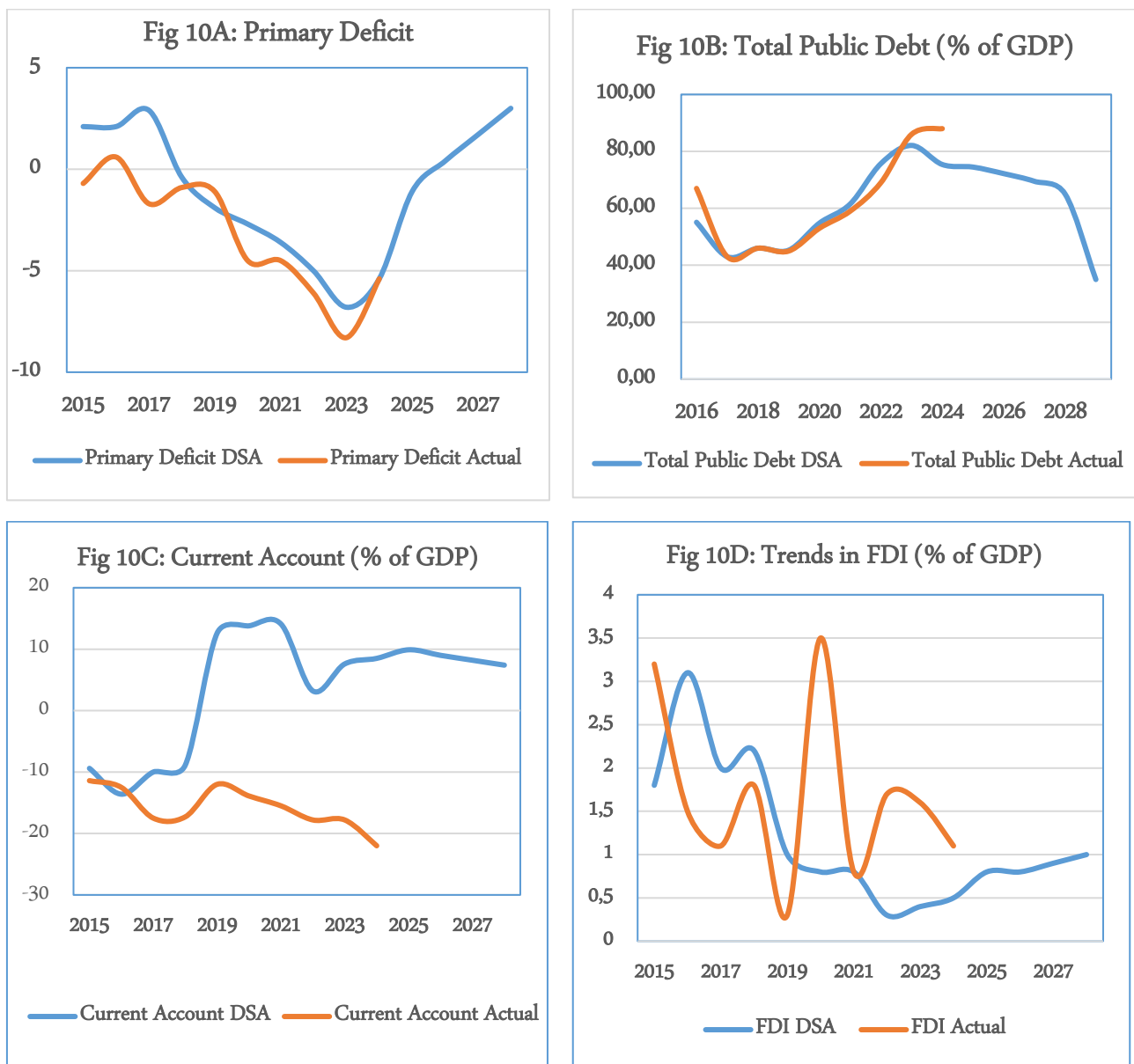
The IMF's most recent baseline scenario included a worse fiscal outlook and less ambitious fiscal adjustment path relative to previous assumptions. The Fund assumed a large primary deficit in 2025 due to election year spending, declining only gradually over the medium term as the rising interest bill crowds out primary spending under a broadly unchanged overall deficit. Only limited progress was projected to be made on revenue raising measures in the context of persistent spending pressures.

Table 10: Realism of ECF Assumptions

Variable	2018/199 DSA Assumption	DSA 2023 Assumption	Out turn
Real GDP Growth	Assumed to rise to 4.5 percent in 2019, 5.1 percent in 2020, and stabilize at 5.5 percent over the long term.	GDP growth was revised downward to 1.6 percent in 2023, and projected to recover to 4.6 percent in the medium term.	Since 2021 GDP growth has averaged under 2 percent per annum.
Inflation	Assumed to moderate below 9 percent by end-2019 and reach 5 percent by 2024.	CPI inflation was projected to reach 30.3 percent on average in 2023, but projected to fall to around 6.5 percent in the medium to long term.	Since 2022, inflation has persisted around 30%. Domestic inflation is even higher
External Sector	Exchange rate assumed to remain constant in real effective terms.	RBM would rebuild gross official reserves , to at least 3.9 months of imports cover) in the medium term	Since 2020 forex reserves have dwindled and recently average less than one month of import cover
		The current account deficit was projected to reach 7.4 percent of GDP in 2028,	Current Account deficit has deteriorated to -22 percent
Private Sector Credit Growth	Assumed to gradually strengthen to about 16 percent over the medium term		Credit to Private sector declined from 9.1 % to 7.5 % of GDP
Fiscal Balance	The tax revenue to GDP ratio was anticipated to edge up by 0.6 percentage points during FY 2019/20 and gradually rise in the medium to long term	Public debt assumed to stabilize, and reduce domestic primary deficit by 1.7 percentage points of GDP annually	Since 2019, revenues rose from 14.7 to 20.1 percent of GDP. But expenditure rose from 18.9 to 28.4 percent of GDP. Primary fiscal balance rose to peak at -8.3 % in 2024. It fell in 2024
	External debt would mainly be contracted with multilateral creditors on concessional terms.		Since 2019, Malawi has contracted non USD 669 million worth of external commercial debt.

The projected improvement in the primary balance in the next three years (2.5 percent) was in the top quartile of historical data on LIC adjustment programs. However, it was significantly less ambitious than the adjustment assumed in the previous DSA, which was not achieved in practice (see Figure 10). It reflects the unwinding of higher one-off spending in 2025, an election year, and the compression of primary spending as the interest bill grows. Consistent with these higher deficits, public investment as a share of GDP is not expected to fall as sharply. The GDP growth projection is also stronger than implied by the estimated fiscal impulse alone, given staff expects some catch-up growth as Malawi recovers from the impact of agricultural supply shocks in 2024.

Figure 10: Comparison of 2018/19 DSA with Actual Realization



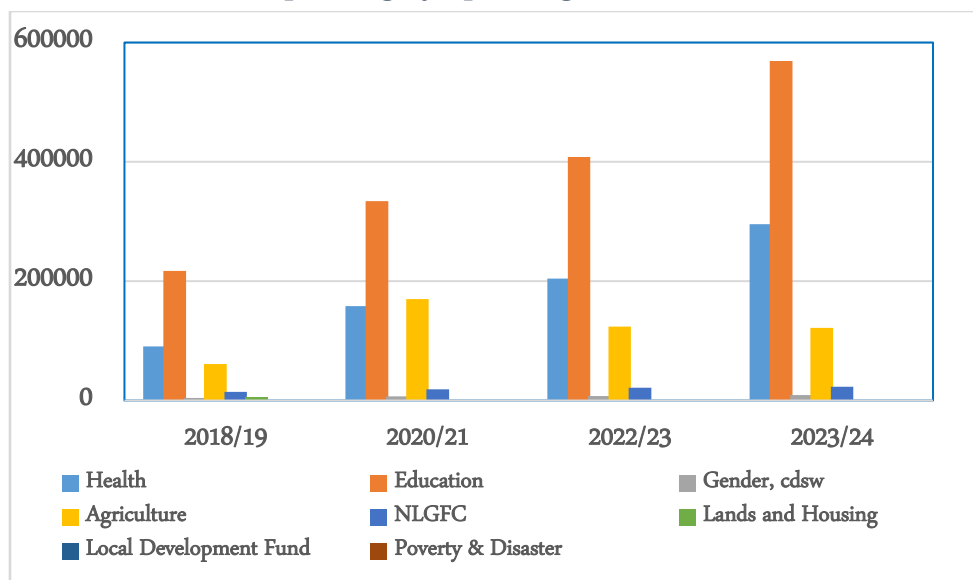
4.3 Efforts to Protect SDG Spending

With the exception of education, Malawi allocates relatively little public funding to key social sectors like health and social protection, and relies heavily on external aid to finance them. Government spending is heavily concentrated in general public services, debt repayments, and transfers to local councils – which jointly account for 56 percent of total expenditure. This leaves limited room in the budget for sectors critical to human development and for infrastructure. The health sector – excluding allocations to WASH – received the second largest allocation of 9.2 per cent of the total budget in 2024/25, after education (14.6 per cent) and ahead of agriculture (8.5 per cent) and other critical social and economic sectors (Figure 11).

Tracking social spending in Malawi is complicated by changing definitions which affect the scope of measurement. The Technical Memorandum of Understanding (TMU) for the 2018 ECF defined social spending using functional classification of expenditure, as the sum of central government spending on health, education, and government social protection (comprising the government expenditures by the Ministry of Gender, Community Development and Social Welfare and the Ministry responsible for disability and elderly Affairs). In reality in its reports on social spending, the Ministry of Finance included lines of the agriculture budget dealing with input subsidies and maize purchases, the *Malata* (iron sheets) subsidy under Ministry Lands and Housing and allocations for Poverty and Disaster.

Although allocation for social sector spending has nominally grown overtime (Figure 9), the social sector has averaged 30 percent of the total budget with the education sector accounting for roughly half of all social spending (Figure 10). The health sector – excluding allocations to WASH – received the second largest allocation averaging 9.2 per cent of the total budget, ahead of agriculture (8.5 per cent) and other critical social and economic sectors. Between them, the education and health sector account for three-fourths of all social spending.

Figure 11: Trends in Social Spending by Spending Units, Millions MK, FY 2018/19 – 23/24



4.1 Floors on social Spending

Under the IMF’s lending policies any financing request or program review under the ECF is required to be accompanied by a statement of how the loan or program advances the country’s poverty reduction and growth objectives. The policies stipulate that **social and other priority spending should be safeguarded and, whenever appropriate, increased under ECF-supported programs**, and this should be monitored through explicit program targets, typically an indicative floor on social and other priority spending.”

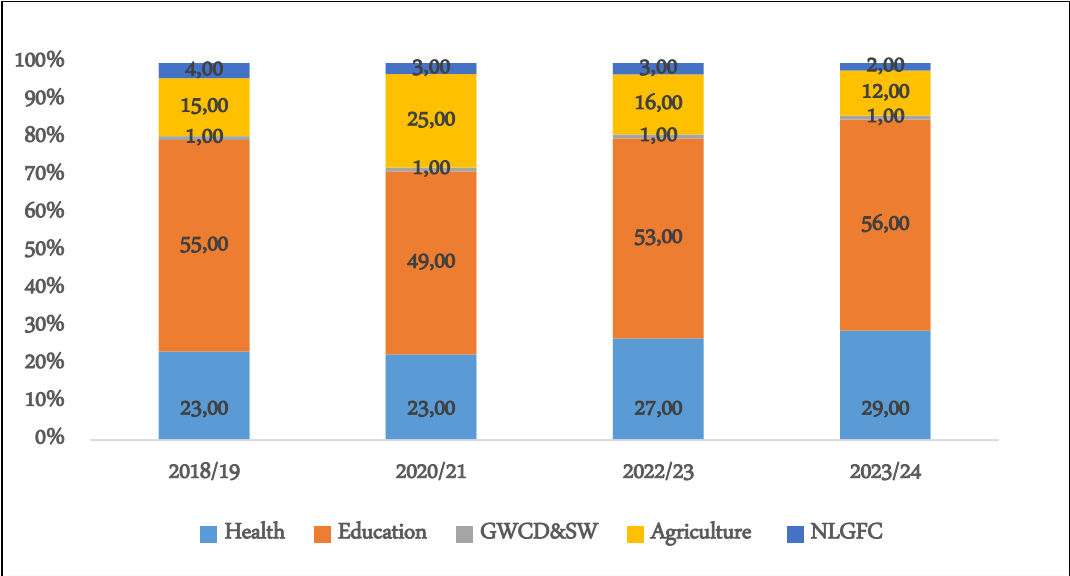
In its request for the ECF, government wrote that “To safeguard social protection and to protect the vulnerable, we have established a floor on social spending as an indicative target (IT) under the program. This will comprise of Government contribution to health and basic and secondary education spending, as well as a number of social safety net spending, including the Social Cash Transfer Program (SCTP) and AIP. Government further committed that “given our limited fiscal space, we will prioritize expenditure to ensure adequate support to the vulnerable by safeguarding Government’s contribution to social safety net programs such as the Social Cash Transfer Program (SCTP), and to protect investment in infrastructure.”

Malawi also got a waiver which protected social spending allocations in the government budget from downward adjustment to meet fiscal targets of the program. In accepting exchange rate unification government argued that it needed to be carefully designed and include social safety nets to offset the potential short-run impacts on households. In the Memoranda of Economic and

Financial Policies (MEFP) accompanying both agreements the government committed to “safeguard increased spending on infrastructure and social development,” with proposed increase in spending on health and education by 0.4 percent of GDP, to be financed by cuts to FISP and maize purchases.

In an apparent fulfilment of this commitment, in its letter requesting for the 2023 ECF, the government wrote that, “we have moved farmers at the lowest end of the income spectrum to social protection programs and those at the higher end of the spectrum to commercial agriculture programs, supported by development partners.” Figure 12 provides prima facie evidence that this rationalization was followed through especially after the massive growth in subsidies of 2020/21. While the relative share of education within social spending has reverted to trend (55%), the relative share of health within the social spending has grown to 29 percent and both of these trends were at the expense of spending on agriculture subsidies. FISP and food aid currently consume about three-fifth of the agriculture budget (58 percent). The 2020/21 AIP budget represented the largest expansion of the program with beneficiary coverage increasing from 900,000 to 3.1 million households while program costs rose from 0.4 percent of GDP in FY2017/18 to 1.9 percent in FY2021/22. Although program’s coverage has reverted to one million and its value as a share of GDP fell to 0.6 percent in FY2024/25, the nominal budget increased by 11 percent between FY2023/24 and FY2024/25.

Figure 12: Trends in relative Composition of Social Spending, (% of total Social Spending)



Both IMF program reviews and administrative records from Ministry of Finance seem to suggest that Malawi has consistently complied with and met the social spending floors for all review periods that Malawi was required to report on them as an indicative target (Table 11).

Table 11: Social Sector Performance vs Social Spending Floors, Current MK Billions, 2018-23

	2018		2019		2020		2022		2023	
IT Date	Dec	March	June	Dec	March	June	Sep	Dec 22	Mar 23	Jun 23
SS Floor	182.2	273.3	364.4	230.0	350.6	449.5	127.0	503.00	669	203
Actual	208.7	318.5	406.4	NR	NR	NR	NR	610	868.1	208.6

Conclusion

The Malawi government is fairly isomorphic in that most of the conditionality imposed by the IMF find their way into the government's own policy documents. On paper, there is agreement between the government's position on general macroeconomic measures to ensure macroeconomic internal and external stability and fiscal sustainability. However, government has long been reticent to implement what it perceives as technically sound but politically suicidal structural or market friendly reforms, especially when it comes to reducing wage bill, parastatal reform and rationalization of the fertilizer subsidy programs. When government is delinquent on some agreed conditionality, those conditionality are typically carried over and made prior actions in the negotiations for the next facility.

With hindsight most assumptions underlying the DSA turn out to be unrealistic. To the extent that some of the most recent shocks could not be predicted, the 2018 DSA assumptions were too optimistic and wildly off the mark. Assumption about impact of proposed reforms on the economy, the nature and speed of the transmission mechanism and government compliance have mostly not panned out.

5.0 SPENDING HITS THE GROUND

This section examines the extent to which public spending in education, health and social protection translates into service delivery and outcomes. To that end, it examines discrepancies between budgeted and actual expenditure, the extent to which spending in these three sectors is pro-poor, and sectors' effectiveness and efficiency metrics.

5.1 Education Sector Spending

5.1.1 Trends of Education Sector Spending

The Ministry of Education has long been the single largest beneficiary of the public resources, accounting for about 16 percent of the budget. It is also the largest employer with over 85,000 primary teachers and over 16,000 secondary teachers. However, due to the multiplicity of stakeholders involved in education related activities, the education sector spending is an amalgam of spending by a number of ministries, department and agencies, including allocation to the Ministry of Education Headquarters and its agencies (Vote 250), Local Councils under Vote 900 series, Education Subventions⁴ under Vote 275, Early Childhood Development (ECD) under Ministry of Gender, Community Development and Social Welfare Vote 320, and Technical, Entrepreneurial and Vocational Education and Training (TEVET) under Ministry of Labour Vote 370.

The bulk of education sector funding come through the Ministry of Education (23 %) and local councils (54 %) while subvented organizations account for the remainder. Recurrent budgets for local councils are dominated by teachers' salaries, averaging about 90 percent while the rest goes to spending on goods and service. In the past five years, the Central Ministry's recurrent budget has been dominated by wages (51 percent) and ORT (32 %) leaving just 7 percent for development.

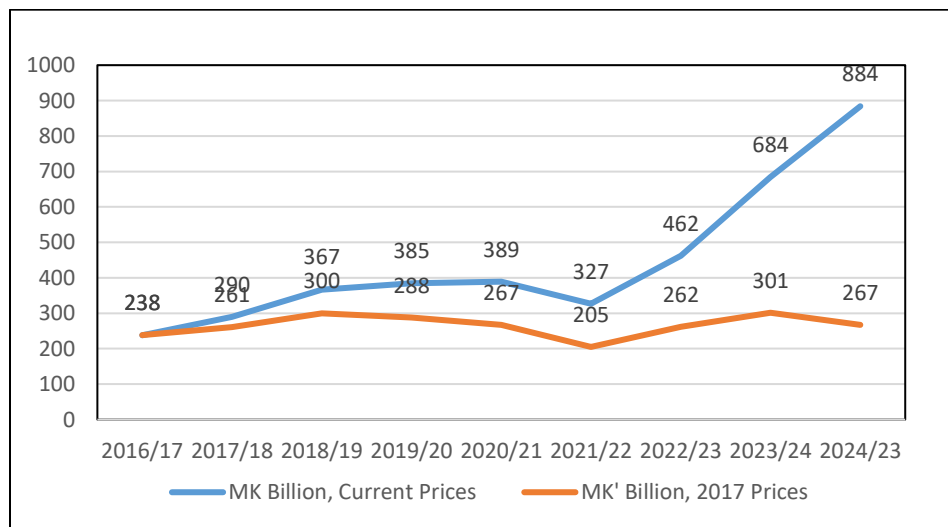
⁴ These education subventions include, the University of Malawi (UNIMA), Malawi University of Business and Applied Sciences (MUBAS), Mzuzu University (MZUNI), Lilongwe University of Agriculture and Natural Resources (LUANAR), Kamuzu University of Health Sciences (KUHeS), Malawi University of Science and Technology (MUST); Malawi National Examination Board (MANEB); National Library Services; Malawi Institute of Education (MIE); National Council for Higher Education (NCHE); Higher Education Students Loans and Grants Board; Malawi University Development Program (MUDEP); National Commission for Science and Technology (NCST); United Nations Educational, Scientific and Cultural Organization (UNESCO); and Malawi College of Health Sciences (MCHS)

Table 12: Education Sector Budget Allocation by Economic Classification

Spending Unit	Budget Line	2018/19	2020/21	2022/23	2023/24
Ministry Of Education	Wages	38	53	53	61
	ORT	29	38	32	28
	Dev	18	03	04	03
Local Councils	Wages	90	94	94	84
	ORT	10	06	06	16

Owing both to an increase in government allocations and renewed donor commitment towards education related development projects, the education budget has grown tremendously in recent years. In the past decade, government allocation to the education sector increased to MK884 billion in FY 2024/25, representing a 272% increase (see figure 13). Much of this increase is on account of increase in budget allocation and it reflects funding needs for growing enrolments in tertiary education and the ongoing expansion of public universities. However, in real values, the budget allocation to the education sector has been fluctuating, with a noticeable rebound in recent four years.

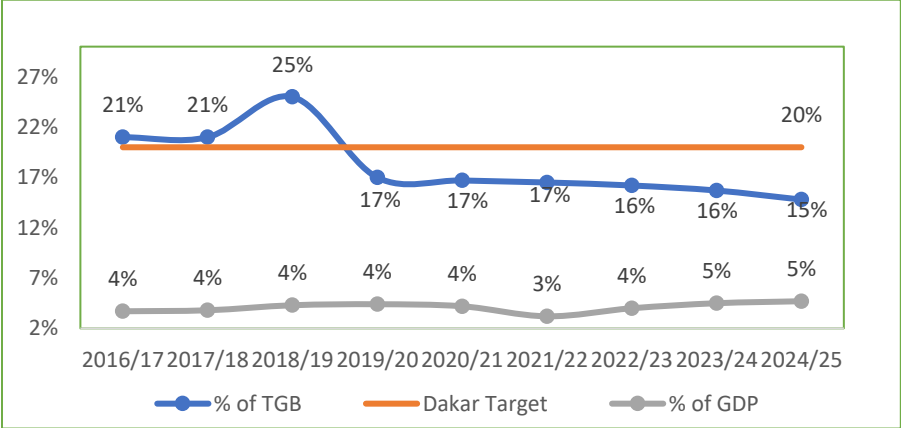
Figure 13: Trends in Nominal and Real Education Budget (MK' Billion) (2017 = 100)



The education sector allocations paint a mixed picture about Malawi's ability to meet its international commitments. For the past ten years, Malawi's education sector spending as a proportion of GDP has averaged 4% of GDP (Figure 11), consistent with the Incheon Declaration

of Inclusive Education, which recommends that government allocate between 4% and 6% of GDP to education sector to achieve the SDG 4 targets⁵. However, relative to the budget, this allocation was below the 20% threshold for meeting the Dakar Commitment on Education for All by the African Union. In fact, in the past six years, education sector spending as a share of the total government has declined from a peak of 25% in 2018/19 and stabilized at an average of 16%. This implies that even though education lead in budget allocation, in relative terms the sector lost out to protected expenditures especially debt service.

Figure 14: Education Sector budget allocation (% of Total Government Budget)



Source: UNICEF Malawi (2022-2024)

Education Sector Budget Utilization⁶

As Malawi’s fiscal space becomes more constrained the rate of budget utilization in the education sector has declined over time, highlighting growing challenges in both funding and absorption of higher allocations. The rate of budget utilization has consistently fallen over the years, from a high of 95%, in 2012/13 to 83% in 2023/24 (Table 13). Key Informant Interviews conducted at the Ministry of Education suggests that budget underutilization is primarily driven by both delayed and under-funding (when the actual funding released from the Treasury, is lower than the approved budget) leading to misalignment between activity plans, cashflow plans and actual expenditure. Apart from delayed or lower funding, there are implementation constraints arising from lengthy procurement processes and weaknesses in project and contract management which further hinder timely absorption, especially for capital expenditure. Budget utilization rate vary

⁵ UNESCO (2017)

⁶ Note: The budget allocation figures used in this analysis are drawn from the revised budget estimates. The coverage is limited to three financial years due to the unavailability of complete, publicly accessible data for the total education sector in other years.

significantly between recurrent and capital budget lines, with high absorption on recurrent budget while the development budget is often treated as a balancing residual, subject to funding cuts when revenues collections fall below projection. The recurrent budget line in the education sector are better funded and utilized consistently exceeding 90% utilization rate (see Table 13). In contrast, development budget has low absorption mostly due to lengthy procurement process for capital items. Overtime, the development budget utilization has been trending downwards.

Table 13: Recurrent and Development Budget Utilization (Percent of Allocation)

Year	Absorption of Recurrent budget	Absorption of Development budget
2015/2016	96%	87%
2018/2019	99%	59%
2023/2024	91%	59%

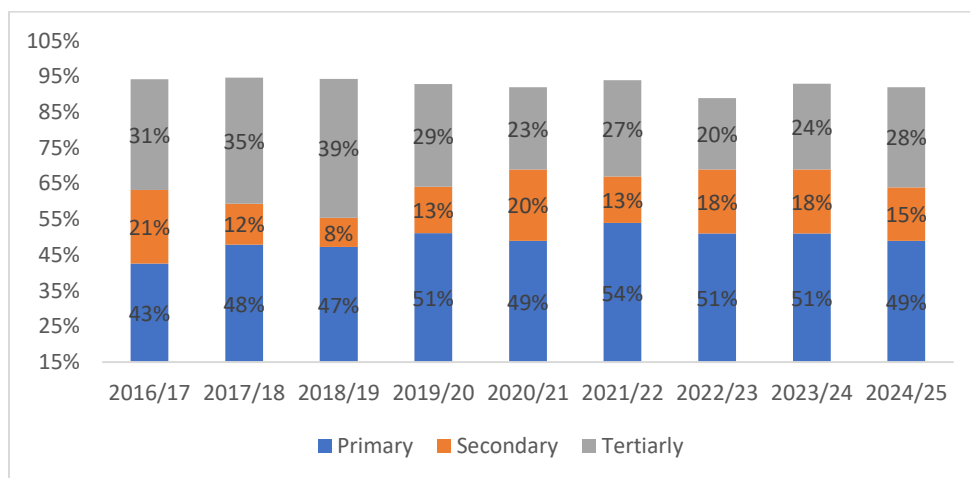
Source: Malawi education sector performance reports.

Education Budget Equity

Owing to the number of teachers, primary education consistently receives the largest share of Malawi’s education budget, averaging 49% over the past decade having peaked at 54% in during the COVID period in FY2021/22 (Figure 14). Tertiary education receives the second largest share of the education budget averaging 28% although this has declined lately while secondary education receives the smallest share, averaging 15 percent. In terms of equity, on the face of it, since public primary education enrolment draws disproportionately from poor and rural households⁷, this higher overall allocation to primary schooling suggests that education spending in Malawi is strongly pro-poor.

⁷ World Bank (2000)

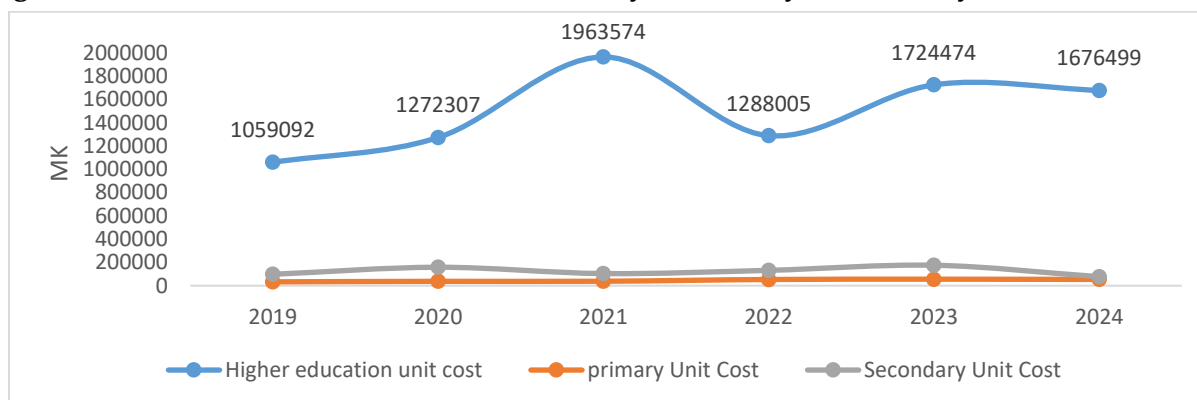
Figure 15: Share of total Education Sector Budget allocations by education level, 2016/17-2024/25



Source: UNICEF Malawi (2022-2024)

The higher budget allocation to primary schooling belies inequality and elitism underlying the education system. Recurrent unit costs suggest a strong bias toward tertiary education, with government spending about MK1,676,499 (equivalent of USD 957)⁸ per year per tertiary student. This is 22 times the recurrent secondary school unit cost (equivalent amount of USD44) and 30 times the spending per primary student (USD31) (see Figure 16). While per capita funding for tertiary student has generally trended upwards, spending for both primary and secondary students have largely been stagnant implying a loss of real and relative value. Per capita spending per secondary student has almost converged to per capita primary school level.

Figure 16: Trend of Recurrent Unit Costs-Primary, Secondary and Tertiary, 2019-24, MK



Source: author's calculation using data from EMIS

⁸ Converted at MK1,1750 per dollar

The low unit cost in primary school reflects the high number of learners reached, many of whom are from poor households. Tertiary education, which has the highest unit cost, caters to a much smaller enrollment base resulting in significantly higher unit costs per student. This implies that, per beneficiary, government resources are more heavily concentrated in tertiary education, which tends to benefit relatively better off households. Therefore, despite higher spending on primary education, the distribution of benefits per student is more equitable at the primary level of education, whereas tertiary spending is relatively less targeted at the poor.

5.1.2 Education Budget Efficiency

Instead of looking at the inputs (budget), this section briefly analyses some key outcomes metrics which proxy for efficiency in terms of access and quality of education. Although we concentrate on the three major levels of the education value chain, our analysis is not consistent as you go up in the value chain. The Education Management Information System (EMIS) collects a lot of administrative data relating to the primary education, but as we go up the value chain, the level and quality of data diminished significantly.

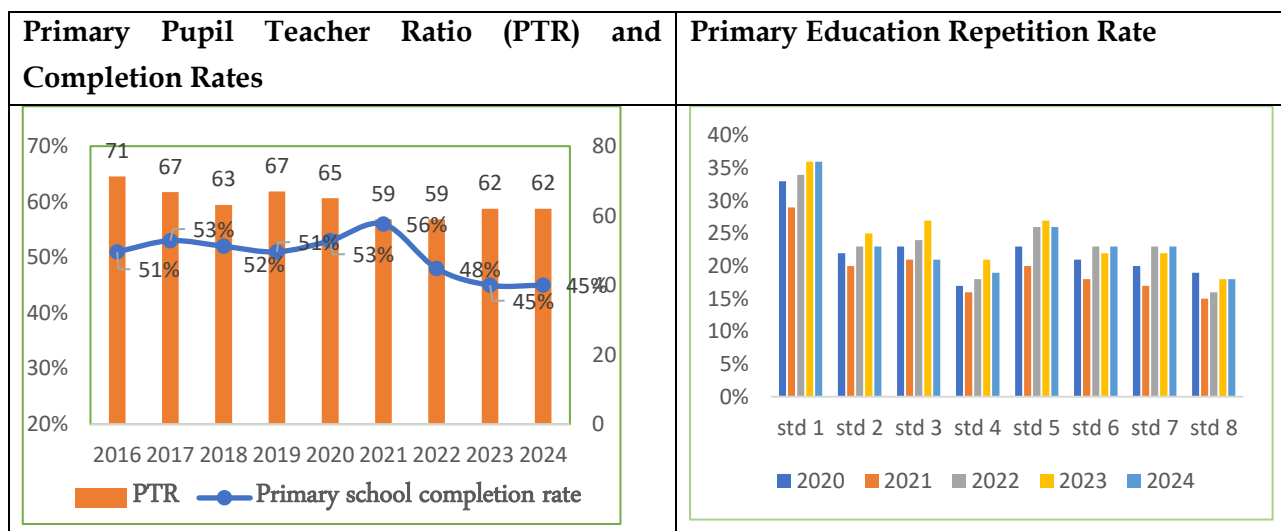
Efficiency of Primary Education

Access to primary education has increased but universal access is still far from being achieved. The primary net enrolment rate stands at 86 and 92 percent for boys and girls, respectively. Due to high repetition rates, primary education has also become more inefficient and wasteful (Gross enrolment rates (GER) of 127 among boys and 132 among girls⁹). An average repetition rate of 23.7 percent means that a lot of resources are spent on teaching students the same material many times over. Classes have also become more congested and resources per student are spread more thinly. During the past decade, classes remain congested with the primary pupil to permanent classroom ratio averaging 105:1. Although there is a noticeable improvement of the number of pupils per qualified teacher from 78 to 65, this is way in excess of the target pupil qualified teacher ratio of 60:1 and higher than the Sub Saharan average of 42:1 (Figure 17).

Because of the weak learning environment, learning outcomes remain low. Only 43 and 50 percent of grade 4 students achieve proficiency in English and Chichewa, respectively, while only 23 % achieve proficiency in Mathematics. Repetition rates are highest in the early stages of education and have generally been rising. The high repetition rate coupled with an average drop-out rate of 4.3 %, explain why only 44.5 percent of primary pupils complete primary school. Of those who persevere to standard 8, about 86 percent pass the Primary School Leaving Exam (PSLE) but only half transition to secondary education.

⁹ GER measures the total enrolment in a specific level of education, regardless of age, expressed as a percentage of the eligible official school-age population corresponding to the same level of education in a given school year.

Figure 17: Trends in Primary Education Efficiency Measures, 2016-24.



The internal inefficiency of the primary school system has enormous financial implications. It was estimated that due to repetition and drop outs, the primary school system is so inefficient that it takes 23 student-years to produce one graduate instead of eight years under normal efficiency. As such, in the primary education system about 65 percent of resources are spent on repeaters and eventual drop outs (ESIP, 2009).

Efficiency Metrics for Secondary Education

With a primary transition rate of 49.7 percent, access to secondary education is still a problem with many youths in the official secondary-age bracket not attending school (in 2015-24, the GER worsened from 38 to 27 percent of youth of the secondary school age). The quality of education is also unsatisfactory. Two-thirds of secondary school teachers are degree and diploma holders while the other third are under-qualified primary school teachers. About 32 percent of secondary schools meet the threshold of a student qualified teacher ratio (SqTR) of 40:1. There are over 200 students per qualified English teacher; 269 students per qualified Mathematics teacher while the SqTR for Physical science exceeds 500. To mitigate this, in 2024, the Ministry recruited 2,681 secondary school teachers and promoted 2,258 primary school teachers to secondary school positions, a step aimed at reducing the high SqTRs and improving teaching quality. In addition, over-crowding continues to be a problem with the number of students per classroom rising from 56 in 2015 to 70 in 2024 (Table 15).

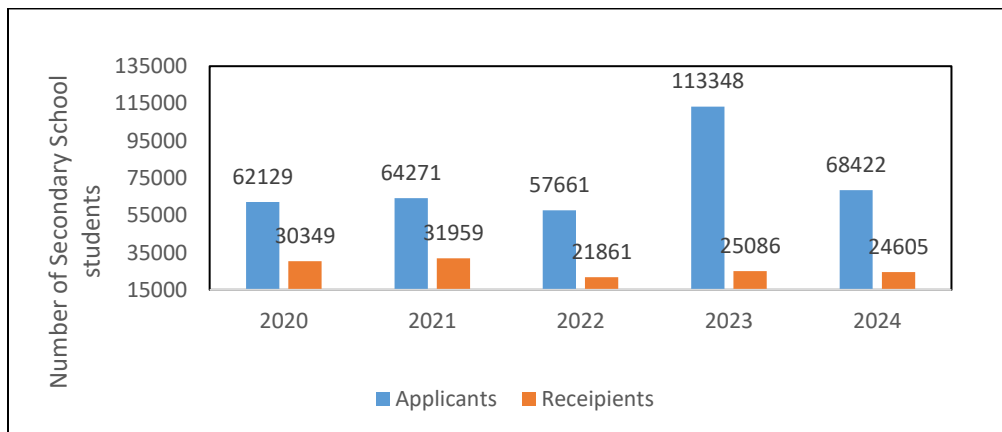
Table 14: Secondary School Student to classroom Ration and MSCE Pass Rate, 2020-24

	2020	2021	2022	2023	2024
Student Classroom Ratio	63	58	60	64.9	70
MSCE Pass Rate (%)	41.42	51.99	60.3	54.4	54.8

The national average pass rate for Malawi Schools Certificate Examination has fallen from a peak of 60.3 percent in 2022 to 54.79 percent in 2024. But this pass rate masks significant inequalities in quality of education across gender and school types. In 2024, three in every five males (60 Percent) passed in contrast to less than half (48 percent) of female secondary school students. With regard to secondary school types, the pass rate declines from 96.6 percent for national secondary schools, to 88.7 percent in district boarding schools and 82 percent in day secondary school. Quality and achievement are lowest among community day secondary schools, with a pass rate of only 50 percent.

Although Malawi does not have cost-reflective fees at the secondary level, given that half of the population is categorized as poor based on national poverty line, a good number of students struggle to meet the cost of secondary education. Except for a spike in 2023, the government receives an average of 61,000 applications for financial aid. Yet the rate of awards has declined from almost one beneficiary per two applicants in 2021 to slightly above one beneficiary for every four applicants in 2023 (Figure 18). Hopefully, the recent abolition of tuition fees in government secondary school will alleviate some of the financial burden and reduce the number of students applying for financial aid through bursaries, especially for non-boarding student.

Figure 18: Trends of bursary scheme applications and recipients



Source: EMIS (2025)

Efficiency of Higher Education

Currently, there are 52 registered Higher Education Institutions (HEIs) in Malawi, of which 28 (53.8%) are accredited. There are six public universities and other profession specific degree awarding colleges especially for primary and secondary teacher training. Although total enrolment in Higher Education Institutions (HEIs) has increased from 45,099 in 2019 to 74,414 in 2024, access to higher education remains low and fairly elitist since much of the recent growth in the sector is driven by private universities which charge cost-reflective fees. Enrolment in public universities has increased by 39 percent to 49,197 since 2019 boosted by Open and Distance Learning (ODEL) delivery, while private enrolment has grown by 250 percent. Public higher education institutions now account for 66 percent of students, down from a high of 80 percent in 2020 and having dipped in 2023.

Table 15: Trends in University Enrolments, (Public and Private), 2019-2024

	2019	2020	2021	2022	2023	2024
Public enrolment	35,491	37,698	38,196	33,964	35,055	49,197
Private Enrolment	10,608	9,227	10,258	21,660	28,478	25,219
Total University Enrolment	46,099	46,925	48,454	55,624	63,533	74,416
Public Universities (%)	76.99	80.34	78.83	61.06	55.18	66.11
Private Universities (%)	23.01	19.66	21.17	38.94	44.82	33.89

Recent increase in access to higher education from 80 students in 2015 to about 200 students per 100,000 inhabitants is still lower than 299 students per 100,000 inhabitants in Sub-Saharan Africa. Higher education in Malawi remains extremely inequitable; it is heavily subsidized but only 3 percent of government subsidies go to the lowest two quintiles while 82 percent to the highest.

Table 16: Distribution of PhDs among Lecturers of Public Universities

Institution	Total Staff	% with PhD
Malawi University of Business and Applied Science (MUBAS)	300	20.33
Kamuzu University of Health Sciences (KUHeS)	214	21.96
Malawi University of Science and Technology (MUST)	188	29.79
Mzuzu University (MZUNI)	200	35.00
University of Malawi (UNIMA)	317	41.30
Lilongwe University of Agriculture and Natural Resources (LUANAR)	225	49.33

5.2 Trends in Health Sector Spending

Sectoral Context

Malawi's health sector is underpinned by a legal and policy framework that promotes the attainment of Universal Health Coverage (UHC) in alignment to global and regional protocols. Globally, Malawi aligns with Sustainable Development Goal 3 (2030), which aims to ensure good health and well-being for all. At a national level, the Constitution of the Republic of Malawi obligates the State "to provide adequate health care, commensurate with the health needs of Malawian society and international standards of health care". The country's long term vision, Malawi 2063 (MW2063) and its first-ten-year implementation plan (MIP-1) recognize health as a cornerstone for human capital development. Sector specific policies include the Malawi National Health Policy (2018- 2030), the Third Health Sector Strategic Plan (HSSP III), and Health Financing Strategy (HFS).

Nearly all formal health care services in Malawi are provided by three agencies: The Ministry of Health provides about 60 percent of services, the Christian Hospitals Association of Malawi (CHAM) provides 37 percent, and the Ministry of Local Government provides 1 percent. Other providers, namely private practitioners, commercial companies, and the army and police, provide the remaining 2 percent.

5.2.1 Trends in Health Sector Budget

Although the constitution does not explicitly mandate it, it has been generally understood that the Constitution guarantees that all Malawians will be provided with public health care that has to be provided free of cost at point of delivery. In principle, there are no user fees in public hospitals and for those accessing facilities administered by the Christian Health Association of Malawi, service level agreements have assured no formal fees for accessing maternal and child health services. Public health sector spending in Malawi include allocations across these entities and their subsidiaries. These include the ministry of Health (Vote 310), Transfer to Local Councils for personnel emoluments (PE) and other recurrent transactions (ORT) and drugs under the National Local Government Finance Committee (NLGFC) (Vote 121) and Subvented Health Organizations (SHOs) (Vote 275) .

Health Sector Budget Composition

Over the past decade, Government expenditure on health has steadily increased from MK125 billion in 2017/18 to MK550 Billion in 2023/24. Over the past five years, the health budget increased by 247 percent in nominal terms and 196 percent in real terms (Table 18). The Recurrent Budget accounts for 78 percent of the budget dominated by Personal emolument (50 %) and ORT

(28 percent). The Development Budget which accounts for 22 percent of the budget is dominated by resources from Foreign sources which typically accounts for 85 percent of development resources and 20 percent of the health budget. In 2023/24 a surge in resources from foreign development partners boosted the share of the foreign financed component to 34 percent of the budgeted. Unfortunately, as donor resources increase, domestic development resources have declined by 38 percent.

Table 17: Health Budget Composition by Economic Classification, FY 2020/21 to 2024/25 in current MK' Billion

	RECURRENT BUDGET		DEVELOPMENT BUDGET		TOTAL NOMINAL (MK Bn)	TOTAL IN REAL (MK' BN)
	PE	ORT	FOREIGN FINANCED	LOCAL FINANCED		
2020/21	103	65	46	8	222	153
2021/22	94	65	35	6	200	147
2022/23	146	69	25	4	244	220
2023/24	185	100	55	11	351	244
2024/25	230	124	190	7	551	301

Health Financing

In the past two decades, Malawi has become more donor dependent in health financing. In FY 2023/24 the Ministry of Health received financial contributions totaling USD 545,250,973.46 from 15 donors and implementing partners. Donor funding now accounts for about 54.5% of total health-care funding, while government (24.1%), households (12%) and companies through voluntary health insurance (9%) account for the rest (MoH, 2023). Malawi's per capita expenditure on health (USD 39.9) falls far short of the USD 86 per capita expenditure as recommended by WHO for countries of Malawi's level of development and economic capacity. To achieve universal health coverage. Government's own spending on health (USD 16) is not only below regional peers and comparators (USD141) but inadequate to deliver Malawi's Essential Health Care Package (EHP) free of charge estimated at USD 44.4 per capita.

Table 18: Composition of Total Health Expenditure (%)

Variable	Average Share of THE
Per capita total expenditure on health (USD)	39.9
Government expenditure on health as % of THE	24.1
Donor expenditure on health as % of THE	54.5
Total private health insurance spending as % of THE	9.1
Out-of-pocket expenditure on health as % of THE	11.9
Total expenditure on primary healthcare as % of THE	39.7

Composition of Health Spending

Malawi has been undergoing fiscal decentralization since the later 1990s. Yet the share of the health sector budget that is centrally managed under the Ministry of Health has remained high, averaging 58 percent since 2021/22. The share of the decentralized health budget managed by Local Councils has averaged 40 percent although it peaked at 48 percent in 2023/24. The remaining 2 percent represent the share allocated to supporting the operations of Subvented Health Organizations (SHOs).

Table 19: Budget Composition by Spending Units

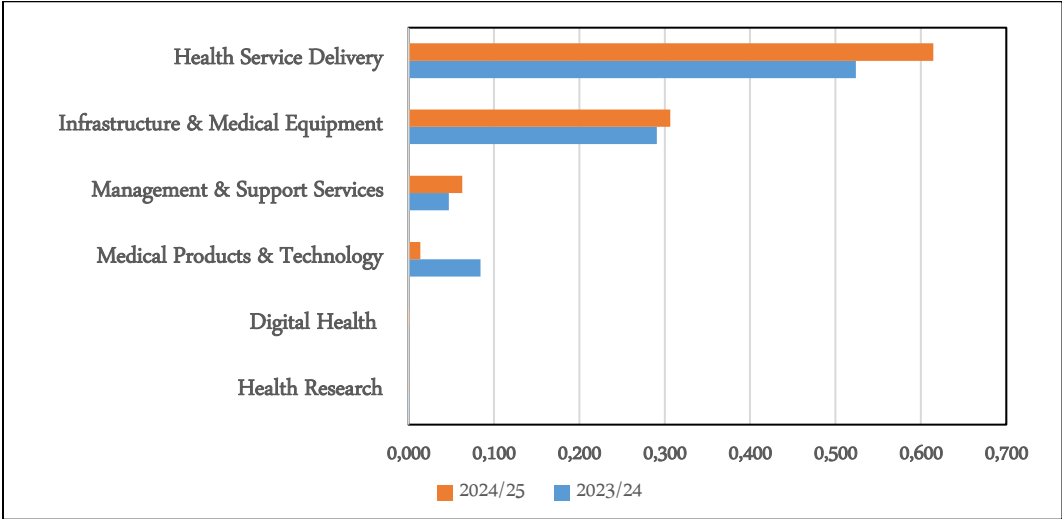
Year	Ministry of Health	Local Assemblies	Subvented Health Organizations	TOTAL
2021/22	135	83	5	223
2022/23	116	80	4	200
2023/24	121	118	5	244
2024/25	343	200	8	551

Health Spending by Programme

The bulk of spending for the health sector goes to health service delivery (average 56 percent) followed by infrastructure and medical equipment (average 30 percent). In the past year the allocation for health service delivery has increased both in absolute as well as relative terms from

MK 110.3 billion to MK210.6 billion, increasing the share of the programme from 52.4 to 61.5 percent (Figure 19). Although infrastructure and Medical equipment almost doubled from MK 55.7 billion to MK105 billion, in relative terms it remained at 30 percent. Much of this increase has been at the expense of Medical Product and Technology programme whose share declined from 8.43 to 1.4 percent.

Figure 19: Proportion of Health Spending by Programme



Health Budget Utilization

Budget utilization in the health sector has remained below optimal levels, reflecting both funding vulnerabilities and systematic implementation challenges. Due to dominance of Personal Emoluments in the recurrent budget, absorption of recurrent resources is very high in the neighborhood of 95 percent. In 2023/23 of the USD 495.8 million in donor pledges, only USD 392.7 materialized, representing a realization of 79 percent (Table 21). The scene played out again in 2024/25 where 77 percent of the donor pledges materialized. According to key informant interview at the Ministry of Health, high donor dependency raises fiscal risks and absorptive uncertainty and makes the sector budget vulnerable to aid shocks.

Table 20: Development Budget Funding and Utilization (2023-2025)

Financing source	FY 2022/23			FY 2023/24		
	Budget (USD)	Expenditure (USD)	Utilization Rate	Budget (USD)	Expenditure (USD)	Utilization Rate
USAID	141,614,439	128,072,609	90	145,401,609	156,409,486	108
HSJF	44,679,231	25,351,743	57	30,218,370	11,610,003	38
GFATM	217,406,569	153,141,904	70	198,945,506	105,764,894	53
CDC	86,048,589	80,933,273	94	89,039,456	81,790,531	92
World Bank COVID	22,916	10,263	45	44,393	23,348	53
GAVI	6,025,322	5,152,272	86	11,510,773	7,878,019	68
Total	495,774,150	392,662,065	79	475,115,714	363,476,281	77

5.2.2 Efficiency of Health Spending

The dominance of personal emoluments coupled with delays in Treasury funding and centralized management of resources is affecting the ability of district hospital to procure drugs and other essential medicines. The devolved drug budget remains insufficient to address the persistent drug shortages at the decentralized level. In the 2024/25 budget, although MK57.4 billion was allocated to procuring medicines and medical supplies for central and district hospital (MK26.5 billion and MK30.9 billion respectively), only 10 per cent (MK3 billion) of the district drugs budget was directly managed at the district level while the rest (MK27.9 billion) was managed centrally (UNICEF, 2023).

As of October 2024, the Central Medical Stores (CMST) was owed more than MK 30 billion by the National Local Government Finance Committee (NLGFC) and Treasury for sales made to district councils and central hospitals. This put the CMST at the risk of insolvency and the government had to source USD 13 million from the World Bank to recapitalize the CMST. This grant served the dual effect of increasing the capital for restocking as well as alleviating the challenge of Forex which has long been a significant bottleneck.

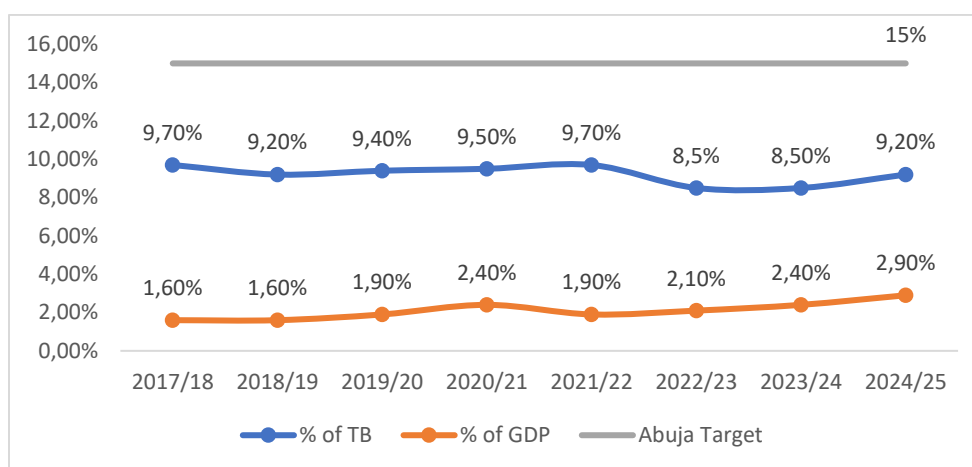
Historically, all health facilities relied solely on CMST for their procurement needs. To improve drug availability in health facilities, government has recently allowed central and district hospitals to utilize 40% and 10% of their drug budget, respectively, to procure supplies from private suppliers. However, due to delays in funding disbursements from the Ministry of Finance, both district and central hospitals faced some challenges in sourcing from private suppliers, who were often hesitant to engage with government facilities and frequently charged

much higher prices. This situation further complicated and odious procurement protocols which end up creating additional barriers to access for essential medicines.

Health Sector Budget Adequacy

Although the allocation to the health sector has trended upwards, it remains relatively low in meeting national and regional benchmarks. Relative to the national budget, the allocation to the sector has steadily declined from 9.7% in 2017/18 to 9.2% in 2024/25. Although the 9.2 percent represents a mild recovery of the previous two years, it falls short of the Abuja recommendation, which calls for African States to allocate at least 15 per cent of the total government budget to health the allocation to health. Similarly, although the share of the health budget relative to the country’s gross domestic product (GDP) the share has consistently risen from 1.6 percent in 2017/18 to 2.9 percent in 2023/24, that is below the SADC recommended threshold of 5 per cent for healthcare expenditure (Figure 20). It is also inadequate to achieve UHC and ensure financial protection for low-income countries.

Figure 20: Trends in Health Sector Spending (% of Total Budget and GDP)



Source: UNICEF Malawi (2022-2024)

Technical efficiency

Malawi’s health sector suffers from a deficit of personnel. The total number of health workers increased from 34,287 in 2019 to 45,508 in 2023, representing a growth of approximately 32.7% over five years. A number of health cadres including medical doctors, nurse midwife technicians and laboratory technicians and pharmacy technicians have vacancies in excess of 40 percent. Despite relatively high expenditure on personnel emoluments, Malawi still faces a critical shortage of health personnel, with all districts averaging fewer than one doctor per 1,000 people.

Most doctors are concentrated in the four main cities (Blantyre, Lilongwe, Mzuzu and Zomba) largely because these urban centers host most of the country’s central hospitals, making them more attractive for health professionals. Rural hospitals, by contrast, struggle to recruit and retain medical personnel, limiting access to specialized care in underserved areas. This mismatch between health spending and equitable workforce distribution highlights both efficiency and equity challenges in Malawi’s health system.

Table 21: Human Resources for Health and Vacancy Rate

Sub- Cadre	Authorized Posts	Filled Posts	Vacancies	Vacancy Rate (%)
Medical Officer/Specialist	1,547	916	531	41
Clinical officer/Technician	3,218	2,701	517	16
Medical Assistant	3,444	2,480	964	28
Nursing/Midwifery Officer	3,381	3,023	358	11
Nurse/Midwife Technician	10,612	6,184	4,428	42
Laboratory Technician	963	554	409	42
Pharmacist	228	149	79	35
Pharmacy Technician	812	419	393	48
Pharmacy Assistant	243	152	91	37
Laboratory Assistant	717	501	216	30

For the period 2019/20 FY to 2023/24 FY, 2020/21FY marked the highest recruitment at 11,416, mainly due to Global Fund support (9,126 hires). The 2023/24 period also saw a significant total of 6,830 recruits, with the Global Fund again as a primary contributor. Government funding remained steady across years, peaking in 2019/20 with 1,582 recruits and showing consistent support alongside variations in external funding.

5.3 Trends in Spending for Social Protection

Context for Social Protection

The need for a sustainably financed social protection system in Malawi is clear. Despite Malawi’s history of relative social stability since gaining independence, both monetary and multi-dimensional poverty is pervasive and unchanging over time. The 2019/20 Integrated Household

Survey found that 50.7% of the population lives in poverty (NSO, 2021). 75.4% of the population is estimated to be poor based on the international poverty line of USD 3 a day (World Bank, 2025). Nearly three in every five (58.8%) of Malawians are classified as multi-dimensionally poor based on an analysis of 13 poverty indicators, including literacy and schooling, electricity, nutrition, unemployment, housing, and food security. The incidence of multi-dimensional poverty was higher in female-headed households than in male-headed households, with 71.4% percent and 53.9%, respectively (NSO/OPHI, 2023). Child multidimensional poverty is estimated at 69.6% (NSO, 2023). Yet social protection coverage is estimated at just 19.9% (2022) of the population. Coverage is relatively higher for children (around one-third) but much lower for other vulnerable groups such as older persons and people with disabilities (both 8.9%). The unemployed are not covered at all (ILO, 2024).

Social Protection Programmes

The Government of Malawi's National Social Protection Policy (2024), defines social protection as encompassing social assistance, social insurance, social welfare services, labour market policies, as well as a wide range of public and private instruments aimed at eradicating poverty, addressing vulnerability and combating social exclusion through risk management.

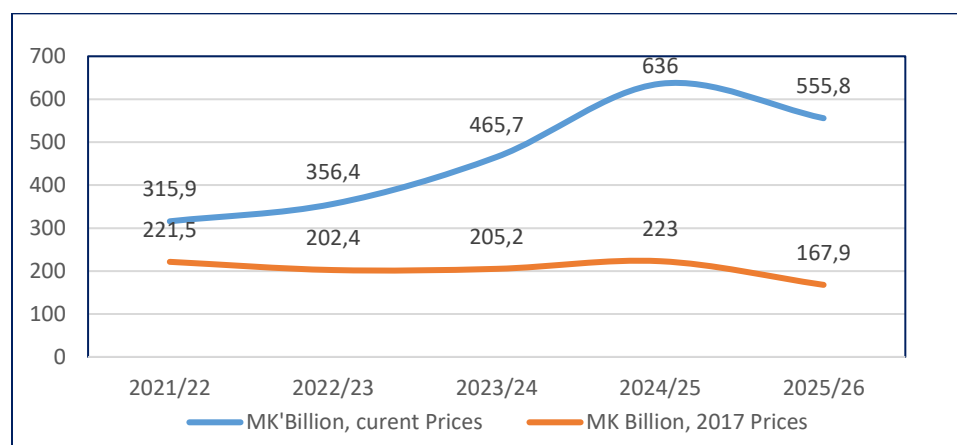
Social support programs: The Government of Malawi has long operated several non-contributory social support programmes that include the Social Cash Transfer Programme (SCTP), the Climate-Smart Enhanced Public Works Programme (CS-EPWP), the School Meals Programme. Recently government has reclassified the Farm Input Subsidy Programme (FISP) as part of social support.

Social Security: In principle, social security includes pensions, health insurance and workers compensation, but most of the schemes are not operational and those that are active lack nationwide coverage. The Pension Act of 2011 mandates employers in the formal sector to enroll their employees in **contributory pension schemes** managed by registered providers. The Older Persons Act of 2024 has introduced a **social pension** to provide income to people aged 70 or over who are not in receipt of other pensions. Although the Workers' Compensation Act of 2000 established a social insurance-based **Workers' Compensation Scheme and Fund**, both are not yet operational. The current workers' compensation system works on the principle of employer's liability. In Malawi, there is no **National Health Insurance** scheme of any form; Government and a few big companies are self-insured mostly by the Medical Aid Society of Malawi via payroll deductions and employer contribution.

5.3.2 Trends in Government Funding for Social protection

Applying government’s recent definition of social protection which includes SCTP, CS-EPWP, FISP, Pensions and gratuities, Government contributory pension and other elements (e.g. COMSIP, Scalable Safety Nets), significantly inflates government’s funding to the sector. Under this definition, expenditure on social protection more than doubled in nominal terms from 2021/22 to 2024/25, rising from MWK 315.9 billion to MWK 636.3 billion. The budget for 2025/26 is slightly down on the peak of the previous year at MWK 555.6 billion but still well above the 2021/22 level. However, inflation has more than eroded all the nominal increase. The 2025/26 budget figure represents a real-terms decrease over the period from MWK 315.9 billion in 2021/22 to MWK 239.1 billion in 2025/26 (Figure 21)

Figure 21: Aggregate social protection expenditure outturns 2021/22 - 2025/26 (MWK billions, current and 2021/22 prices)



Source: OPM/UNICEF(2026) Social Protection Situation Analysis

Even under this definition, Table 23 shows that social protection both as a share of total government expenditure and GDP has been in decline over the period, falling from 15.8% in 2021/22 to 6.9% of the budget in 2025/26. It has also fallen relative to GDP although by a smaller margin, from 2.9% to 2.0%. This means that as social protection expenditure increased in nominal terms, government expenditure and nominal GDP were growing at an even faster rate.

Table 22: Social Protection Expenditure as % of Budget and GDP

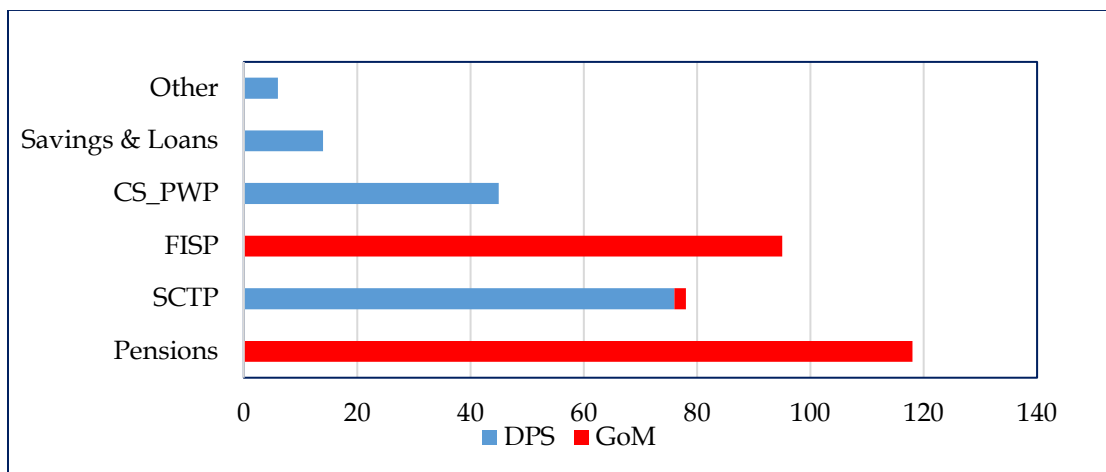
Indicator	2021/22	2022/23	2023/24	2024/25	2025/26
As a % of total government expenditure	15.8	10.6	10.5	9.8	6.9
As a % of GDP	2.9	2.7	2.7	2.9	2.0

Source: OPM / UNICEF (2026) Social Protection in Malawi, Situation Analysis

Financing for Social Protection

The broad definition of social protection would suggest the Government of Malawi has financed 74% of its on-budget social protection expenditure since 2020/21. Yet its funding has been concentrated almost exclusively on civil servant pensions and the Farm Input Subsidy Programme (see Table 22). The core elements of Malawi’s social protection system that target people living in extreme poverty – the Social Cash Transfer Programme (SCTP), Climate-Smart Enhanced Public Works Programme (CS-EPWP) and the School Meals Programme (SMP) – have been almost entirely funded by official development assistance (ODA). Government allocations to the SCTP and a broad coordination function were negligible by comparison. Meanwhile development partner contributions have focused largely on the SCTP and public works programming. In addition to savings and loans, the other areas to have received development partner funding are Scalable Safety Nets, Contingent Emergency Response, Strengthening Harmonized Delivery Systems and Capacity Building and Institutional Strengthening Support.

Figure 22: Annual average funding, 2021/22 to 2025/26 (MWK billions, 2021/22 prices)



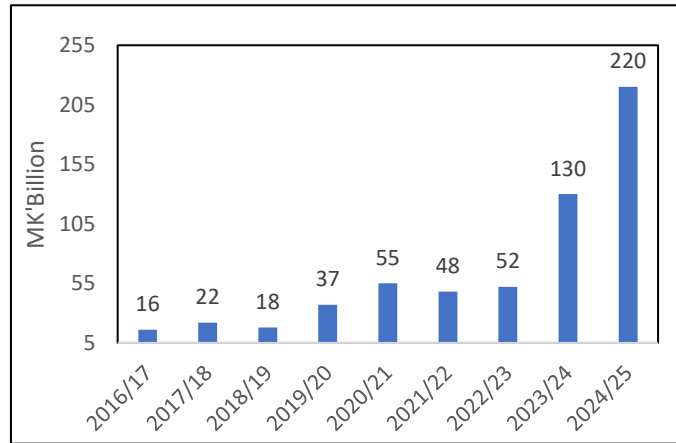
Source: OPM/UNICEF(2026) Social Protection Situation Analysis

5.3.1 On Budget Funding for Social Protection Programs

On budget funding for Social protection in Malawi is delivered through the SCTP and CS-EPWP while School Meals and Village Savings and Loans Scheme are predominantly funded off-budget. Social protection spending has expanded dramatically in recent years driven by increases in funding for social protection.

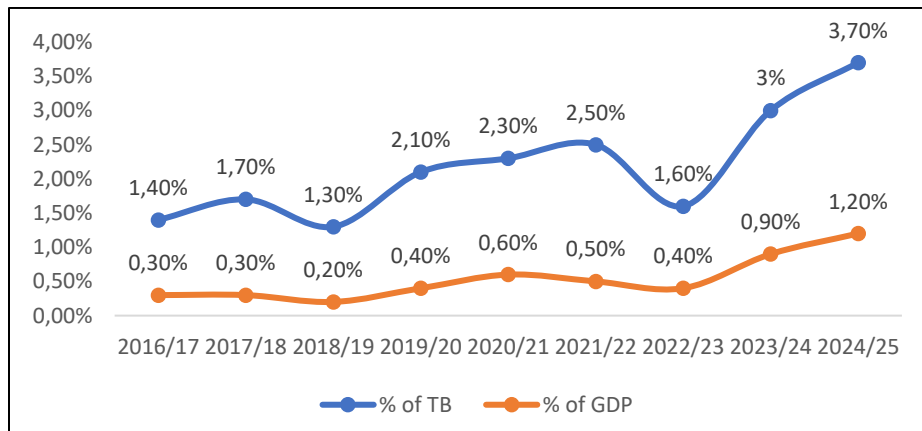
The total budget allocation to social support programs steadily increased by 300 percent from 2016/17 to MK52 billion in 2022/23, before rising sharply to MK130 billion in 2023/24 and MK220 billion in 2024/25. On budget funding has also increased in real terms, rising from USD 33.65 million in 2021/22 to USD 57.3 million in 2023/24 and USD77.3 million in 2024/25.

Figure 23: Trends of Spending for Social Protection (MK'Bn)



Relative to the total government budget, allocations to social support have fluctuated over time and as a share of GDP, social protection spending has been increasing steadily. As a share of total government budget, the allocation rose from 1.4% in 2016/17 to 2.5% in 2021/22, then dropped to 1.6% in 2022/23, before climbing sharply to 3% in 2023/24 and reaching a historic pick in 2024/25 at 3.7%. As a share of GDP, social protection spending averaged 0.9% over the period, increasing from 0.3% in 2016/17 to 0.6% in 2020/21, reaching a record high of 1.2% in 2024/25 (Figure 24)

Figure 24: On Budget Social Protection as a Percentage of the Total Budget and GDP, 2016/17 - 2024/25



Source: UNICEF Malawi (2022-2024)

5.3.3 Efficiency of Spending for Social Protection

Spending for Social Cash Transfer

Budget Allocation. While annual SCTP financing has increased substantially in recent years, it has not been possible to extend coverage to all of Malawi’s ultra-poor or to maintain the real value of transfers. The SCTP budget has more than doubled in nominal terms since 2021/22, peaking at MWK 125.2 billion in 2024/25 before decreasing slightly in 2025/26. However, owing to the high rate of inflation throughout this period and government reticence to adjust the transfer values, the real terms budget for 2025/26 (MWK 48.8 billion in 2021/22 prices) is actually slightly below the 2021/22 level (MWK 49.3 billion).

Financing. The SCTP is almost entirely funded by development partners, who have contributed 95.3% of annual funding on average since 2021/22. Except for German Government resources, seven donors have pooled their resources under the Multi-Donor Trust Fund (MDTF), which is managed by the World Bank. The seven MDTF donors are the World Bank, the European Union, the Embassy of Ireland, the Government of Iceland, the United States Agency for International Development (USAID), the Foreign Commonwealth and Development Office (FCDO), and the Embassy of Norway.

Due to its coverage of one district (Thyolo) the Government of Malawi contribution has averaged 4.7% of the annual total over the same period. The SCTP Strategic Plan for 2022-27 included a target to increase the government’s share to 15% (see Table 23). However, there hasn’t yet been meaningful progress in this direction and there is sentiment that the European Union will scale down its contribution after 2027.

Table 23: Assumed Gradual Increase in SCTP Coverage levels, 2024-2027

	2024	2025	2026	2027
SCTP coverage(rural)	11%	12%	13%	15%

Source: UNICEF Malawi (2024)

Program Efficiency. A large portion of the regular SCTP (90 per cent) and CS-EPWP (80 per cent) budgets are allocated towards transfer costs for beneficiaries (UNICEF, 2025). Approximately 90 per cent of the regular SCTP resources for 2024/25 cover transfer costs to SCTP beneficiaries, while 7 per cent and 2 per cent are for operations and administrative costs, respectively. The

operational costs for the SCTP are mainly directed towards enhancing core social protection systems such as the UBR, GRM, and electronic payments.

Social Impact. Recent evidence suggests that SCTP spending is an efficient investment that delivers strong economic and social returns (UNICEF (2023)¹⁰. At the macro level, deprioritizing the SCTP could result in an estimated annual loss in consumption spending of about MK387 billion (2.7% of GDP) and 169,607 more households worrying about food daily. SCTP has an economic multiplier of 2.94, meaning every MK1 transferred generates an additional MK1.94 in the local economy, alongside the spillover effects for both beneficiaries and non-beneficiaries with a multiplier of 1.27 (Handa et. al, 2021). It also improves household food security, increasing the share of beneficiaries consuming two or more meals a day by 12%, and boosts education outcomes, with children in SCTP household being 12 percentage points more likely to attend primary school and 16 percentage points more likely to attend secondary school regularly. These results further indicate that SCTP spending is not only pro-poor by design but also efficient in delivering broad economic and human capital benefits.

Climate Smart Enhanced Public Works Programme

As of September 2025, 532,000 households across all 28 districts were enrolled in the CS-EPWP. Participants receive MWK 48,000 in exchange for a maximum of two hours of labour per day during a 30-day phase. Four phases are planned per year, and they are implemented during lean season. In addition, participants undertake voluntary work on a further 10 days.

Budget Allocation. The CS-EPWP budget scaled up significantly in nominal terms from 2022/23 to 2024/25 although real term gains were limited by the high rates of inflation during this period. However, the reduced budget for 2025/26 reflects a planned scale-down of the program.

Financing. The CS-EPWP is entirely dependent on funding from the World Bank under the Social Support for Resilient Livelihoods Programme (SSRLP) through a project account held by the National Local Government Finance Committee (NLGFC). While the World Bank will continue to fund CS-EPWP under INSPIRE-O, the projected volume of funding is expected to be significantly lower than it has been to date. As a result, it is expected that coverage will fall from around 528,000 at present to approximately 150,000.

Efficiency. Although a large portion of the regular CS-EPWP (80 per cent) budgets are allocated towards transfer costs for beneficiaries, the CS-EPWP is relatively operations-heavy. About 86.5%

¹⁰ UNICEF Malawi (2023): A Cost of Inaction Study for the Social Cash Transfer Programme

of the total is allocated for participant wages, with operational costs accounting for the remainder, as most of the interventions made are related to environmental restoration.

School Meals Programme (SMP)

Typically, learners in participating schools are provided breakfast before school begins on approximately 200 days per year. This is usually a corn-soy blend although menus vary. The most recent Global Survey of School Meals Programs reported coverage of 2.2 million learners in 2022/23 with most recipients attending primary schools. Consultees in the Ministry of Education reported that 43% of all learners in public primary schools receive meals through the program. However, the number of preschool learners receiving meals through the SMP has been increasing. The government aims for 100% coverage by 2030 but has not committed the funding needed to achieve this.

During the years for which data are available, the overall SMP budget has ranged between USD 14 and USD 15.5 million in nominal terms. It is almost entirely funded by development partners, with the Government of Malawi providing just under 1% of the total during the years for which data are available. Development partners supporting the SMP via the World Food Programme (WFP) include the EU, France, Italy and Norway. While data on contribution per donor is not available, the EU has been stated as the largest donor, providing around 40% of the total funding. Mary's Meals is more than 90% funded by grassroots donations from schools, clubs, and individuals but also receives some institutional funding.

Conclusion

Although budget allocation and financing for social protection has shown growth over the past five years, much of that nominal growth has been eroded by inflation. Expenditure inefficiencies, exemplified by the government's growing reliance on high-cost domestic borrowing is crowding out critical expenditures on social and infrastructure priorities, as interest payments now consume over one quarter of the budget. The resources absorbed by interest payments could otherwise be directed toward development-enhancing investments and critical social services. While some outcome in education and health have shown improvement, efficiency indicators are mostly below national benchmarks and regional peers and comparators. Government reliance on donors for funding social protection seems to suggest government's lack of commitment and increases the sector's vulnerability to shifting donor priorities.

Though social spending is pro-poor, it remains inefficient. Social sector budgets are mostly funding recurrent expenditures which are dominated by personal emoluments, and there are

huge discrepancies between allocation and actual spending in the social sector especially funding for development which is low in levels and absorption due to lengthy and tedious procurement process and onerous donor requirements. Although there is prima facie evidence that during negotiations government has sought to protect social spending, the spending itself is insufficient to meet minimum standards. With the exception of education, Malawi allocates relatively little public funding to key social sectors like health and social protection, and relies heavily on external aid to finance them. Government spending is heavily concentrated in general public services, debt repayments, and transfers to local councils – which jointly account for 56 percent of total expenditure. This leaves limited room in the budget for sectors critical to human development and for infrastructure.

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