Malawi Economic Monitor

Investing in Girls' Education

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NOVEMBER 2018 INVESTING IN GIRLS' EDUCATION

World Bank Office Malawi

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OVERVIEW

The Malawi Economic Monitor (MEM) provides an analysis of economic and structural development issues in Malawi. This edition was published in November 2018. It follows seven previous editions of the MEM and is part of an ongoing series, with future editions to follow twice each year.

The aim of the publication is to foster better-informed policy analysis and debate regarding the key challenges that Malawi faces in its endeavor to achieve high rates of stable, inclusive and sustainable economic growth.

The MEM consists of two parts: Part 1 presents a review of recent economic developments and a macroeconomic outlook. Part 2 focuses on a special topic relevant to Malawi's development prospects.

In this edition, the special topic focuses on ending child marriages and early childbearing as well as improving girls' level of educational attainment. Despite substantial progress over the last two decades, girls still have lower average levels of educational attainment than boys at the secondary level in many countries. This is also the case in Malawi, partly because many girls marry or have children before the age of 18, often before they are physically and emotionally ready to become wives and mothers.

Educating girls, ending child marriage, and preventing early childbearing are all essential to ensure that girls have agency, not only as future wives and mothers, but also as productive citizens in a wide range of roles. These are also enablers for countries to achieve their full development potential, which requires the full participation of all citizens to the degree to which they are capable. The failure to empower women to participate therefore represents a lost opportunity. This MEM documents trends in child marriage, early childbearing and girls' low average levels of educational attainment, with an examination of their impacts on a wide range of development outcomes. It includes estimations of the economic costs of child marriage and proposes a range of policy options to improve opportunities for adolescent girls.

ECONOMIC DEVELOPMENTS

Malawi's economy is softening in 2018, in contrast to the gains recorded in many other countries in the region, due to continued vulnerability to external shocks and structural constraints. Weather shocks, combined with policy slippages, have contributed to fiscal deterioration and increased fiscal risks. 1 « MALAWI ECONOMIC MONITOR NOVEMBER 2018 Government financing has shifted away from the Reserve Bank of Malawi (RBM) to commercial banks and non-bank sector, which is a positive step and less inflationary but has the potential to crowd out private sector lending. Improved fiscal management, to reduce deficits and better protect budgeted investment in development priorities is necessary to increase growth and to move Malawi out of its cycle of vulnerability.

With Malawi's heavy dependence on agriculture, negative developments affecting this sector have driven the slowdown in overall economic performance. Most significantly, food crop production has declined due to dry spells and Fall Armyworm infestations. However, the tobacco subsector performed better than in the previous season, despite lower average prices. Industry and services continued to record a subdued performance. The weaker performance of industry was mainly due to erratic energy supply, which were partly the result of protracted dry spells. The performance of the agriculture sector is also strongly correlated with manufacturing, due to the significance of agro-processing activities. It also impacts the performance of the services sector, through its impact on farmers' disposable incomes, with 85 percent of the population deriving their livelihoods from agricultural activities. Real Gross Domestic Product (GDP) growth is thus expected to moderate to 3.5 percent in 2018.

The sharp increase in the fiscal imbalance in 2017/18 indicates Malawi's ongoing vulnerability to adverse weather and policy-induced shocks. Weather shocks lead to declines in agricultural output and an accompanying slowdown in economic activity. This in turn leads to a decline in Government revenue which, accompanied by increased expenditure on relief to the weather-affected poor, often destabilizes Government budgets. In FY2017/18, the fiscal deficit increased to 7.8 percent of GDP, up from 4.8 percent recorded in the previous year. The widening of the deficit was largely due to three factors. Firstly, revenues and grants were lower than expected, partly due to weak growth outcomes following a poor agricultural season, as well as overly optimistic revenue assumptions. Secondly, the food crisis in the preceding year led to the build up of large stocks of maize by the Agricultural Development and Marketing Corporation (ADMARC), with a subsequent bailout by the Government in order to refinance the associated commercial borrowing. Finally, there was significant expenditure associated with the securitization of payment arrears dating back to FY2012/13.

The composition of domestic financing has shifted from the RBM to the commercial bank and non-bank sectors. Net credit from the RBM has substantially declined over 2018, supporting the achievement of broader macroeconomic stability. However, Government borrowing from commercial banks and the non-bank sector (which includes pension funds, insurance and discount houses) has increased significantly. Although the latter form of financing is less inflationary than RBM financing, the move to the market risks an increase in interest rates and has the potential to crowd out private sector investment. Over the year, lending to the private sector has continued to stagnate. The high interest rates and short-term maturity profile for domestic debt results in a high cost of debt service. This reduces the Government's space for expenditure on social and productive sectors.

Overall, Malawi has experienced a sharp increase in public debt since the Heavily Indebted Poor Country (HIPC) and Multilateral Debt Relief Initiatives (MDRI) in 2006. Sustained high fiscal deficits, increasingly financed by high-cost domestic debt, have resulted in debt service costs equivalent to about 40 percent of revenues, leaving less room for other vitally important growth-enhancing expenditures. New borrowing to cover these higher debt servicing costs, or rollover at higher costs, can contribute to a vicious cycle that threatens to undermine the sustainability of public finances.

Other key developments relate to the stability of the Kwacha and a decline in the headline inflation rate. Relative to the dollar, the Kwacha has remained within a two percent band since 2017, trading at a monthly average of MWK 735/US\$ in October 2018. This has exerted downward pressure on non-food inflation. The availability of the first green crop in March reduced pressure on food inflation, especially in rural areas. However, food inflation has increased in recent months since the commencement of the lean season. Although Malawi's inflation rate remains in single digit levels, at 9.7 percent in October 2018, it is still higher than that of comparator countries in the region.

The recently released poverty estimates from the Fourth Integrated Household Survey (IHS4) show that both the ultra-poverty¹ rate and levels of inequality have declined significantly, especially in rural areas. However, the moderate poverty² rate has increased slightly. The national rate for ultra-poverty declined by more than 4 percentage points in the period from 2010 to 2016, going down from 24.5 percent to 20.1 percent. Over the same period, the national Gini index also declined from 45.5 to 42.2. For the rural areas, the decline was particularly significant, with the index going down from 38 to 32. Preliminary analysis suggests that the decline in both inequality and ultra-poverty is partly due to both the Government's social protection programs and the post-2016 food security response. However, over the period above, national moderate poverty is estimated to have increased slightly from 50.7 percent to 51.5 percent.

Over the next two years, Malawi's growth rate is projected to gradually increase to around 4-5 percent. Increased output is expected to be driven by a rebound in the agriculture sector, although this outlook is susceptible to downward risks such as a potential El Niño-induced weather shock. It is also expected that energy supply will improve as power projects come on stream and rainfall patterns normalize. However, the continued vulnerability of Malawi's agricultural sector and spillovers to other sectors point to the critical need to promote measures that improve resilience.

Malawi needs to sustain significantly higher rates of growth to improve its development prospects, including through increased investment. Investment in Malawi has been low, due mainly to both the significant macroeconomic instability resulting from the Government's inability to manage shocks and several policy-induced shocks. This is compounded by structural constraints, including limited and erratic energy supply and a generally non-conducive business environment. In the past two decades, Malawi's real GDP per capita has grown at an average of 1.5 percent, significantly lower than the average rate of 3.1 percent in non-resource-rich Sub-Saharan Africa (SSA) economies. It remains an outlier even compared to geographically and demographically similar peers that were at a similar stage of development in the mid-1990s. With Malawi's low and episodic growth spells and with recurrent bouts of volatility, its progress towards poverty reduction has been poor.

A budgeted tightening of the fiscal deficit in FY2018/19 may be optimistic for an election year. Revenue and grants are projected to increase by 1.2 percent of GDP relative to the FY2017/18 outturn. Total expenditure, on the other hand, is projected to decrease by 2.7 percentage points of GDP relative to FY2017/18, despite a substantial increase in expenditure on wage and salaries (by 0.7 percentage points of GDP). However, the

¹ The incidence of ultra-poverty is calculated with reference to a national poverty line which measures the consumption level needed to satisfy daily calorie requirements (approximatively US\$0.82 in 2011 PPP).

 $^{^2}$ The moderate poor are those whose household expenditure per capita is below the total poverty line – a sum of the food and nonfood poverty lines—of US\$ 1.32 (2011 PPP).

Government will need to maintain strong expenditure controls during an election year to reduce the fiscal deficit to 3.8 percent of GDP.

Policy changes are needed to reduce structural constraints to export growth. The current account deficit is expected to narrow slightly from 11.3 percent of GDP in 2017 to 10.9 percent in 2018. This projection assumes the improved performance of agricultural exports, including tobacco, and a decline in food imports. However, the potential for an El Niño-related weather event could also disrupt agricultural exports and increase the need for food imports. The medium to long term agenda for Malawi should be diversification away from commodity dependence which is vulnerable to external shocks. Investing in measures to improve resilience to climate shocks and disaster risk financing in agriculture remains critically important. Similarly, structural reforms to remove distortions to agricultural markets and to facilitate greater commercialization, diversification, and value addition could help support growth and reduce poverty over the medium term.

Measures to control Malawi's high population growth rate are critically important to achieve its poverty reduction objectives. These should include measures to eliminate child marriage and early childbearing as well as improving girls' education. At present, Malawi's projected economic growth rates are barely above projected population growth rates, so that per capita GDP has little room to increase. Over the years, Malawi's fertility rate has remained persistently high, particularly in the rural areas, where it stands at 6.1 births per woman. The population is expected to double in two decades, from 17.2 million in 2015 to 34.4 million in 2038. Unchecked population growth will put enormous pressure on limited land resources and on service delivery, reducing the impact of poverty reduction initiatives. In this context, Malawi urgently needs to reduce its fertility rate to address poverty and boost human development. Accelerating and reaping the benefits of a demographic transition will only be possible if Malawi empowers its women through a number of interrelated policies, including policies that promote investment in girls' education. Curbing early child marriage and early childbearing will enable girls to remain in school at least until they complete secondary school education, which may have a myriad of benefits (Dabalen et al 2017).

Policymakers need to implement the appropriate reforms to improve the economic outlook. Recommended measures include the following:

• Improve fiscal discipline to reduce high-cost domestic borrowing: Maintaining fiscal deficits at sustainable levels will reduce the Government's

dependence on high-cost domestic borrowing. Domestic debt levels are already high, with a shift in the composition of Government borrowing away from the RBM and towards the private sector in 2018. This has the potential to crowd out the already low supply of credit to the private sector. Tighter control of domestic borrowing would reduce future interest payments and increase fiscal space to implement growth enhancing development expenditures, while also supporting lower interest rates and higher private sector lending.

• Avoid pre-election pressures for nonbudgeted expenditures: Empirical studies have demonstrated a tendency towards a preference for expenditure on items that are highly visible to voters in pre-election periods, a phenomenon known as Political Budget Cycles (PBC). These cycles result in inefficient spending, which has a detrimental effect on fiscal sustainability and macroeconomic stability. In avoiding such pressures, however, it is also important that Government protect key social services for the vulnerable.

Invest in building resilience, particularly during a period of macroeconomic stability: Malawi's economy is highly susceptible to weatherrelated shocks. The current stable macroeconomic environment creates opportunities for the Government to refocus its efforts on measures to build resilience. Diversifying agricultural production beyond rain-fed maize would be a key step in this process. Additionally, measures to manage natural disaster risks should be systematically incorporated in the budget process. These include increased investment in risk mitigation and disaster risk financing. Disaster risks should also be analyzed in the context of a fiscal risk statement, with built-in buffers to enable a flexible response to the fiscal costs of natural disasters.

THE COST OF NOT INVESTING IN GIRLS

Child marriage, early childbearing, and limited access to education have significant negative effects on girls, their families, and the country. This report's special topic discusses trends in girls' education, child marriage (marrying before the age of 18), and early childbearing (having a child before the age of 18), with an analysis of how they affect a wide range of development outcomes. It then offers recommendations for policies and programs that could improve opportunities for adolescent girls. The analysis builds on World Bank work on the cost of not investing in girls and on a previous global study of the economic impacts of child marriage conducted by the World Bank in partnership with the International Center for Research on Women. Compared to 14 other East and Southern African countries, adolescent girls in Malawi continue to have higher rates of child marriage and early childbearing and lower levels of educational attainment. In Malawi, almost four in ten girls marry as children and more than one in four have their first child before the age of 18. This contributes to low average levels of educational attainment, with only one in seven girls completing her secondary education. While some gains have been made over the past few decades, the rate of progress remains much too slow to enable Malawi to achieve related Sustainable Development Goals.

Girls' educational attainment, child marriage, and early childbearing are closely related. After puberty, girls must often choose between either getting married or continuing with school. Once a girl is married, it is very difficult for her to remain in school. Indeed, less than two percent of girls aged 15-19 are both in school and married. Conversely, keeping girls in school is probably the best way to reduce child marriage and, indirectly, early childbearing, with child marriage being the likely cause of about two thirds of all instances of early childbearing.

Girls' educational attainment, child marriage, and early childbearing also have large impacts on other development outcomes. Ending child marriage and early childbearing would enable girls to spend more time in school. Conversely, improving girls' levels of educational attainment would help to reduce child marriage and early childbearing. Low educational attainment, child marriage, and early childbearing affect girls' life trajectories in numerous ways. Girls who marry or drop out of school early are more likely to experience poor health, to have more children, and to earn less as adults. All of these factors make it more likely that members of their households will be affected by poverty. Other problems are a higher risk of intimate partner violence and a lack of decision-making power (agency) within the household. Fundamentally, girls who marry or have children at an early age or who drop out of school early are disempowered in ways that deprive them of their basic rights. In turn, this has a negative impact on their children, creating a cycle that spirals down through generations. For example, children of young mothers are at higher risk of dying before the age of 5, of suffering stunting, and of performing poorly in school.

The economic costs of low educational attainment for girls, child marriage and early childbearing are very high in Malawi. In the case of child marriage, the report's key findings are as follows:

• Ending child marriage could generate US\$ 0.5 billion in annual benefits within 15 years (in purchasing power parity, PPP), mainly due to lower rates of fertility and population growth. Ending child marriage would reduce population growth and thereby increase GDP per capita. These benefits are related to the so-called demographic dividend and may underestimate the full magnitude of the gains from reaping that dividend.

- The loss in earnings for women working today due to their marriage as children in the past stands at US\$ 167 million (PPP). The study estimates that through the impact of child marriage on girls' levels of educational attainment, women's earnings would be higher today if they had been able to avoid early marriage and childbearing and attained a higher level of education.
- Other benefits from ending child marriage include education budget savings of up to US\$ 108 million by 2030 (PPP) and benefits associated with lower rates of under-five mortality and stunting. The education budget savings could be achieved as a result of the Government being required to provide services to smaller cohorts of new students. These savings could in turn be reinvested to improve the quality of the services provided, which has the potential to improve human capital and thereby to generate additional economic benefits.

Multiple interventions are required to provide better opportunities to girls, including by changing gender norms that disadvantage girls. Many of these interventions have been discussed in World Bank policy briefs on adolescent girls, which have focused on four pillars: (i) keeping girls in school; (ii) equipping out-of-school girls with skills; (iii) beginning a family and adopting a healthy lifestyle; and (iv) addressing the early childhood development needs of children born to teenage mothers. A number of Ministries have begun to implement strategies to address these pillars, but significant gaps remain.

Enabling girls to remain at school is vital to achieve the elimination of child marriage and early childbearing. Thus, improving the education system should be a top priority. The elimination of early marriage and the achievement of universal secondary education for girls can be facilitated through a number of means. They include: (i) reducing the disadvantages that girls face in remote communities, which are partly due to the poor targeting of Government resources; (ii) creating a more inclusive school culture that encourages girls to remain at school; (iii) providing girls with role models, including through the increased deployment of female teachers in Grade 6-8; and

(iv) increasing the returns on girls' completing secondary education by improving employment opportunities at local levels. More generally, it is essential to improve the basic conditions for access to education, with the literature suggesting that the following targeted interventions may produce significant benefits.

- Improving general schooling conditions for girls: Access should be improved by constructing secondary schools close to areas where unserved girls reside, and/or they should be provided with modes of transportation to enable them to attend schools. Providing adeauate water, sanitation and hygiene facilities for girls is also important, as is the need to address the risk of violence and sexual harassment either at or on the way to school. It is also essential to ensure that secondary education is affordable and that schools provide girls with the appropriate skills to enable them to generate livelihoods.
- Implementing targeted interventions to improve girls' skills, knowledge and economic opportunities, especially through measures to ensure that girls remain at school: Interventions should be implemented to expand economic opportunities for adolescent girls who dropped out of school and who are unlikely to be able to return. Ensuring that adolescent girls have adequate life skills and reproductive health knowledge is also important, whether girls are in school or out of school. Evidence suggests that safe space clubs where girls may discuss issues of sexual and reproductive health and other relevant topics with female mentors may be an effective means of achieving this. However, the most effective interventions to delay marriage and childbearing are those that enable girls to remain in school.
- Providing community-based interventions to address social norms that adversely affect girls: Child marriage, early childbearing, and low educational attainment for girls are rooted in social norms that perpetuate gender inequality. Community-based interventions that involve all members of the community, including men and community leaders as well as women, may be an effective means of changing these norms.

1. ECONOMIC DEVELOPMENTS

RECENT DEVELOPMENTS 1.1

Regional growth is on an upward trajectory, with significant cross-country variations

1. In 2018, the global economic growth rate is expected to remain at close to levels recorded in 2017. This growth is a continuation of the synchronized recovery in more than half of the world's economies since 2016, led primarily by improvements in investment, manufacturing and trade. In the first half of 2018, growth in the advanced economies began to taper off. The growth rate is projected to decline to 2.2 percent, from an estimated 2.3 percent in 2017. However, the USA recorded relatively strong growth in the first half of 2018, following a recovery in global oil production, especially among non-OPEC countries, in response to increasing global oil prices. By contrast, growth in the Euro area, Japan and the United Kingdom was relatively subdued. The recovery in commodity prices should drive growth among Emerging and Developing Economies (EMDEs) to an average of 4.5 percent in 2018, from 4.2 percent recorded in 2017.

2. In 2018, the average growth rate for Sub-Saharan Africa (SSA) is expected to reach 2.7 percent, higher than the rate of 2.3 percent recorded in 2017, but lower than originally projected (see Figure 1). This reflects the ongoing economic recovery among the region's oil and metals exporters and increased agricultural production following the normalization of post-drought weather conditions. The regional giants (Angola, Nigeria and South Africa), which constitute more than 50 percent of the region's economic output, are under stress, with their relatively poor performance exerting downward pressure on the overall regional growth rate. Slow investment growth and weak integration in the global value chains have constrained South Africa's growth potential. Oil rich and dependent Nigeria and Angola have failed to capitalize on rising global oil prices, with corresponding improvements to production capacity.

3. In 2018, the average GDP growth rate for SSA excluding South Africa, Nigeria and Angola is projected to remain at 4.7 percent, the same as in 2017. Other resource-rich countries in the SSA region are expected to continue to benefit from increasing commodity prices, although public debt levels weigh heavily on the gains, especially among oil exporters. Non-resource rich SSA countries are projected to record robust growth, averaging 5.5 percent in 2018. This growth has been largely driven by increased agricultural production, improving consumer demand and low inflation rates, although there are variations amongst countries. Countries such as Ethiopia and Ghana are likely to record relatively high growth rates compared to smaller economies, such as Equatorial Guinea, that are experiencing negative growth. It is anticipated that the SSA regional poverty headcount will decline only slightly in the period from 2018 to 2020, with the rate of decline relatively low among metal exporters and fragile countries (World Bank, 2018c).



Figure 1: Malawi's current growth is positive but weak compared to the rest of the region





Figure 2: Variations in recovery of key commodity prices and indices

Nominal USD (Crude Oil) and Price Indices (Agriculture, Metals & Minerals and Fertilizer), 2010=100



4. The regional outlook remains subject to significant downward risks. Policy uncertainties regarding trade and geopolitical risks among advanced economies and EMDEs could compromise foreign investments throughout the SSA region and trigger current account distress, particularly amongst countries that are heavily dependent on foreign aid. The region's high level of dependency on commodities and minerals renders it particularly prone to economic reversals in the event of a sharp decline in commodity and mineral prices (see Figure 2). In addition, rising debt levels in the region have increased sustainability concerns, especially given higher levels of commercial borrowing in countries with limited fiscal space. A reversal of the reforms in countries undergoing transition could undermine growth prospects. In addition, the region remains subject to considerable weatherrelated and natural disaster risks and to risks related to civil and political unrest.

Domestic economic activity has weakened in 2018, following a rebound in growth the previous year

5. Developments in 2018 indicate a slowdown in Malawi's economic performance, following a rebound in growth in 2017 to 4.0 percent after two years of depressed economic activity. The uptick in 2017 was due to a rebound in agricultural production, particularly maize. The agriculture sector as a whole grew at 5 percent in 2017, following two years of contraction. This strong growth of agriculture was partially offset by the weak growth of the industry and service sectors, at 2.2 percent (down from 2.4 percent in 2016) for industry and 4.0 percent (down 4.4. percent) for services (see Figure 3). Structural challenges related to erratic energy and water supply adversely impacted the industry sector. The performance of the services sector also declined due to depressed domestic demand, despite a good harvest, with the business environment remaining weak.







Source: World Bank MFMod

6. In 2018, Malawi's economic growth rate is estimated to moderate to 3.5 percent, a decline of 0.5 percentage points compared to the previous year. This decline is due to the decreased agricultural output resulting from dry spells and Fall Armyworm (FAW) infestation. In addition, the industry and service sectors are projected to perform poorly, mainly due to continued energy supply challenges and a generally weak business environment. According to the June 2018 final-round Agricultural Production Estimates Survey (APES), there was a significant fall in the production of all food crops except cassava, sweet potatoes and coffee, which increased by 9.1 percent, 3.6 percent and 31.6 percent, respectively (see Figure 4).

7. As a result of weak legume prices and relatively strong tobacco prices in 2017, a large number of farmers switched to tobacco in 2018, resulting in an increase in production. In the 2017 season, the legume market failed, with most farmers suffering losses. By contrast, there was an undersupply of tobacco, resulting in a 43 percent increase in the average price of burley tobacco. In 2018, with a large number of farmers switching crops, the total tobacco output increased to 202 million kg, up from 106.5 million kg in the previous year. With the increased supply, average prices fell by 16 percent, from US\$ 1.99/Kg in 2017 to US\$ 1.67/Kg in 2018, with the total production value reaching approximately US\$ 337.5 million, about 59 percent higher than in the previous year.

Source: World Bank staff based on MoAIWD APES data

³ Third round Agriculture Production Estimates Survey (APES) released in June 2018 which provides data for the 2017/2018 agriculture season (December 2017 to June 2018)

8. Industry and services sectors are projected to continue to record subdued rates of growth in 2018. Within industry, manufacturers have continued to be impacted by intermittent power supply, which has had a negative effect on production. In the second half of 2018, the capacity utilization rate is estimated to have declined to about 66 percent, compared to around 69 percent for the same period in the previous year (see Figure 5). This corresponds with a further decline in power generation by the Electricity Generation Company of Malawi (EGENCO). Despite the installation of supplemental diesel generation since January 2018, which contributed to about 7 percent of total generation, output fell by more than two percent in the first half of 2018 compared to the same period in 2017. If this trend continues throughout 2018, Malawi will record its lowest electricity generation since at least 2011 (see Figure 6). The services sector is also expected to perform generally poorly due to subdued economic activity and to the depressed demand resulting from declining economic activity.







Figure 6: ... as electricity generation has continued



Note: * July to December 2018 is an estimate Source: World Bank staff based on MoFEPD data

Note: * 2018 is an estimated based on first half data Source: World Bank staff based on EGENCO data

9. Although maize production has been lower in 2018 than in 2017, with available food stocks, the Government should be able to assure food availability. While maize production increased significantly in 2017 from levels recorded in 2016, it declined by 22.1 percent in 2018 from 3.5 million MT to 2.7 million MT. However, with the strong 2017 harvest, Malawi has maintained an overall positive food balance sheet in 2018. According to the Malawi Vulnerability Assessment Committee (MVAC), about 3.3 million people are estimated to be at risk of food insecurity.⁴ Current stocks of maize are estimated to stand at around 590,000 MT. This includes those held by the National Food Reserve Agency (NFRA) and the Agricultural Development and Marketing Corporation (ADMARC). The NFRA and ADMARC have about 270,000 MT in reserve and are procuring an additional 55,000 MT to ensure food availability until the next season. It is estimated that private traders hold an additional 150,000 MT, with the remainder consisting of on-farm stocks.

Malawi requires long-term solutions to break the poverty cycle and to build resilience

10. With Malawi's average per capita GNI standing at just US\$ 320 in 2016, it remains amongst the poorest countries in the world. To address this, it is to develop a vibrant economy and raise Malawi's long-term growth rate. According to the 2017 Human Development Index, Malawi is ranked171 out of 189 countries, while according to the 2017 Global Hunger Index, it is ranked 90 out of 119 countries. Malawi's level of human capital remains low, with most of the achievements skewed towards higher-income groups. Additionally, early childbearing, early marriages, and high fertility among female adolescents also contribute to poor health and nutrition outcomes, low average levels of educational attainment, and a cycle of intergenerational poverty. Although some gains have been made in terms of a number of human development indicators (such as enrollment rates, under five mortality and stunting), Malawi's population growth rate remains high, at three percent, challenging the Government's capacity to deliver basic services. If the growth rate remains unchanged, by 2050, Malawi's population is projected to reach 43 million, up from 18.6 million in 2017.⁵

⁴ From 2017 Malawi adopted the Integrated Phase Classification (IPC) Analytical Framework to determine overall vulnerability. This methodology is more comprehensive compared to the traditional Household Economy Approach (HEA) and results in increased caseload of people not meeting the required food needs.

⁵ United Nations Population Division. World Population Prospects: 2017 Revision

11. Since 2004, Malawi has made only limited progress towards reducing poverty, with the poverty rate actually increasing slightly in recent years. IHS4 reports that the national poverty rate increased from 50.7 percent in 2010 to 51.5 percent in 2016 (see Box 1). This increase has occurred in the context of the lackluster performance of the agricultural sector, which employs close to 85 percent of the population, the majority of whom are engaged in subsistence rain-fed agriculture. Adverse weather conditions in 2015 and 2016 led to a decline in maize production and resulted in 6.7 million people being declared food insecure at the end of this period, up from 2.8 million in 2015. Over this period, a significant proportion of the rural population in particular was pushed into poverty and hunger (see Figure 7), demonstrating Malawi's high level of fragility and the strong correlation between poverty and the performance of the agriculture sector. In terms of consumption levels, IHS4 reports that in the year the survey was conducted, 64 percent of households consumed an adequate amount of food to meet their needs, an increase from the figure of 57 percent reported in IHS3 (2010/11). Broken down by gender, 71 percent of female-headed households reported having consumed an adequate amount of food to meet their needs, compared to 61 percent of male-headed households.





Source: National Statistical Office, 2018

12. Malawi's primary school Net Enrolment Rate (NER) has increased slightly over the years, from 85 percent in 2010/11 to 88 percent in 2016/17. In 2016/17, the NER was higher for girls (90 percent) than for boys (86 percent). However, the NER declines dramatically at the secondary and tertiary levels, particularly for girls. Among those aged 18 to 24 years, 36 percent of males participated in secondary school, compared to 19 percent of females. In 2016/17, the dropout rate at secondary schools stood at 10 percent, with a slightly higher rate among females (11 percent) than males (10 percent). There were dramatic differences between genders in the stated reasons for dropping out. Some 72 percent of male students reported dropping out of school due to lack of money, while 4 percent reported that they dropped out because they got married. By contrast, 48 percent of female students reported dropping out due to lack of money, with 28 percent stating that they dropped out because they got married.⁶ In 2016/17, the national secondary completion rate was 21.9 percent (24 percent of boys and 20 percent of girls). The special topic in this MEM underscores the importance of eliminating child marriage, early childbearing and constraints on girls' participation in education for Malawi to achieve its development goals.

13. While the national literacy rate has increased significantly over the years, there remains a large difference between genders. Overall, the literacy rate increased from 65 percent in 2010/11 to 73 percent in 2016/17. In 2016/17, the rate for males stood at 81 percent, compared to only 66 percent for females. An estimated 70 percent of the population aged 15 years and above did not have any educational qualifications. About 13 percent of males have a primary school leaving certificates, with the figure for the female population standing at 10 percent. About 9 percent of males had the attained the Malawi School Certificate of Education (MSCE), compared to only 4 percent of females. Malawi's rate for tertiary qualifications is amongst the lowest in Africa, standing at only about 3 percent for males and 2 percent for females.

⁶ Overall, school's fees accounts for 41 percent of total dropouts. Results reveal that most girls dropped out due to pregnancies and marriage – these two reasons accounted for 41 percent of all female dropouts.

The National Statistical Office (NSO) conducted the Fourth Integrated Household Survey (IHS 4) in the period from April 2016 to April 2017. The IHS4 collected information from a sample of slightly more than 12,271 households, representative at the national, urban/rural, regional and district levels.⁷



The most recent poverty estimates show that 'ultra-poverty's rates have declined significantly. In the period from 2010 to 2016, ultra-poverty declined by more than 4 percentage points, from 24.5 percent to 20.1 percent. Most of the decrease in ultra-poverty has occurred in rural areas (see Figure 8). Preliminary analysis suggests that this is in part thanks to effective social protection programs and the post-2016 food security response.

However, over fifty percent of the population remains in 'moderate poverty'⁹ with these rates increasing slightly in recent years in rural areas. Recurrent natural shocks and macroeconomic instability have muted economic growth and constrained poverty reduction. At the national level, the moderate poverty rate declined from 52.4 percent to 50.7 percent over the period from 2004 to 2010 before increasing slightly to 51.5 percent in 2016 (see Figure 9). In the rural areas, the moderate poverty rate has been steadily increasing since 2004, reaching 59.5 percent in 2016.

Poverty is also concentrated in certain districts, especially in the South. Poverty rates across districts (see Figure 10) range from as low as 8 percent in some urban districts, to as high as 83 percent in some rural districts. The poverty rate in the poorest five districts (Phalombe, Nsanje, Chitipa, Machinga and Mulanje) ranges from 66 to 83 percent. By contrast, in districts marked with dark green to yellow in Figure 10, the poverty rate is below the national average.

The main constraint on the achievement of higher rates of poverty reduction in the period from 2010/11 to 2016/17 has been adverse weather events, particularly the 2015 flood and 2016 drought. Due to extreme weather conditions in 2015 and 2016, agricultural growth contracted at the rate of 2.0 percent in 2015 and 2.3 percent in 2016, severely affecting rural households' consumption levels. According to IHS4 data, the 2016 drought severely affected households during the lean season (January to April 2017), with the rural quarterly 'moderate' poverty rate increasing by around 14 percentage points (from 50 percent) in the harvest season (April to June 2016). The 2016 drought had such a significant impact on rural poverty partly because in rural Malawi, the performance of the agricultural sector has a large spillover effect on the non-farm sector. In addition, the coverage of the safety net is limited to the extremely poor and does not adequately cover those just above the 'ultra-poverty' line.

Evidence suggests several causes for the stagnant poverty levels in rural Malawi. These include low productivity in the agricultural sector; limited opportunities for non-farm self-employment in rural areas, with low returns; the limited coverage of safety net programs and targeting challenges, together with highly volatile growth patterns (World Bank, 2016b and 2017d).

Figure 10: Poverty is concentrated in some districts



14. Although national poverty rates have increased slightly, inequality levels have decreased since 2010 (see Box 2). In 2016, at the national level, the Gini index decreased to 42.2, down from 45.5 in 2010 but up from 39.0 in 2004. There was also a decline in inequality in the rural areas, with the Gini index going down from 38 in 2010 to 32 in 2016 (NSO, 2017).

15. While there has been an improvement in equality, poverty has not declined because of lack of growth. Decomposition of poverty changes indicates that favorable redistribution has contributed to poverty reduction after 2010, but lack of growth hinders progress in poverty reduction. For example, lack of growth has contributed to an increase in rural poverty by 5.3 percentage points between 2010 and 2016 but a more equitable distribution of consumption has contributed to a reduction in poverty by 2.5 percentage points. In contrast, before 2010 favorable growth contributed to poverty reduction while regressive distribution hampered poverty reduction. These experiences show that to achieve a significant reduction of poverty in Malawi, it is important to boost growth while ensuring the bottom of the income distribution is also benefiting from the growth.

16. Malawi's high levels of poverty and inequality are also exacerbated by the prevalence of child marriage and early child bearing, with the country having one of the highest rates of adolescent fertility in the world. In the period from 1992 to 2015/16, Malawi's Total Fertility Rate (TFR) declined by about 2.3 children, going down from 6.7 to 4.4. High fertility rates reflect pervasive cultural practices and socio-economic and geographic disparities. Schneidman *et al* (2018) found that fertility levels vary considerably by place of residence, wealth, and levels of educational attainment. There is a 1.7 child differential between women in urban and rural areas, while females from the lower three wealth quintiles have fertility rates ranging from 4.6 to 5.7, in comparison to those in the top two quintiles, where the average ranges from 3.0 to 4.0. The starkest gaps are between girls with no education (5.5) compared to those with secondary or higher education (2.3), a difference of more than three children. The strong correlation between levels of educational attainment and the fertility rate will be discussed in depth in the special topic of this report.

⁷ The first Integrated Household Survey (IHS1) was conducted in 1997/98, the second in 2004/05 and the third in 2010/11.

⁸ The Government of Malawi has two poverty measures – "moderate poverty" and "ultra-poverty." The incidence of ultrapoverty is calculated with reference to a national poverty line which measures the consumption level needed to satisfy daily calorie requirements. Its value is approximatively US\$0.82 in 2011 PPP.

⁹ The moderate poor are those whose household expenditure per capita is below the total poverty line – a sum of the food and nonfood poverty lines—of US\$ 1.32 (2011 PPP).

Box 2: The gap between the rich and the poor has declined since 2010

Over recent years, Malawi's economic growth has not been inclusive. In the period from 2003 to 2010, when average GDP per capita growth was relatively high, even by regional standards, high rates of poverty persisted, inequality worsened, and rural extreme poverty increased. At the national level, Malawi's Gini index increased over the period from 2004 to 2010. This increasing disparity was also demonstrated by a comparison of the growth rates in household expenditure per capita between the poorest 40 percent (fell by 5 percent) and the top 60 percent (grew by 17 percent) of population.

While the level of inequality remains high, it has begun to decline since 2010. This reflects the growth in consumption by households at the bottom of the welfare distribution, with a substantial reduction in rural areas. The result is displayed by the Lorenz curves,¹⁰ with the rural Lorenz curve for 2016/17 lying above those for 2004/05 and 2010/11 (see Figure 11). This period included climate-induced shocks from droughts and floods. Despite this, the distribution of welfare improved. Possible reasons for the improvement include the implementation of the social safety nets program put in place to cushion the impact of the crisis on the vulnerable and the humanitarian assistance response to the 2016 food crisis.

Figure 11: Rural inequality has substantially declined Lorenz curves for rural population



Figure 12: Inequality has fallen in the Northern and Central regions whilst rising in the Southern region Gini coefficients¹¹ across Malawi



Source: Author's estimates based on IHS2, IHS3 and IHS4 survey data

Source: Author's estimates based on IHS2, IHS3 and IHS4 survey data

While inequality has declined at the national level, it has increased in urban areas and in the Southern region (see Figure 12). Urban inequality has increased marginally over the years. In terms of regional disparities, inequality in the Northern and Central regions of Malawi has decreased, while in the Southern region it has increased. This correlates with poverty trends, with the incidence of poverty being most concentrated in districts in the South (see Box 1).

¹⁰ A Lorenz curve plots the cumulative share of total income received against the cumulative number of recipients, starting with the poorest individual or household

¹¹ The Gini coefficient measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. It measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a share of the maximum area under the line. The Gini coefficient ranges between 0 in the case of perfect equality and 1 in the case of perfect inequality

Fiscal performance deteriorated in FY2017/18

17. In FY2017/18, the fiscal deficit widened to 7.8 percent of GDP, up from 4.8 percent in the previous year (see Table 1). The deterioration was largely due to lower than expected revenues and grants, in light of initially overly optimistic projections for both; expenditure associated with the securitization of payment arrears dating back to FY2012/13; and the bail out of ADMARC. The deficit was also higher than the mid-year projection of 7.1 percent, largely due to the lower-than-expected tax revenue and grants outturn, compounded by recurrent expenditure overruns largely on goods and services. Revenue and grants fell by 1.2 percent of GDP below the revised targets, due to the under-performance of grants and lower-than-expected tax revenue collections. Total expenditure fell by 0.7 percent of GDP below the revised targets, with an overrun on recurrent and under-spending on development. Recurrent expenditure exceeded revised targets by 1.3 percent of GDP, which was offset by a significant underperformance in development expenditure, by 1.9 percent of GDP.

18. While domestic revenues met revised targets, grants substantially under-performed. After a significant downward revision in tax revenue targets at mid-year, the total value of collected tax revenues was still 0.2 percent of GDP below the revised targets. The value of corporate profit taxes was 9.4 percent below revised targets, partially due to the write-off of bad debts in the banking sector. Domestic Value Added Tax (VAT) fell 8.1 percent below the revised target, although it increased by 23.3 percent compared to the previous year. Domestic VAT collections were lower than expected due to lower average incomes as a result of the poor performance of the agricultural sector. This also led to corresponding lower levels of demand, which resulted in reduced imports, leading to lower-than-expected collections of import VAT. Non-tax revenues exceeded the target by 0.3 percent, partially due to stamp duty collections and concession fees related to the Nacala corridor. Grants were 1.4 percent of GDP below the revised targets, largely due to slow project execution.

19. Overall expenditure was below the revised targets, with overspending on recurrent items being more than offset by under-spending on the development items. While overall expenditure remained below the revised ceiling, recurrent expenditure exceeded the targeted level by 1.3 percent of GDP. This was largely due to expenditure on goods and services, which exceeded the revised targets by 0.7 percent of GDP. This was due to overspending related to additional maize purchase for food security purposes following low maize output in the 2017/18 agricultural season; an increase in election related spending; and increased expenditure on compensation and claims for resolved court cases. By contrast, development expenditure was 1.9 percent of GDP below the targeted level, due to poor rates of execution for both foreign- and domestically-financed projects.

20. Domestic borrowing increased significantly in order to finance the fiscal deficit. Net domestic borrowing stood at 6.2 percent of GDP, exceeding the revised target of 4.7 percent, while borrowing from the RBM declined. With levels of domestic debt already high, this increased borrowing raises serious concerns regarding the sustainability of domestic borrowing and its impact on the budget, as well as running the risk of crowding out private sector lending. Greater efforts, to rein in expenditure and to estimate more realistic growth and revenue projections, are necessary in order to contain fiscal deficits. These efforts are also necessary to enable improved planning and better execution of development expenditure.

The FY2018/19 budget could be undermined by election related spending pressure

21. A budgeted tightening of the fiscal deficit in FY2018/19 may be optimistic for an election year. Revenue and grants are projected to increase by 1.2 percent of GDP relative to the FY2017/18 outturn. Total expenditure, on the other hand, is projected to decrease by 2.7 percentage points of GDP relative to FY2017/18, despite a substantial increase on wage and salaries (by 0.7 percentage points of GDP). However, the Government will need to maintain strong expenditure controls during an election year to reduce the fiscal deficit to 3.8 percent of GDP.

22. Revenue and grants are projected to reach 22.0 percent of GDP, higher than the 20.8 percent recorded in FY2017/18. Tax revenue projections assume improvements in tax administration to support increases over the realized level of 17.1 percent in FY2017/18. Additionally, tax revenue collection has commenced well in FY2018/19, with collections 4.7 percent over target at the end of September. The budget assumes that grants will rebound to 2.3 percent of GDP. Although in excess of the realized level of 1.4 percent in FY2017/18, this is still below outcomes in previous years.

Table 1: Fiscal accounts

Percentage of GDP

	2014/15	2015/16	2016/17	2017/18		2018/19
				Revised	Outturn	Proj.
Revenue and grants	21.4	21.6	23.5	22.0	20.8	22.0
Revenue	18.6	17.8	20.0	19.2	19.3	19.7
Tax Revenue	16.3	16.0	17.6	17.3	17.1	17.6
Nontax revenue	2.4	1.8	2.4	1.9	2.2	2.1
Grants	2.8	3.7	3.5	2.8	1.4	2.3
Budget support grants	0.0	0.5	0.3	0.0	0.0	0.0
Dedicated grants	1.1	1.8	1.5	1.0	0.5	1.0
Project grants	1.7	1.4	1.7	1.8	0.9	1.2
Expenditure and net lending	27.5	27.6	28.2	29.2	28.5	25.8
Recurrent expenditure	22.2	23.5	21.7	22.5	23.8	20.7
Wages and salaries	6.9	6.4	6.2	6.5	6.5	7.2
Interest payments	4.0	4.0	4.3	3.9	3.9	3.8
Foreign	0.3	0.3	0.3	0.3	0.3	0.4
Domestic	3.8	3.7	4.1	3.6	3.6	3.5
Goods and services	5.5	5.8	5.9	6.0	6.7	5.6
Maize purchases	0.2	0.8	0.7	0.5	0.7	0.2
Subsidies and transfers	4.9	4.9	3.8	4.9	5.0	4.0
Fertilizer subsidy	1.9	1.8	0.7	0.7	0.7	0.8
Arrears payments	1.1	2.5	1.4	1.3	1.6	0.1
ZCPN for securitizing arrears ¹	0.7	2.5	1.4	1.2	1.5	0.0
Development expenditure	5.3	4.0	6.4	6.6	4.7	5.0
Domestically financed	1.0	0.7	0.7	1.8	1.6	1.3
Foreign financed	4.4	3.3	5.8	4.7	3.1	3.6
Overall balance (incl. grants) excl ZCPN ³	(5.7)	(3.1)	(3.4)	(5.9)	(6.2)	(3.8)
Overall balance (incl. grants) ²	(6.3)	(6.1)	(4.8)	(7.2)	(7.8)	(3.8)
Financing	5.8	6.1	4.9	7.0	8.2	3.8
Net foreign financing	2.5	1.9	2.5	3.2	2.5	0.6
Gross foreign borrowing	2.9	2.4	3.0	3.8	3.1	1.4
Budget support loans	0.0	0.0	0.0	1.3	1.3	0.0
Project loans	2.2	1.9	2.5	2.1	1.7	1.4
Other loans	0.7	0.5	0.5	1.4	0.1	0.0
Amortization	(0.4)	(0.5)	(0.6)	(0.6)	(0.6)	(0.9)
Net Domestic borrowing	3.3	1.7	0.9	4.7	6.2	4.7
Securitization of domestic arrears	0.0	2.5	1.3	(0.9)	(0.5)	(1.4)
Privatization proceeds	0.0	0.0	0.3	0.0	0.0	0.0
Memorandum items:						
Primary balance including ZCPN ²	(1.7)	(2.1)	(0.5)	(3.3)	(3.8)	(0.0)
Primary balance excluding ZCPN ³	(1.0)	0.9	0.9	(2.1)	(2.3)	(0.0)

Source: World Bank staff calculations based on MoFEPD data

¹Issuance of zero-coupon promissory notes

² Includes promissory notes issued for the repayment of domestic arrears accumulated since FY2012/13

³Excludes promissory notes issued for the repayment of domestic arrears accumulated since FY2012/13

23. Recurrent expenditure is projected to decline, despite substantial increases in the wage bill. Overall recurrent expenditure is projected to reach 20.7 percent of GDP, down from 23.8 percent in FY2017/18. This includes a substantial increase in expenditure on wages and salaries, which are projected to increase by 24.5 percent relative to the previous year to reach 7.2 percent of GDP. This increase is due to an average 15 percent salary increase for civil servants, and to the recruitment of 10,500 primary school teachers, 500 secondary school teachers, and 1,000 medical personnel. However, the projections assume that the various overruns from FY17/18 will not recur, so that goods and services, subsidies and transfers, and arrears expenditure lines are each expected to decline by 1.0 to 1.5 percent of GDP.

24. Ensuring that expenditure on agricultural subsidies remains at targeted levels will be a key challenge prior to an election year, particularly following 2018's weak maize harvest. Expenditure on the Farm Input Subsidy Program (FISP) is budgeted at MWK 41.5 billion, which remains broadly similar to the level recorded in the previous year, at 0.7 percent of GDP. It is expected that the number of FISP beneficiaries will increase from 900,000 to 1 million, with the fixed value coupon maintained. Expenditure on maize purchases by ADMARC and the NFRA is projected to stand at MWK 10 billion, a decline from around MWK 35 billion in FY2017/18.

25. Development expenditure is targeted to increase to MWK 269.5 billion, or 5.0 percent of GDP. This would be a slight increase from the realized level in FY2017/18, which stood at 4.7 percent of GDP. Approximately MWK 196.5 billion (3.6 percent of GDP) has been for foreign-financed projects, while MWK 73.0 billion (1.3 percent of GDP) has been budgeted for domestically-financed projects. It will be necessary to ensure that recurrent expenditure does not exceed targeted levels to avoid cuts to development expenditure, as has frequently occurred in previous years.

26. The budget is expected to be financed largely by domestic borrowing. Approximately MWK 32.2 billion (0.6 percent of GDP) is expected to be raised through foreign financing. About MWK 253.8 billion (4.7 percent of GDP) is expected to be financed through domestic borrowing, which, although lower than 5.9 percent of GDP in the previous fiscal year, will add to domestic debt pressure. Continued adherence to a zero ceiling on RBM financing will reduce the inflationary impact of such borrowing but continued high levels of Government borrowing from commercial banks increases the potential risk of crowding out private sector lending.

27. Maintaining fiscal prudence during an election year would send a strong signal of the Government's commitment to further development progress. Over the years, the credibility of the Government's budgets has been a significant issue, with the composition and level of actual expenditure often varying considerably from budget. Unplanned recruitment, unproductive expenditure and payroll irregularities have tended to build up, repeatedly disrupting fiscal plans. Reducing the high level of domestic borrowing will also be required to increase the Government's fiscal space. If the Government maintains the fiscal deficit within its budgeted level, it would be a significant measure towards improving confidence in government systems, which in turn would support the achievement of macroeconomic stability.

Malawi's debt level remains elevated, with fiscal restraint remaining key to sustainability

28. Malawi has experienced a sharp increase in public debt since the Heavily Indebted Poor Country (HIPC) and Multilateral Debt Relief Initiatives (MDRI) in 2006. Sustained high fiscal deficits, increasingly financed by high-cost domestic debt, have resulted in high debt service costs, leaving less room for other growth-enhancing expenditures. This vicious cycle may prove to be detrimental to the sustainability of public finances. The estimated drivers of public debt accumulation are presented in Figure 13 below.

29. A deterioration in Malawi's fiscal balances and its volatile exchange rate have complicated its public debt dynamics. Over the past years, the Government has mostly run primary deficits, except in 2010. Since FY2013/14, the value of grants received has fallen sharply due to withdrawal of budget support by development partners following the Cash-Gate scandal.¹² This has led to an increase in domestic financing. There was a substantial increase in foreign debt in 2012 and in 2015, following a depreciation in the value of the Kwacha by 46 percent. Nevertheless, the recent stability of the Kwacha has improved the situation. These results are very similar to the trend observed in other SSA countries (see Box 3).

30. Automatic debt dynamics have also played a key role in influencing changes to Malawi's public debt. This is largely due to the increased recourse to domestic financing and semi-concessional foreign borrowing, which are associated with higher interest rates, thereby increasing the interest rate/growth differential. Interestingly, the residual or stock-flow valuation (which captures other factors such as the repayment of debt financed by a reduction in financial assets, cross-currency movements and measurement errors in the flow-stock identity linking the deficit to changes in debt) has been a significant contributor to changes in the public debt, particularly in 2008 and 2013. This residual has been on a declining trend in recent years.

31. The total public debt stock reached 57.7 percent of GDP by the end of FY2017/18, with two-fifths of this consisting of external public debt.¹³ While the Government has reduced borrowing from the RBM, it has continued to run a sizeable deficit that has been increasingly financed by commercial banks and non-banks. At the same

¹² In September 2013, revelations arose of misappropriation of significant amounts of public funds through fraudulent transactions carried out in the Government's Integrated Financial Management Information System (IFMIS)

¹³ Domestic financing increased sharply after the withdrawal of donor budget support, securitization of arrears, and recapitalization of the RBM and two public banks.

time, RBM has been unwinding its stock of Government securities to the bank and non-bank sector. As a result, RBM's stock of Government securities have declined by 30 percent in the period from January to September 2018, while the commercial banks' holdings have more than doubled, increasing by 145 percent, while holdings by the non-banking sector have increased by 78 percent.





Source: Authors' estimates based on the World Bank/IMF Malawi DSA November 2018 data

32. Malawi's risk of external debt distress is considered moderate, but with a high overall risk of debt distress due to high public domestic debt. The joint World Bank and International Monetary Fund (IMF) Debt Sustainability Analysis (DSA)¹⁴ found that Malawi's external debt is assessed to be at moderate risk of debt distress, but with some space to absorb shocks. Overall, however, Malawi is assessed to be at high risk of debt distress, mainly reflecting the increasing levels of domestic debt at high interest rates during recent years. The main risks arise from macroeconomic uncertainty (especially from weather shocks), weaker-than-expected policy implementation, tighter global financial conditions and weak global economy which could depress export growth.

33. Malawi's public and publicly guaranteed (PPG) external debt stood at about US\$ 2.04 billion (33.2 percent of GDP) in 2017, up from US\$ 1.72 billion (32 percent of GDP) in 2016.¹⁵ The increase in PPG external debt during 2017 mainly reflects US\$ 382 million of new disbursements and the repayment of about US\$ 150 million of principal as well as US\$ 20 million in guarantees to State Owned Enterprises. Multilateral creditors hold the largest share of public external debt at 78 percent of total, led by the International Development Association (IDA) (43 percent) and the African Development Fund (ADF) (14 percent), followed by China (12 percent) and the IMF (11 percent). Public external debt at end 2017 was concessional, with an average grant element above 35 percent.

34. To maintain debt sustainability, the Government must exercise strong discipline to contain fiscal slippages and unbudgeted expenditures. As discussed above, the fiscal position is likely to come under pressure over the course of FY 2018/19. At the same time, the ongoing decline of the tobacco sector and the limited progress towards diversification will also put pressure on external balances. In this context, the Government has limited space for borrowing. Therefore, it will be required to exercise careful macroeconomic management and to implement difficult policy choices to maintain debt sustainability. Amongst other measures, these include paying close attention to the financing terms of any proposed infrastructure investments; closely monitoring contingent liabilities; tightening expenditure control; avoiding the accumulation of new arrears; and carefully prioritizing projects to avoid elevating the risk of debt distress. To enhance resilience to shocks, efforts should be intensified to further diversify the economy (particularly exports); to broaden the revenue base; and to strengthen public financial management. A failure to maintain fiscal discipline could result in the level of debt exceeding acceptable thresholds and compromising debt sustainability.

¹⁴ The DSA was conducted in November 2018.

¹⁵ Public and PPG external debt covers that contracted and guaranteed with nonresidents by central government and the Reserve Bank of Malawi. External arrears remain zero.

Box 3: Rising debt concerns across Sub-Saharan Africa

Sub-Saharan Africa (SSA)'s average public debt level had been on a downward trend until 2012. The World Bank¹⁶ reports that in the period from the end of the 1990s to the 2000s, 30 African Low-Income Countries (LICs) benefitted from more than US\$ 100 billion in nominal debt relief provided through the Heavily Indebted Poor Country (HIPC) and Multilateral Debt Relief Initiatives (MDRI). Average public debt levels in SSA subsequently declined until 2012. From 2013 onward, the dynamics and composition of public debt changed significantly, increasing from 37 percent of GDP to 56 percent from 2012 to 2016. In more than two-thirds of SSA countries, the ratio between public debt to GDP increased by more than 10 percentage points, while in one-third, the increase was in excess of 20 percentage points. In addition, the composition of public debt changed significantly, with countries shifting away from traditional concessional sources of financing towards market-based and domestic debt. The share of multilateral and concessional debt declined, with the share of non-Paris Club debt increasing (see Figure 14).

Figure 14: The composition of debt has changed significantly, shifting to market based and domestic sources Public and publicly guaranteed external government debt, Percent of GNI



Source: The Economist, March 10th, 2018

The main drivers behind the recent increase in public debt were worsening fiscal positions and exchange rate depreciation. A World Bank analysis¹⁷ on drivers of public debt in a sample of 31 SSA countries analyzed under the LIC Debt Sustainability Framework (DSF) showed that widening primary deficits in SSA in the post-global financial crisis period, weaker currencies, increasing borrowing costs and weaker growth prospects are creating perverse debt accumulation dynamics.

The increased accumulation of debt could jeopardize the achievement of debt sustainability. Although debt levels remain substantially below pre-HIPC and MDRI levels, the recent fast borrowing gives rise to concern. According to the LIC DSF, the number of SSA countries at high risk of debt distress more than doubled in the period from 2013 to 2018. Eighteen countries were at high risk of debt distress at the end of the first quarter of 2018 compared with 8 in 2013. In many countries at low or moderate risk of debt distress, safety margins have declined. Stemming this tide will critically depend on the reduction of fiscal imbalances, strong economic growth as well as efficient and prudent public debt management.

Source: World Bank, Africa's Pulse, April 2018

¹⁶ Africa's Pulse, April 2018

¹⁷ ibid

Stable inflation faces upward pressure from increasing maize, fuel and utility prices

35. Headline inflation remains stable, although it is facing upward pressure. In the first half of 2018, the month-onmonth (m-o-m) food inflation rate oscillated, while the non-food rate remained low and stable (see Figure 15). The movements in the retail price for maize, an important indicator of inflation, remained around their 5-year average. The availability of the first green crop in March resulted in a steep decline in rural food prices, with these prices falling faster than urban food prices. In addition, even after a reversal in food inflation trends in July, urban food inflation remained significantly higher than rural food inflation. This disparity demonstrates the importance of maize to Malawi's economy and points to the low levels of rural-urban market integration, which exacerbates rural-urban inequalities and compromises poverty reduction efforts.

36. Rising maize prices and increasing non-food inflationary pressures create inflationary risks. The World Food Program's mobile Vulnerability Analysis and Mapping (mVAM) reports that the average retail price of maize increased by 31 percent compared to the same time last year, reaching MWK 127/kg in October 2018. In addition, upward non-food inflationary pressure resulted from the increase in local fuel prices, which was driven by the increase in the landed cost for petroleum products during the same period. Rising utility costs due to ongoing imminent power outages and to upward revisions in water and electricity tariffs exerted additional upward pressure on prices. This is especially true for urban inflation, with utilities contributing to a relatively high proportion of the Consumer Price Index (CPI) in urban areas.

37. While Malawi's headline inflation rate has declined to single digit levels, it remains relatively high compared to regional comparators (see Figure 16). Malawi's headline inflation rate has continued to decline steadily since 2017. However, it remains elevated compared to some selected countries in the region. In October 2018, Malawi's year-on-year (y-o-y) headline inflation rate stood at 9.7 percent.

Figure 15: Inflation remains food driven ... National Headline, Food and Non-food Inflation, m-o-m percent



Figure 16: ... declining to single digit levels but remaining above selected countries in the region Headline inflation y-o-y, percent



Source: World Bank staff based on NSO data

Source: World Bank staff based on data from respective countries' national statistical offices

The continued stability of the Kwacha has been supported by stronger reserves

38. The exchange rate between the Kwacha and the United States Dollar has remained stable. In October 2018, the Kwacha was valued at an average of MWK 735 to the US\$, trading within a band of less than 2 percent since 2017. The stability has continued despite disparities between Malawi and US rates of inflation and despite the general strengthening of the US\$ since April 2018, with this stability due to stronger confidence in the Kwacha, robust reserves, and weak demand for imports. Foreign exchange reserves have stood at or in excess of 3.0 months of import cover since mid-2017. While reserves fell to 3.0 months of import cover in April 2018, this has since increased to 3.5 months as of end-September, largely due to the increase in tobacco exports.

39. The value of the Kwacha strengthened against other major trading partner currencies. It has appreciated against the South African Rand (ZAR), Pound Sterling (GBP) and the Euro due to pressures on these currencies on international markets, partly due to uncertainty in the UK regarding the Brexit negotiations and political uncertainty in the Euro area.

Private sector credit has stagnated, while lending to Government has increased

40. The RBM has maintained a tight monetary stance, with its policy rate standing at 16 percent. It continued open market operations during the period to help to reduce liquidity; to maintain the interbank rate close to the policy rate; and to contain inflation. Interest rates have remained stable since early 2018, with the 91-day Treasury Bill yield standing at around 14 percent, and with commercial banks' base rate at around 25 percent (see Figure 17). However, even with these reductions in nominal terms, real base lending interest rates have remained high, at around 15 percent.

41. The supply of credit to the private sector has remained weak. Despite private sector credit picking up to 8.7 percent annual growth in nominal terms in September, growth remains flat in real terms (see Figure 18). The challenging business environment, with ongoing energy shortages exacerbating the burdensome tax and regulatory requirements, has negatively impacted credit growth. Lending to the Government has increased overall, but with Government avoiding recourse to RBM financing and RBM unwinding its holdings of Government securities, the composition has shifted from RBM to commercial banks and the non-bank sector. Specifically, commercial banks' holdings of Government securities have increased by 145 percent from January to September, while the non-bank sector's holdings have increased by 75 percent over the same period. This spike in domestic lending to the Government is likely to have a continuing negative impact on private sector credit growth, raising concerns regarding the sustainability of Government debt.











Source: World Bank staff based on RBM data

The banking sector remains resilient, despite limited growth in lending to the private sector

42. Bank lending to the private sector remains weak. In a recent Bank Lending Survey¹⁸ (BLS), 70.0 percent of banks in Malawi reported that there was an increase in demand for loans, mostly from households and Micro

¹⁸ In April 2018, the Reserve Bank of Malawi conducted a Bank Lending Survey covering the period between October 2017 and March 2018. Qualitative questionnaires were administered to all the banks in Malawi, enquiring about their perception of bank lending in the country. Face to face interviews were also conducted.

Small and medium Scale Enterprises (MSMEs). This compares to the 40 percent that gave a similar response in a previous survey. The increase in demand from households is attributable to a rise in consumption expenditure and an increase in consumer confidence due to the stable macroeconomic environment and to the improvement in housing market prospects. In the case of the Small and Medium Enterprises (SMEs), the increase in demand has been a result of the increased availability of inventory and working capital financing and the strategies put in place by banks to expand their SMEs loans portfolios. However, the household and SME sectors contribute to only a relatively small proportion of commercial banks' loans portfolios. For the large-scale sector, there was a decline in demand for loans, largely due to the impact of the erratic electricity supply. This sector makes up for the largest portion of commercial banks loans' portfolios.

43. In 2018, Malawi's commercial banks have recorded increased capital adequacy ratios. As of September, the total capital adequacy ratio for the industry stood at 18.8 percent, with the core capital ratio standing at 15.4 percent.¹⁹ The higher capital ratios also reflect the deceleration of banks' provisioning for non-performing loans. The sector's liquidity ratios stand at 59.0 percent.²⁰ While this is a healthy level, it represents a decline from the level recorded in March 2018, directly due to the reclassification of the composition of liquid assets by the RBM.

44. The commercial banking sector's remains profitable. Industry-wide profits after tax increased in the first part of 2018, largely due to a strong growth of non-interest income. The non-interest income grew by 21.8 percent while the interest income declined by 4.9 percent. In terms of composition, non-interest income accounted for 30.9 percent of total income (from 25.9 percent in June 2017), while interest income accounted for 69.1 percent on total income (from 74.1 percent in June 2017). Subsequently, the return on equity (ROE) ratio increased, standing at 15.5 percent in September 2018, compared to a negative -17.5 percent and -8.3 percent in January and March 2018, respectively (see Figure 19). The Return on Asset (ROA) ratio stood at 2.1 percent in September 2018, an improvement from -2.3 percent and -1.1 percent in January and March, respectively. Provisioning for non-performing loans declined in the period from March to June 2018, reflecting increased efficiency in loan recovery and the more rapid write offs of bad loans, which together resulted in improvements to profitability. The increased profitability is also supported by gains linked to the mergers of a number of commercial banks in recent times.²¹

Figure 19: Industry is adequately capitalized as provisioning for NPLs started to decline ...

Capital adequacy, liquidity and provisioning (%)



Source: World Bank Estimates based on RBM data

Figure 20: ... as asset quality improves together with a rebound in profitability

Returns on equity and on asset and NPL ratios (%)



Source: World Bank Estimates based on RBM data

¹⁹ The minimal prudential requirements for total capital ratio and for core capital ratio are 15 per cent and 10 per cent, respectively.

²⁰ The minimum prudential liquidity ratio requirement is set at 25 per cent.

²¹ In 2017, First Merchant Bank (FMB) acquired Opportunity Bank. In 2015, two other mergers took place. MSB Bank was acquired by FDH Bank; and Investment and Development Bank was acquired by the National Bank of Malawi.

45. Banking sector asset quality has improved. The ratio of Non-Performing Loans (NPLs) to gross loans has steadily declined, from 15.7 percent in December 2017 to 8.3 percent in September 2018. The agriculture sector contributes the highest to the NPLs, followed by the wholesale and retail sectors and the manufacturing and construction sectors. The prevailing low agriculture commodity prices and price depressing effects of the current ban on maize exports, together with fears that these bans may be extended to other crops, have contributed to the high levels of NPLs in the recent past. The total banking sector's specific provision to NPLs declined from as high as 72.2 percent in January 2018 to 48.2 percent in September 2018 (see Figure 20).

46. There are many factors contributing to the commercial banks' persistently high levels of NPLs. The April 2018 BLS shows that for a significant number of banks, the problem lies with their household sector loans portfolio. Banks cited low agricultural commodity prices, a bad credit repayment culture, difficulties with loan recovery processes and a lack of support from judicial systems as the main reasons for the high level of NPLs in this segment. Banks also reported that many borrowers were diverting funds for other than the intended purpose, to risky businesses, especially in the case of loans to SMEs. For large-scale enterprises, the banks cited factors such as low levels of disposable income amongst the consumers of products, reduced production due to intermittent power supply, the diversion of loan proceeds, difficulties with loan recovery processes and a lack of support from the judicial systems.

47. With recent adoption of the new International Financial Reporting Standard (IFRS9), commercial banks have tightened credit standards.²² The new standards require banks to increase the provisioning for loans, which results in reduced capital and increased demand for collateral on loans to minimize losses. Customer creditworthiness continues to be generally poor, with a high risk of default, especially from the household and SME sectors.

48. There have been some modest improvements in the financial sector, due to efforts aimed at increasing access to finance. The RBM is developing new instruments intended to strengthen the regulatory framework and to promote financial inclusion. These instruments include e-money regulations and directives on the mandatory use of point-of-sale devices. To that effect, the adoption and usage of Digital Financial Services (DFS) has been increasing steadily, albeit at a slow pace and from a low base. For example, according to the Monthly National Payments (NPS) Report for May 2018 by the RBM, the number of subscribers to mobile banking schemes increased marginally by only 0.6 percent, with the volume of mobile banking transactions increasing by only 1 percent. The value of bank-led mobile payments declined by 8.0 percent. Mobile banking services are mostly used for fund transfers, which accounted for more than 85.0 percent of the total value of these services transactions, rather than for investment and savings. In terms of the volume of transactions, bill payments and airtime purchases dominate, accounting for approximately 80.0 percent of all transactions. There is a need for more innovative product development and for activities to raise awareness to increase and expand the usage of mobile banking services.

The business environment continues to be constrained by intermittent energy supply, policy uncertainty and taxation issues

49. Despite improved macroeconomic conditions, the private sector continues to face significant challenges. Malawi has experienced improved macroeconomic stability since 2017, characterized by a stable exchange rate and readily available foreign exchange, low inflation rates, and declining interest rates. However, private sector growth has not responded as positively as expected due to intermittent electricity supply and a generally challenging business environment.

50. There are wide concerns regarding Malawi's taxation system and its impact on private sector growth. Some of the concerns most commonly cited by private sector actors include the following: (i) the investment allowances currently in force are insufficient to attract or induce meaningful investment; (ii) the industrial rebate scheme is cumbersome, with the short validity period for the industrial rebate license creating uncertainty amongst investors; and (iii) the withholding tax creates unnecessary burden, especially for the smallholder farming community. Additionally, actors in the financial sector claim that policy uncertainty regarding export bans for agricultural produce and the weak judicial system as constraints preventing them from lending out to commercial farming and agri-business. To remedy this, discussions between representatives of the private sector and government agencies should be conducted to identify lasting solutions to these challenges that the private sector feels impede industrialization, without sacrificing much-needed revenue for the Government.

²² Adoption of IFRS 9 requires banks to increase provisioning for loans, leading banks to demand for more collateral on loans extended, hence contributing to the tightening of credit standards and conditions.

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51. While Malawi's business environment remains generally challenging, the country has registered some improvements in terms of the World Bank Doing Business indicators. While Malawi ranked at 111th place in 2018 in terms of the ease of doing business index, compared to 110th in the previous year, in in terms of absolute metric, the country's ease of doing business score improved from 58.94 in the previous year to 59.59 in 2018. This implies that Malawi is narrowing the gap with global regulatory best practice. Malawi registered two significant reforms in the Doing Business indicators (compared to four in the previous year). In September 2017, the country implemented a Land Act, which enables the authorities to delegate the authority for providing consent to transferring property from the Ministry of Lands to the local government authorities. By decentralizing this process, Malawi made the property transfers faster and easier. In October 2017, the High Court (Civil Procedure) Rules came into force. By adopting these new rules, regulations and standards for key court events, Malawi made it easier to enforce contracts.

Malawi's export base remains highly concentrated

52. Malawi's export volumes continue to grow at a subdued pace. Malawi's export base remains highly concentrated, dominated by tobacco. Its other exports include sugar, tea, groundnuts, coffee, dried legumes, and oilcake, which the country has only recently begun to export (ITC/NSO) (see Figure 21). There were particularly significant challenges in the 2016 and 2017 growing seasons, with severe supply-side constraints experienced in all of these domestic export markets.

53. Export performance is projected to improve slightly in 2018, particularly in the case of tobacco and tea. By the end of August 2018, tobacco production had increased significantly, going up from approximately 106.5 million kg in 2017 to 188.7 million kg. Earnings stood at US\$ 320 million, up by 50 percent from August 2017, despite a 14 percent drop in average prices (Tobacco Control Commission, 2018). The tobacco sector is facing significant challenges due to the influx of illegal tobacco, which has resulted in an oversupply that has negatively impacted average prices. At the same time, on-going and intensifying worldwide anti-smoking sentiment has resulted in weakened demand for tobacco products. In this context, it is vital for the Government to accelerate its export diversification efforts and to improve the structure of other cash crop sub-sectors.



United States Dollar, Millions



Figure 22: Petrol and diesel dominate imports United States Dollar, Millions



Source: World Bank Staff calculations based on ITC/NSO data

54. In 2018, total sugar production fell by approximately 11 percent year-on-year to 239,951 tons, continuing a declining trend. Malawi exported about 125,000 tons of sugar in 2016, with this figure declining by 15 percent to around 107,000 tons in 2017. In 2016/17, Illovo Malawi faced production challenges due to very dry conditions at the beginning of the season and to inconsistent electricity supply. In 2018, Illovo's internal investments in more efficient irrigation systems and measures to improve plant efficiencies are expected to result in marginal increases in production.

55. Tea production is expected to increase by about 7 percent in 2018, with export earnings projected to increase by 11 percent (Tea Association of Malawi, 2018). New opportunities in the sector could arise from these anticipated favorable weather conditions in Malawi, particularly compared to its main competitor (Kenya); the

Source: World Bank Staff calculations based on ITC/NSO data

expansion of modern plantation methods; and the revision of minimum wages to attract labor. However, challenges to growth in the sector will include the recent decline in world demand for black tea (with increased demand for herbal teas); limited land; declining labor supply; theft; high freight costs; and distance to sea ports.

56. Malawi's external sector faces considerable supply-side constraints in its attempts to diversify its highly concentrated export base. These include inadequate water supply, erratic electricity supply, poor road networks and limited production and processing facilities. Also, the authorities need to address porous borders and to eliminate the illegal trading of goods, particularly tobacco. In addition, the maize export ban was re-imposed in February 2018, with the intention of ensuring sufficient domestic supply. However, in the longer term, export bans are a disincentive to commercial farmers investing in maize production. The opportunity cost for Malawi is both the foregone potential export earnings and the reduced possibility of achieving food security.

57. In 2018, Malawi's imports have continued to grow, but at a low rate. Historically, imports have weighed heavily on Malawi's trade balance, with imports dominated by petroleum products. Other major imports are fertilizers, machinery, pharmaceuticals, vehicles and electronics (see Figure 22). In 2017, petrol imports increased by 9 percent to 181 million liters, up from 166 million liters in 2016. Imports of diesel also increased from 190 million liters in 2016 to 223 million liters in 2017. At the same time, there was a strong growth in the import of vehicles and fertilizers, at 28 percent and 26 percent respectively. The commencement of infrastructure projects is also likely to result in a significant escalation of machinery imports. According to the Malawi Revenue Authority, over the past three years, there has also been a steady increase in imports of second-hand clothing. Although low-cost clothing is beneficial in the context of Malawi's low consumer purchasing power and creates employment, the increased importation of second-hand clothes creates intensified competition for Malawi's fragile local textile and garment industries, as it is alleged that most of these imports enter without paying the full tariff duty. The Government, therefore, needs to review its trade liberalization framework and existing custom regulations to ensure their effective implementation to support the long-term sustainability of livelihoods in the second-hand clothing trade while at the same time minimizing revenue losses.

58. In 2018, the current account deficit is expected to narrow slightly to 10.9 percent of GDP from 11.3 percent in 2017. Current account financing is reliant on grants and concessional financing. However, it is assumed that this will remain subdued in the near term. Therefore, going forward, narrowing the deficit assumes the improved performance of agricultural exports and a decline in food imports. Tobacco in particular is expected to generate increased earnings this season. Secondly, the import bill is likely to remain subdued due to weak economic activity, as in previous years. The Government has confirmed a positive food balance sheet, meaning that it can be expected that there will be minimal food imports, particularly of maize. However, over the medium term, structural factors will continue to constrain export growth, while El Nino events may also disrupt gains to agricultural exports.

1.2 MACROECONOMIC OUTLOOK AND RISKS

Sustaining macroeconomic stability remains challenging

59. Malawi's growth outlook is highly vulnerable to weather conditions. As a small, open economy with an undiversified production and export base and a heavy dependence on aid, Malawi is vulnerable to weather shocks such as droughts and floods, terms-of-trade shocks such as oil and fertilizer price increases and tobacco price declines, and sudden and sharp declines in capital inflows, including external aid. In recent years, Malawi has suffered from weather shocks with increasing frequency.

60. While risks associated with external shocks are significant, maintaining fiscal prudence is key to positive growth prospects. Global evidence shows that although external shocks may have an economically significant effect on countries' real activity, these shocks account for only a small fraction of the volatility of countries' real GDP. The most important causes for economic instability appear to be internal and related to economic management. In Malawi, the key risks to the macroeconomic outlook relate to the Government's ability and commitment to reversing the recent fiscal slippages and controlling expenditure pressures, especially during an election year. Additional efforts are also required to avoid recurrent expenditure overruns, which are then offset by cuts to development spending. Continued vigilance is required to control expenditure on the wage bill salaries and to reduce the high levels of domestic borrowing.

61. Malawi needs to sustain significantly higher rates of growth in order to change its development prospects, as growth is projected to gradually increase to around 4-5 percent over the next two years. Increased output is expected to be driven by a rebound in the agriculture sector, assuming favorable weather conditions. However, this outlook is susceptible to the potential of an El Niño-related weather shock. It also relies on improved energy

supply as power projects come on stream and rainfall patterns return to normal. However, the continued vulnerability of Malawi's agricultural sector and spillovers to other sectors point to the critical need to make investments to build resilience against weather shocks; to diversify the economy; and to reform and expand safety nets to enable flexible responses to shocks.

62. The main proximate reason behind low growth rates in Malawi has been low physical capital accumulation. The main factor behind low investment has been high macroeconomic instability resulting from the Government's inability to manage shocks and from a number of policy-induced shocks. A deeper analysis reveals that political economy and institutional issues are behind the lapses in macroeconomic management (World Bank 2017a). In the past two decades, Malawi's real GDP per capita has grown at an average of 1.5 percent, falling below the average of 3.1 percent in non-resource-rich SSA economies. It remains an outlier even compared to its peers that are geographically and demographically similar and were at a similar stage of development in the mid-90s. In addition, growth has barely been above that of the population growth rate.

63. Investing in human capital development is vital for future growth prospects. With Malawi's low and volatile economic growth, it has had mixed success in poverty reduction. On a positive note, in the past decade noticeable gains have been made in non-monetary measures of poverty. For example, the rate of enrolment in primary education has increased steadily, particularly for girls, although the improvements have been less significant at secondary and tertiary levels (see paragraph 12). Similarly, under-five mortality rate declined from 112 deaths per 1,000 live births in 2010 to 63 deaths per 1,000 live births in 2015/16. At the same time, infant mortality rate declined from 66 deaths per 1,000 live births in 2010 to 42 deaths per 1000 births in 2015/16. The prevalence of stunting also decreased from 47 percent in 2010 to 37 percent in 2015/16. However, improvements in human development have been uneven and skewed toward the high-income households with much less significant gains for the bottom 40 percent. Disparities exist in service coverage and outcomes by geographical location (urban-rural), income status, level of education, gender, and age. Addressing these issues through measures including ending early marriage and early childbearing among female adolescents will have a positive impact on maternal and child health, nutrition, education and other human development outcomes in Malawi.

Risks remain tilted to the downside

64. Downside risks to the Government's ability to sustain macroeconomic stability include:

- Vulnerability to exogenous shocks related to the weather and terms of trade: A recurrence of adverse
 weather events could immediately reverse Malawi's recent economic gains. Another El Niño event
 would be likely to disrupt agricultural production and consequently have a negative impact on growth
 prospects and poverty reduction efforts. Furthermore, volatility in global commodity prices for Malawi's
 key agricultural exports and global oil prices could result in a deterioration to the country's terms of trade
 position, risking the destabilization of foreign exchange reserves and upward inflationary pressure.
- Fiscal slippage: Fiscal restraint will be particularly challenging with Malawi approaching general elections next year. Shortfalls in domestic revenues and of the non-disbursement of grants or foreign financing is likely to widen the fiscal deficit, resulting in the serious risk that the Government will resort to increased domestic borrowing. While borrowing from RBM has declined since the beginning of 2018, which has allowed for continued monetary and exchange rate stability, this has been offset by a rapid increase in government borrowing from the private sector, which risks crowding out productive sectors. This will leave Malawi stuck in a vicious cycle characterized by high inflation and interest rates which in turn will depress investment and growth leading to weak revenue collection, which will further exacerbate fiscal pressures.
- Intermittent power supply: Challenges related to the erratic supply of electricity continue to constrain the
 industrial and services sectors. Apart from having a supply deficit, Malawi's energy mix is highly vulnerable
 to hydrological variability, with 98 percent coming from hydropower resources. Malawi is also not yet
 connected to the Southern Africa Power Pool (SAPP) and so is not able to engage in power trade with
 any of its neighboring countries, which would help to ensure security of supply. Although short-term
 measures have been implemented to provide some relief, blackouts remain prevalent. Planned
 investments may yield results but only in the medium to long term.

Measures to restore fiscal balance and to build a more resilient economy

65. Policy makers can adopt appropriate policy choices and reforms to shape economic outlook by reducing these imminent risks. Recommended measures include the following:

- Improve fiscal discipline to reduce pressure on high domestic borrowing: Historically, the largest source of Government domestic borrowing has been from the RBM, totaling an average of almost 50 percent of total domestic borrowing. This has contributed to macroeconomic instability, manifested by rapid exchange rate depreciation and high inflation. In 2018, however, there has been a dramatic shift in the composition of Government domestic borrowing from the RBM to the private sector. Government borrowing from the banking sector has increased by 145 percent and by 75 percent from the nonbanking sector (including pension funds, insurance firms and discount houses). Although avoiding borrowing from the RBM is necessary, the shift risks further increases to interest rates and has the potential to crowd out private sector investment, whilst lending to the private sector remaining stagnant. In addition, the cost of servicing domestic debt accounts for more than 90 percent of total interest payments. The high cost of debt servicing associated with these higher interest rates has negative implications for government expenditure on social and productive sectors. However, the fundamental factor driving increased domestic borrowing has been unplanned expenditures which disrupt the budget. Therefore, it is imperative that the Government improves fiscal discipline and reduces its net borrowing needs, with required financing being met by concessional and non-traditional sources. This includes exploring instruments with a long-term maturity profile and increased financing for capital expenditure.
- Avoid pre-election pressures for non-budgeted expenditures: Empirical studies have demonstrated a tendency towards a preference for expenditure on items that are highly visible to voters in pre-election periods, a phenomenon known as the political budget cycle (PBC). This cycle results in inefficient spending that has a detrimental effect on fiscal sustainability and the achievement of macroeconomic stability. The PBC phenomenon is common in many young democracies. Opportunistic pre-election spending usually entails a macroeconomic cost that requires painful adjustments to recalibrate the economy in the post-election period. This often distracts from progress on medium and long-term development objectives, which consequently negatively impacts economic growth and poverty reduction. With a significant risk of a larger than expected gap between available resources and spending commitments, the Government may need to make within-year expenditure cuts. In prioritizing these cuts, it is important to protect key social services for the vulnerable.
- Invest in measures to build resilience, particularly during a period of macroeconomic stability: Malawi's economy is highly susceptible to weather-related shocks. With a fairly stable macroeconomic environment, the Government has an opportunity to refocus its efforts to implement measures to build resilience to climate induced shocks. This requires investments in Malawi's processes, systems, procedures and institutions. These investments should be implemented in the context of a robust Medium-Term Expenditure Framework. Additionally, measures to manage natural disaster risks should be systematically incorporated in the budget process. These include increased investment in risk mitigation and disaster risk financing. Disaster risks should also be analyzed in the context of a fiscal risk statement, with built-in buffers to enable a flexible response to the fiscal costs of natural disasters. This should be complemented with investing in agricultural and economic diversification, improved disaster response and building contingency lines into budgets to create sufficient fiscal space to tackle expected shocks²³

66. With Malawi's high rate of population growth, accelerating the demographic transition would facilitate the achievement of its poverty reduction objectives. Malawi's fertility rate has remained persistently high, particularly among the rural poor (6.1 births per woman). The country's population is expected to double in approximately two decades from 17.2 million in 2015 to 34.4 million in 2038. For a country that is already one of the most densely populated in Africa, unchecked population growth will put enormous pressure on limited land resources, service delivery, and poverty reduction initiatives. Malawi needs to reduce its fertility rate in order to address poverty and boost human development. Accelerating and reaping the benefits of a demographic transition will come only if Malawi empowers its women through a number of interrelated policies, including policies that promote in girls' education. Curbing early child marriage and early childbearing among adolescents will enable girls to remain in school at least until they complete school education, which may have a myriad of benefits (Dabalen et al 2017). The special topic for this edition looks at the impacts of child marriage on health, population, education, employment, agency, and violence, among other outcomes.

²³ Depending on the extent of vulnerability, international experience suggests reserving up to 3 percent of spending to deal with fiscal risks associated with natural disasters (Cebotari et al, 2009 in International Monetary Fund 2018)

2. SPECIAL TOPIC: THE COST OF NOT INVESTING IN GIRLS²⁴

Child marriage, early childbearing, girls' low average levels of educational attainment, and their impacts in Malawi

In Malawi, rates of secondary school completion for girls remain low, and the prevalence of child marriage²⁵ and early childbearing²⁶ remains high. Progress has been made, but too slowly to achieve the Sustainable Development Goals. Child marriage, early childbearing, and low levels of educational attainment for girls therefore continue to have large impacts on other development outcomes with substantial associated economic costs. Measures to end child marriage and early childbearing and improve educational opportunities for girls are one of the best investments that Malawi could make to improve development outcomes.

Calls for investing in adolescent girls have been made by the World Development Report on Gender (World Bank, 2012) and other studies (for example, see World Bank, 2001). On Malawi, the World Bank prepared in 2016 a series of policy briefs focused on four pillars: (i) keeping girls in school (McConnell and Mupuwaliywa, 2016); (ii) equipping out-of-school girls with skills (Khan and Mupuwaliywa, 2016); (iii) beginning a family and adopting a healthy lifestyle (Hasan et al., 2016); and (iv) addressing the early childhood development needs of children born to teenage mothers (Bakilana et al., 2016). Another relevant study focuses on demographic challenges and opportunities (Schneidman et al., 2018). The aim of this study differs from previous work in that its primary purpose is to document the negative effects and economic costs of failing to invest in improved opportunities for girls.

Malawi has already taken important steps towards ending child marriage and improving opportunities for girls. This includes an amendment to the Constitution in 2017 to make child marriage illegal. Yet this is not sufficient. It is hoped that this study will help foster greater policy mobilization towards improving educational opportunities for girls and ending child marriage. The framework for the analysis is based in part on previous global work at the World Bank on the economic impacts of child marriage (Wodon et al., 2017a); the cost of gender inequality in earnings (Wodon and de la Brière, 2018); and the cost of not educating girls (Wodon et al., 2018). More details on the methodologies used and the results obtained are available upon request.

Child marriage is still prevalent and girls' educational attainment is on average low

67. The primary aim of the analysis in this section is to document the impacts of low educational attainment for girls, child marriage, and early childbearing on a wide range of development outcomes. The analysis then estimates selected economic costs associated with those impacts. In many low-income countries around the world, despite substantial progress over the past two decades, girls' average level of educational attainment at the secondary level remains below that of boys'. In many cases, this is at least partially because a significant proportion of girls get married and/or have children before the age of 18, thus circumventing their opportunities to complete secondary school. In addition to limiting their educational opportunities, this may have a range of other negative impacts, as they may be getting married and/or having children before they are physically and emotionally ready to do so (on the framework used for the analysis in this section, see Box 4). Providing greater educational opportunities for girls and reducing or eliminating child marriage and early childbearing is essential to ensure that girls have agency, not only as future wives and mothers, but in a vast range of other roles. These measures are thus essential for any country to reach its full development potential.

68. In Malawi, challenges related to child marriage, early childbearing, and low educational attainment for girls remain massive. Table 2 provides data to identify trends in educational attainment and child marriage for girls in Malawi, in neighboring countries (Mozambique, Tanzania, and Zambia), and in East and Southern African overall. The regional data are based on estimates for 15 countries, with all countries weighted equally, thereby not accounting for differences in population sizes across countries. In addition to Malawi, the regional estimates are based on data for Burundi, Comoros, Ethiopia, Kenya, Lesotho, Mozambique, Namibia, Rwanda, Somalia, South Sudan, Tanzania, Uganda, Zambia, and Zimbabwe to enable a comparison of trends with Malawi specifically.

²⁴ This section relies in part on results from global studies prepared at the World Bank, including 1) a study on the economic impacts of child marriage (jointly with the International Center for Research on Women); 2) a study on the cost of not educating girls; and 3) a study on the cost of gender inequality. Support for the work was provided by the Children's Investment Fund Foundation and the Global Partnership for Education.

²⁵ Defined as living in a formal or informal union before the age of 18.

²⁶ Defined as having a first child before the age of 18.

Box 4: Framework for Analyzing Impacts and Costs or Benefits

A simple framework guides the analysis in this section. As shown in Figure 23, it is first recognized that there is a strong interrelationship between girls' educational attainment, child marriage, and early childbearing. The literature and the authors' estimates suggest that ensuring that girls remain in school is one of the best ways to delay marriage and childbearing, with beneficial effects on Tanzania's development indicators. By contrast, marrying early or becoming pregnant leads girls to drop out of school. Furthermore, child marriage is one of the main drivers of early childbearing. These relationships are acknowledged in the top part of Figure 23.



Figure 23: Conceptual Framework

In turn, both girls' level of educational attainment and child marriage/early childbearing matter for other development outcomes. Four main outcomes are considered: (i) fertility; (ii) health (including nutrition and the risk of exposure to intimate partner violence); (iii) work (including labor force participation and earnings); and (iv) agency (including decision-making and other impacts). While some of these impacts are estimated for the girls marrying or dropping out of school early, others are estimated for their children.

The study then estimates selected economic costs or benefits associated with the impacts of girls' education and child marriage or early childbearing. Examples of benefits from providing girls with improved educational opportunities, ending child marriage, and preventing early childbearing include: (i) increased growth in GDP per capita as a result of reduced population growth; (ii) increased labor earnings for women in adulthood; (iii) increased labor earnings for children in adulthood due to reductions in the prevalence of stunting; (iv) valuation of the benefits associated with children's lives saved; and (v) reduced budget needs to a reduction in the rate of population growth. While this list of benefits is by no means exhaustive, it includes those with the largest expected economic benefits.

Finally, the study recognizes that the benefits derived from providing girls with improved educational opportunities and eliminating child marriage at the individual and household levels have broader implications at the national and even global level. By raising standards of living (through higher GDP per capita with lower population growth and higher earnings for women), educating girls and ending child marriage will reduce both poverty and inequality. Primary school completion rates in Malawi increased by 34.2 percentage points over three decades. For secondary school completion, gains were smaller at 8.8 points and below the average gain in East and Southern Africa. This is due in part to high rates of child marriage and early childbearing. 69. While Malawi's secondary completion rate has increased over time, it has done so at a lower rate than the average for East and Southern African countries (see Table 2). Educational attainment is determined in terms of three measures, based on the proportions of girls of various ages who complete their primary, lower secondary, and upper secondary education respectively. The age groups are defined to allow girls a few more years beyond the normal age to complete a level, to account for the possibility of late entry and/or repetition. Due at least in part to the success of the Education for All initiative, significant progress has been made at the primary level. Specifically, over the past three decades, the primary completion rates have increased by 34.2 percentage points. However, increases at the secondary level have been much less significant, with only one in seven girls completing their secondary education.

Table 2: Completion Rates by Educe	tion Level and Prevalence of Child Marriage and Early	Childbearing by Age
Group, Latest DHS (%)		

	Primary Completed								
			15-18	19-22	23-30	31-40	41-49		
East & Southern			64.4	65.2	55.9	48.2	42.9		
Malawi			65.5	67.1	60.7	46.7	31.3		
Mozambique			48.6	45.2	30.3	19.5	12.5		
Tanzania			82.2	83.5	74.3	70.4	71.1		
Zambia			79.8	82.2	68.4	61.4	58.9		
	L	.ower Sec	ondary C	ompleted	3	Upp	er Second	ary Comple	eted
	(sta	ndardize	d at primo	ary + 3 ye	ars)	(stand	ardized at p	orimary + 6	years)
	18-20	21-24	25-30	31-40	41-49	21-24	25-30	31-40	41-49
East & Southern	28.8	32.7	25.6	19.5	15.8	18.7	15.6	11.4	8.6
Malawi	13	19.6	16.8	11.5	6.6	14.7	13.5	9.7	5.9
Mozambique	8.5	12.1	10.1	6.7	4.1	5.1	5.2	3.8	2.3
Tanzania	27.1	27.9	18.3	9.9	8.9	26.8	17.6	9.7	7.6
Zambia	25.2	30.1	22.7	15.7	12.4	22.6	18.9	13	8.3
		Ch	ild Marria	ge			Early Chil	dbearing	
		18-22	23-30	31-40	41-49	18-22	23-30	31-40	41-49
East & Southern		28.1	32.3	33.2	35.7	20.4	24.2	24.2	24.1
Malawi		38.1	46.3	47.0	45.5	27.1	35.8	34.9	33.6
Mozambique		51.5	46.5	39.3	42.0	39.0	39.6	31.7	33.8
Tanzania		31.8	32.4	35.3	40.5	22.4	24.1	26	28.2
Zambia		28.5	39.5	44.4	51.5	29.5	33.1	33.8	37.6

Source: Authors.

Note: The regional average is not weighted by country populations.

70. On average, amongst the comparator countries, the prevalence of child marriage decreased by 7.6 percentage points over two and a half decades. In other words, the prevalence of child marriage amongst the cohorts of women aged 18-22 is 7.6 percentage points lower than for women aged 41-49. For Malawi, the decline in the rate was only slightly lower than the average, at 7.4 percentage points. However, Malawi started from a particularly high base, so that the rate of prevalence in the country is still 10 points above the regional average. For early childbearing, Malawi recorded a somewhat greater than average reduction, at 6.5 points, with the average amongst the comparator countries standing at 3.7 points.

71. While Malawi has made some progress towards reducing both child marriage and early childbearing, at current rates of progress, the country will not achieve the related Sustainable

Development Goals. The trends in completion rates by education level and for child marriage are visualized in Figure 24 to Figure 27.²⁷ For education, completion rates for women aged 41-49 are shown on the horizontal axis, while those for the youngest age group are portrayed on the vertical axis. Similarly, Figure 28 presents the results for child marriage, with women aged 41-49 portrayed on the horizontal axis, women in the youngest age group shown on the vertical axis. In the case of educational attainment, the fact that all countries are above the diagonal indicates that positive progress has been made in each case, with the vertical distance from the diagonal

On average, across 15 countries, the prevalence of child marriage decreased by 7.6 points in 15 East and Southern African countries over two and a half decades. Progress in Malawi was similar, but the prevalence of child marriage remains much higher than in the region.

²⁷ For Somalia, two estimates are included in the figures due to the implementation of two surveys for different parts of the country.

representing the measure of that progress in percentage points. In the case of child marriage, positive progress is indicated when the countries are below the diagonal.

Figure 24: Trend in Primary School Completion for Girls by Age (%)

East and Southern African Countries

Figure 25: Trend in Lower Secondary School Completion for Girls by Age (%)

East and Southern African Countries



Source: Authors.

Figure 26:Trend in Upper Secondary School Completion for Girls by Age (%) East and Southern African Countries



-10 10 30 50 Completion Rate, Women Aged 41-49

alawi

Source: Authors.

70

60

50

40

30

20

10

Completion Rate, Women Aged 18-

2

Figure 27:Trend in the Prevalence of Child Marriage by Age (%)

70





Source: Authors.

Source: Authors.

Relationships between child marriage, early childbearing and girls' education

72. The issues of child marriage, early childbearing, and girls low average levels of educational attainment are closely interrelated. A cursory look at the data makes the relationship between these factors clear. In Figure 28, the completion rate for lower secondary school is shown on the horizontal axis, while the prevalence rate for child marriage is portrayed on the vertical axis. The trend line through the scatter plot accounts for almost 30 percent of the variance in the prevalence of child marriage between countries (Male and Wodon, 2018, note that in West and Central Africa, the relationship is even stronger). This suggests that keeping girls in school at the secondary level plays an important role in ending child marriage, a conclusion overwhelmingly supported by the literature.

Figure 28: Relationship between Educational Attainment and Child Marriage (%)

East and Southern African Countries



There is a clear relationship across countries between educational attainment and child marriage, but there are also substantial differences between countries.

Source: Male and Wodon (2018).

73. The close relationship between the prevalence of child marriage and girls' level of educational attainment can also be illustrated through a simple typology of adolescent girls according to their marriage and schooling status. Table 3 provides measures of the share of girls in various categories. The results suggest that after a certain age, girls must often choose between marriage and schooling. In addition, once a girl is married, it is very difficult for her to remain in school. Put simply, the fact is that for many girls, the options are either to continue school or to marry, but not both. This implies that causality between marriage and schooling goes both ways. Child marriage reduces girls' educational prospects, while conversely, greater educational (and employment) opportunities for girls reduce the likelihood of their marrying early. For policy, the issue of how to keep girls in school is complex (McConnell and Mupuwaliywa, 2016; Robertson *et al.*, 2017), as is the challenge of equipping out-of-school girls with skills (Khan and Mupuwaliywa, 2016). Evidence for Malawi suggests that early school failure is strongly correlated with higher rates of child marriage and early childbearing (Glynn *et al.*, 2018). This suggests that early school failure is these challenges, some policy options intended specifically to delay marriage and childbearing will be presented in later sections, on the basis of a review of the available literature.

Table 3: Typology for Adolescent Girls and Rel	ationships betwee	en Child Marriage d	and Early Childbe	earing (%)
	Malawi	Mozambique	Tanzania	Zambia
	Share of girls c	aged 15-19 by scho	oling and marria	ge status (%)
In school, not married, ages 15-16	31.4	23.2	19.7	31.0
In school, not married, ages 17-19	21.3	15.3	14.6	24.0
Out of school, not married, ages 15-16	7.3	11.0	17.7	8.3
Married, not in school, any age	25.2	36.6	24.2	17.2
Out of school, not married 17-19 years	13.4	9.9	23.6	18.9
Married and in school, any age	1.5	3.9	0.2	0.7
Total	100.0	100.0	100.0	100.0
	Share of e	arly childbearing lik	ely due to child r	marriage (%)
Mothers having a child before 18	63.9	63.9	64.9	39.4
Children born of mothers younger than 18	70.1	59.5	65.1	40.0

Source: Authors.

Note: The regional average is not weighted by the countries' population sizes.

74. In addition, child marriage is strongly correlated with, and likely to be the cause of, more than two thirds of all cases of early childbearing²⁸ and early childbirth.²⁹ Based on the timing of marriage and childbearing, Table 3 also shows that a high proportion of instances of early childbearing and early childbirths can be attributed to child marriage. While this is an imperfect way to identify causality, the data suggests that early childbearing may lead to child marriage, but this is probably less likely in Malawi (on issues related to family formation and the challenges faced by adolescent girls more broadly, see Hasan *et al.*, 2016; on the challenges faced by the children of young girls, see Bakilana *et al.*, 2016).

²⁸ A girl having her first child before the age of 18

²⁹ A child being born of a mother younger than 18

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Box 5: Disadvantages Faced by Girls and the Need to Better Target Education Spending in Malawi

This study focuses on the risk for girls dropping out of secondary school, having children before the age of 18, or marrying before that age. Yet it is important to highlight the fact that disadvantages faced by girls start early in life. To some extent, outcomes observed in adolescence are manifestations of disadvantages accumulated in previous years. Evidence from baseline data on primary schools collected as part of longitudinal study to track the impact of interventions supported by Malawi Education Sector Improvement Project shows significant disparities in service provision affecting girls (World Bank, 2018e). Ten percent of primary schools have either only one or no dedicated toilets for girls. In the bottom decile of schools (largely remote) there is only one toilet per 150 girls. Malawi's teaching workforce is evenly split between men and women, but there is only one female teacher per 151 students in remote schools. Most of the girls in remote areas have limited access to female role models as they progress through the primary cycle. These disadvantages cement themselves in Malawi as early as Standard 4. In a representative sample of students tested in Standard 4, consistent evidence was found of poor performance of girls compared to boys in English, Math and Chichewa test scores controlling for a wide range of other characteristics. As discussed later, these odds against girls to advance through the education cycles need to be addressed along with changes in policy on child marriage to achieve substantive impacts.

One aspect of addressing these odds is by targeting development expenditure to areas with the highest needs. Education spending as a share of GDP is substantial, but spending is skewed towards schools near commercial centers. These schools tend to have more teachers, more housing for teachers, better school facilities, etc. (Asim et al., 2017). This has implications for girls in the early stages of schooling. For example, there is limited teacher housing for remote schools, resulting in many schools not having female teachers in disadvantages communities, which increases risks of dropping out starting from Standard 5 for girls. Multiple studies also find that rural households tend to spend more on the education of boys that that of girls. The recent pronouncement on free secondary education that will become effective in January 2019 should help but will need to be monitored. There is also a need to invest in an expansion of livelihood opportunities for out-of-school girls who cannot return to school. This is a major gap in terms of current programming in Malawi, as will be discussed later in this study.

75. Keeping girls in schools significantly reduces the risks of child marriage and early childbearing. When parents are asked in surveys why their daughters dropped out of school, or when such data is collected through education management information systems, the parents often attribute their daughters dropping out of school to marriage and pregnancies (McConnell and Mupuwaliywa, 2016). Additional econometric work based on regression analysis also suggests that the causality between child marriage and early childbearing on the one hand, and girls' educational attainment on the other hand, is both strong and bidirectional (on the impact of child marriage on education, see for example Field and Ambrus, 2008; Nguyen and Wodon, 2014; and Wodon *et al.*, 2016). Finally, across generations, by reducing girls' level of educational attainment, child marriage and early childbearing have implications for the opportunities available to the children born to young mothers, with low levels of educational attainment being significantly more likely to themselves also achieve lower levels of educational attainment. In summary, there is strong evidence to indicate that child marriage and early childbearing have a negative effect on girls' level of educational attainment. Table 4 provides a summary of the estimates for the various relationships. The importance of keeping girls in order to end child marriage is discussed further in the next sections on policy options for Malawi.

Table 4: Relationships between Child Marriage, Early Childbearing, and Girls' Education

Relationship between child marriage and early childbearing

Child marriage is likely the cause for close to two thirds of girls having children before the age of 18 Child marriage is likely the cause of seven in ten births of children from mothers younger than 18 Ending child marriage could reduce early childbearing for girls and early childbirths for children substantially Impacts of child marriage and early childbearing on girls' educational attainment

Early pregnancies and marriages are major reasons for girls dropping out of school according to parents Each year of early marriage raises the risk of not completing secondary school by five percentage points or more

Once a girl is married, statistics suggest that it is very difficult for her to remain in school, whatever her age Child marriage affects the education of the children of girls marrying early at least indirectly

Impacts of girls' educational attainment on child marriage and early childbearing

Each year of secondary education reduces the risk of marrying as a child by four percentage points Each year of secondary education reduces the risk of early childbearing by eight percentage points

Source: Authors' estimation.

76. With the strong correlation between educational attainment, child marriage, and early childbearing, it is clear that incentives for girls to remain in school or to go back to school if they dropped out appear to be among the most effective interventions to reduce the prevalence of child marriage and early childbearing. In particular, the achievement of universal secondary completion for girls could dramatically reduce the prevalence of child marriage and early childbearing. On the other hand, while eliminating child marriage and early childbearing would help to improve girls' average level of educational attainment, this would not be sufficient by itself to ensure the achievement of universal secondary completion.

Impacts on other development outcomes

Fertility and Population Growth

77. Child marriage, early childbearing, and girls' education have a significant impact on the number of children that women bear over their lifetime and thus on population growth (on what is meant by impact, see Box 6). Malawi has made progress towards reducing child marriage and early childbearing, leading to lower fertility rates. But additional progress could be achieved by ending child marriage and educating girls. According to a model adopted from Onagoruwa and Wodon (2018), women in Malawi and elsewhere who marry earlier are likely to begin childbearing earlier and to have a greater number of children over their lifetime. Depending on the age at marriage, child marriage increases by 12 percent to 20 percent the average number of children women bear over their lifetime (total fertility). Thus, eliminating child marriage in Malawi could reduce the total fertility rate by 7 percent at the national level. The achievement of universal secondary education completion would lead to even greater reductions in the total fertility rate. While ending child marriage could increase the use of modern contraceptives slightly (because girls marrying early are less likely to use contraception), improving educational attainment for girls does not appear to have a statistically significant impact in Malawi.

78. Estimates suggest that the elimination of child marriage and early childbearing in Malawi could reduce the country's annual rate of population growth by 0.21 percentage points. Even greater reductions could be achieved with universal secondary education completion for girls, but the effects are not computed here. These effects have major implications for Malawi's ability to reap the benefits from the demographic dividend (for a more detailed discussion of this dividend, see Canning *et al.*, 2015; World Bank, 2015). Table 5 summarizes the findings.

Table 5: Impacts on reminy and ropolation brown	
Impacts of child marriage and early childbearing	Impacts of girls' educational attainment
Depending on the age at marriage, child marriage	Completion of secondary could leads to a reduction
increases total fertility for women by 12% to 20%	in total fertility for women of about a third
Ending child marriage could reduce total fertility	Achieving universal secondary completion could
nationally by 0.4 child or 7% from the base value	reduce total fertility nationally by 1.7 child or 31%
Marrying as a child has a small but statistically	A higher level of educational attainment does not
significant impact on modern contraceptive use	have a statistically significant effect on contraceptive
	USE
Ending child marriage affects could increase use of	Achieving universal secondary completion would not
modern contraceptives by half a percentage point	affect use of modern contraceptives statistically
Ending child marriage and early childbearing could	While the impact of universal secondary completion
reduce population growth by 0.21 percentage point	on population growth is not estimated, it would be
	large

Table 5: Impacts on Fertility and Population Growth

Source: Authors' estimation.

Box 6: What Is Meant by "Impacts" and Associated Economic Costs?

A key aim of this study is to estimate the impacts of child marriage, early childbearing, and educational attainment for girls on a wide range of development outcomes and the economic costs associated with some of these impacts. The term "impact" is used for simplicity's sake, but it is necessary to be careful about inferring causality. Estimates of impacts in this study are typically obtained through regression analysis that aim to isolate the potential impact of child marriage, early childbearing, or educational attainment on various outcomes, controlling for other factors affecting those outcomes. In the literature, this approach is known as an "association study." Only statistical associations are measured, and not necessarily impacts that could be observed with a randomized control trial. Based on measures of likely impacts, costs associated with some of these impacts are computed. These costs are estimated on the basis of a number of debatable assumptions, including discount rates. Therefore, it should be recognized that the cost estimates only represent an order of magnitude of potential costs, rather than being precise estimations.

Health, Nutrition and Violence

79. Early childbearing can have a significant negative impact on the health of both the young mothers and their children. For the young mothers, their physical immaturity may increase the likelihood of complications during pregnancy and childbirth, resulting in higher risks of maternal mortality and morbidity, although those risks are not measured in this study (for estimates of maternal mortality, see for example Nove *et al.*, 2014).

Table 6: Impacts on Health, Nutrition, and Violence

Impacts of child marriage and early childbearing	Impacts of girls' educational attainment
Being born of a mother younger than 18 increases	The educational attainment of the mother is not
the risk of under-five mortality by 4 percentage points	associated with a reduction in under-five mortality
Ending all early childbirths would reduce under-five	Universal secondary education might not lead to a
mortality by 0.35 percentage point nationally	national decline in under-five mortality statistically
Being born of a mother younger than 18 increases	The educational attainment of the mother is not
the risk of under-five stunting by 7 percentage points	associated with a reduction in under-five stunting
Ending all early childbirths would reduce under-five	Universal secondary education might not lead to a
stunting by 0.44 percentage point nationally	national decline in under-five stunting statistically
Child marriage has a small impact on intimate	The educational attainment of women is not
partner violence when girls marry at age 15 or earlier	associated with a reduction in intimate partner
	violence

Source: Authors' estimation.

80. Early childbearing may also affect the health of young children at a time that is critical for a child's development, with overwhelming evidence to indicate that children's health during their first two years has a lifelong impact. These impacts are reviewed in Black et al. (2017) and in the case of child marriage specifically by Wodon (2016). For example, stunting during early childhood is associated with lifelong losses in earnings and consumption at the individual and household levels (Hoddinott *et al.*, 2013) and with losses in GDP nationally (Horton and Steckel, 2013). In Malawi, children born of mothers younger than 18 have substantially higher risks of dying before the age of five and of suffering from stunting. The overall reductions in the under-five mortality and stunting rates that could result from the elimination of early childbearing are smaller because only a relatively small share of children are born of mothers younger than 18. Still, a large number of children are affected. Separately, the impact of child marriage on intimate partner violence appears to be small or not statistically significant, although more significant effects have been observed in other countries (Savadogo and Wodon, 2018a). Table 6 summarizes the main findings.

Box 7: Employment Opportunities for Girls and Human Capital Wealth

Countries regularly track GDP as an indicator of their economic progress, but not wealth—the assets such as infrastructure, forests, minerals, and human capital that are used to produce GDP. The World Bank recently released estimates of the changing wealth of nations for 141 countries over 20 years, from 1995 to 2014 (Lange et al., 2018). National wealth is the sum of produced capital such as factories and infrastructure, natural capital (such as oil, minerals, land, and forests), human capital (the future earnings of the labor force), and net foreign assets. Globally, human capital wealth is by far the largest components of countries' wealth. In Malawi as in many other African countries however, human capital wealth tends to be low, in part because employment opportunities and earnings for women are well below those for men. Ending child marriage and educating girls would boost human capital wealth per capita in Malawi, thereby also contributing to future economic growth.

Table 7. Estimates of wealth Fer Capita for Malawi, 1995-2014						
Wealth Per Capita, constant 2014 USD	1995	2000	2005	2010	2014	
Total wealth	5,528	6,217	5,496	8,135	10,442	
Produced capital (incl. urban land)	1,303	1,274	712	846	939	
Natural capital	2,364	3,052	2,687	4,277	5,642	
Human capital	2,296	2,337	2,350	3,205	4,003	
Net foreign assets	-434	-447	-252	-192	-142	
Share of total wealth (%)						
Total wealth	100	100	100	100	100	
Produced capital (incl. urban land)	24	20	13	10	9	
Natural capital	43	49	49	53	54	
Human capital	42	38	43	39	38	
Net foreign assets	-8	-7	-5	-2	-1	
Source: Lange et al., 2018						

Table 7: Estimates of Wealth Per Capita for Malawi, 1995-2014

Work, Earnings, and Poverty

... . _

81. The elimination of child marriage could affect labor force participation (LFP) through its impacts on girls' educational attainment and total fertility, although the impacts in both Malawi and elsewhere are likely to be relatively small. However, analysis suggests that the impact of the elimination of child marriage on earnings for women in adulthood could be more significant. Women who married early could have benefited from an increase in earnings if they had married later, mostly because of the impact of child marriage on their level of educational attainment. Nationally, this could lead to an increase in the population's overall earnings of 1.6 percentage points. Through its impact on both total fertility and girls' levels of educational attainment, the elimination of child marriage and early childbearing would also have positive effects on welfare and poverty. Finally, the impacts on earnings (and thereby poverty) of universal primary or secondary education would be even more significant. Table 8 summarizes the estimated impacts.

Table 8: Impacts on Work, Earnings, and Poverty	
Impacts of child marriage and early childbearing	Impacts of girls' educational attainment
Ending child marriage could lead to a small	
decrease in LFP of one fifth of a percentage point for	Higher levels of educational attainment are
women	associated with somewhat higher LFP
Ending child marriage could increase earnings in	Higher educational attainment for girls is associated
adulthood for women marrying early by up to 10%	with substantial increases in earnings in adulthood
Ending child marriage could increase earnings and	The impact on national earnings of universal
productivity nationally by up to 1.6 percent	secondary education for girls could be very large.
Ending child marriage could have large positive	Universal primary or secondary education could have
effects on welfare and reduce poverty	large positive effects on welfare and reduce poverty

Source: Authors' estimation

Agency and Other Impacts

82. Agency refers to a women's capacity to act given her environment. It may be influenced by her level of access to resources and her degree of confidence, based, among others, on her past achievements and those of her peers and role models. Child marriage clearly has an impact on girls' level of access to resources. Amongst other factors, this level may be impacted by low earnings due to low levels of educational attainment and the limits placed on girls' degree of confidence, if she has not had access to certain types of employment. Therefore,

child marriage clearly affects girls' and women's agency. While the level of women's agency can be measured in terms of a wide range of indicators, one indicator is whether women have decision-making ability in the household, including the ability to seek medical care. Some factors that may affect agency may also be the result of a lack of agency, such as knowledge of HIV/AIDS, or whether mothers register their children after birth (birth registration measures). While these indicators cannot be said to comprehensively describe women's overall level of agency, they are at least available in existing surveys. The direct impacts of child marriage in terms of these various indicators are typically not large and often not statistically significant. However, because child marriage and early childbearing reduce girls' level of educational attainment, they are likely to have negative impacts on agency through this impact on educational attainment. Indeed, for most indicators, the impact of girls' level of educational attainment is statistically significant. Table 9 summarizes these impacts.

Table 9: Impacts on Decision-making, Agency, and Other Areas

Impacts of child marriage and early childbearing	Impacts of girls' educational attainment
Child marriage often does not affect decision-	Universal secondary education could increase
making directly, but it matters indirectly through	women's decision-making ability by 5% from the
education	base
Child marriage does not affect women's ability to	Universal secondary education could increase
seek care directly, but it matters through education	women's decision-making ability by 17% from the
	base
Child marriage is not associated with a reduction in	Universal secondary education could lead to a small
adulthood in women's knowledge of HIV/AIDS	increase in women's knowledge of HIV/AIDS
Early childbearing is not associated with a reduction	Educational attainment for women is not associated
in birth registration rates for children	with an increase in birth registration rates for children

Source: Authors' estimation

Summary of the Impacts

83. Overall, the negative impacts of child marriage, early childbearing, and girls' low levels of educational attainment are large. Table 10 summarizes the estimates qualitatively, with two conclusions emerging. First, the correlations between child marriage, early childbearing, and low levels of educational attainment are strong.

For all indicators except birth registrations, either child marriage/early childbearing or secondary education completion have a statistically significant impact. This shows how pervasive and widespread the impacts of a lack of opportunities for girls are. Second, all three issues tend, in turn, to have negative impacts individually or collectively on a wide range of other outcomes. For virtually all outcomes, child marriage, early childbearing and/or girls' low level of educational attainment have negative effects. In addition, some of the effects are large apart from being statistically significant. Finally, apart from the effects identified in Table 10, girls' low level of educational attainment can be shown to have other negative effects that are not discussed in this study. These effects are documented separately (see Box 7).

Table 10: Summary of Statistically Significant Estimated Impacts by Domain

Domains and Indicators	Child marriage	Secondary education	Either one	
	or early childbearing	completion	of the two	
Mutual relationships				
Child marriage/Early childbearing	-	Yes	Yes	
Educational attainment	Yes	-	-	
Fertility and population growth				
Fertility	Yes	Yes	Yes	
Population growth	Yes	Yes	Yes	
Modern contraceptive use	Yes	No	Yes	
Health and nutrition				
Under-five mortality	Yes	No	Yes	
Under-five stunting	Yes	No	Yes	
Labor force participation	Yes	Yes	Yes	
Demand for healthcare	Yes	Yes	Yes	
Intimate partner violence	Yes	No	Yes	
Work and productivity				
Labor force participation	Yes	Yes	Yes	
Women's earnings	Yes	Yes	Yes	

Domains and Indicators	Child marriage	Secondary education	Either one
	or early childbearing	completion	of the two
Household welfare	Yes	Yes	Yes
Women's agency			
Decision-making ability	Yes	Ye	Yes
Knowledge of HIV/AIDS	No	Yes	Yes
Birth registration	No	No	No

Source: Authors' estimation.

Box 8: Other Impacts of Low Educational Attainment for Girls

The World Bank recently released a study on the cost of not educating girls (Wodon *et al.*, 2018). Apart from the impact of educational attainment on the development outcomes considered in this study, Wodon *et al.*, consider a range of other outcomes. For example, women with secondary education may expect to earn almost twice as much, and women with tertiary education almost three times as much, as those with no education. Women with secondary and tertiary education report higher standards of living compared to those who have completed primary education or lower. For example, they are less likely to state that they do not have enough money to buy food. Women's psychological well-being could also improve with higher levels of educational attainment. Women with secondary education report lower satisfaction rates with basic services than women with no education, which may reflect a more realistic assessment of their quality. Achieving universal secondary education could also enable a greater proportion of women to display altruistic behaviors such as volunteering, donating to charity, and helping strangers, with a tendency to participate in these activities also correlated with higher levels of educational attainment. A secondary education is also associated with a greater likelihood that women will report being able to rely on friends when in need.

Economic Costs and Benefits: The Case of Child Marriage

84. While providing a monetary valuation of all the costs associated with child marriage, early childbearing, and girls' low level of educational attainment is beyond the scope of this study, the costs for some of the largest impacts can be estimated. For this special topic, the focus is on the costs of child marriage and on the benefits of its elimination. In particular, the focus is on the benefits related to a reduction in the rate of population growth; gains in educational attainment and thereby earnings; and reductions in under-five mortality and stunting. In most cases, both immediate gains and longer-term gains are estimated, with estimations of the benefits that might accrue by 2030 if the

The economic benefit from ending child marriaae related to welfare gains from lower population growth is large. It could reach US\$ 0.5 billion (in purchasing power parity) by 2030.

practice was eliminated. This allows for the estimates to account for the cumulative nature of some of the benefits of ending child marriage, especially in the case of population growth. It also allows valuations to adjust for increases in standards of living (GDP per capita) over time.

85. Ending child marriage and early childbearing in 2015 would have generated annual benefits of US\$ 23 million in purchasing power parity (PPP) immediately, increasing to US\$ 0.5 billion by 2030. Thus, the welfare benefits derived from lower population growth due to the elimination of child marriage and early childbearing are extremely significant. It should be noted that the estimated costs and benefits should not be considered as highly precise, given that they depend on: (i) econometric estimates of impacts that have themselves standard errors; and (ii) a range of debatable assumptions for costing (see Box 8). Still, they provide an order of magnitude of the potential costs resulting from the prevalence of child marriage and the benefits of its elimination. The estimates of costs in this note are based on annual losses in GDP per capita or components thereof, such as labor earnings. It should be noted that if lifetime losses were computed, based for example on estimates of the changing wealth of nations (Lange *et al.*, 2018), the estimates of costs would be substantially larger than those reported here (see for example Wodon and de la Brière, 2018, and Wodon *et al.*, 2018). Illustrative estimates of annual costs are provided in Table 11.

Table 11: Order of Magnitude of Selected Benefits from Ending Child Marriage (US\$ PPP Unless Noted)

	Annual Benefit Annual Benefit		
	in 2015 (US\$)	in 2030 (current US\$)	
 Welfare benefit from reduced population growth 	23 million	0.5 billion	
(2) Benefit from reduced under-five mortality	23 million	38 million	
(3) Benefit from reduced under-five stunting	3 million	5 million	
(4) Education budget savings	None	Up to 108 million	

Source: Authors' estimation. For details on how estimates were obtained, see Wodon (2018).

Note: Estimates for education budget savings are an upper bound and actual savings are likely to be lower

Box 9: Considering Potential General Equilibrium Effects When Estimating Costs

The estimation of the costs of child marriage in terms of unrealized potential earnings implicitly assumes that labor markets would be able to absorb a larger supply of better educated women. Specifically, the assumption is that the increased level of educational attainment resulting from the elimination of child marriage would not lead to a decrease in the returns to education. If the elimination of child marriage were to lead to a large increase in the average level of women's educational attainment, the assumption may be problematic, especially in a country where a very large proportion of women currently have low levels of educational attainment. The estimation also does not factor in the potential effects on men's earnings if the average level of women's educational attainment increases if a greater proportion of women achieve higher levels of educational attainment and have access to the same employment opportunities as men, resulting in reductions in occupational segregations by gender that have traditionally led to relatively higher earnings for men.

There is evidence from other countries that over time, the labor market premiums associated with higher levels of educational attainment may decline when the proportion of workers with these higher levels increases. For example, Angrist (1995) showed that the expansion of access to education in the Palestinian territories led to a reduction in the skills premium. Acemoglu *et al.* (2004) note that during World War II, higher labor force participation by women depressed wages for low skilled workers. Duflo (2004) suggests similar effects in Indonesia after a large school construction program. These are just a few examples of studies that document general equilibrium effects which, as noted by Acemoglu (2010), may be large. In the World Bank study on the cost of not educating girls globally (Wodon *et al.*, 2018), this was considered by providing a variety of estimates, including those with and without general equilibrium effects. This seems less necessary in the case of Malawi when looking at the impacts of child marriage, because only a relatively small proportion of women marrying early are assumed to complete secondary education in the absence of child marriage, given other constraints to secondary schooling, such as cost or the distance to schools. Changes in earnings due to the elimination of child marriage general equilibrium effects.

Still, if general equilibrium effects occur, the estimates provided may be overstating the cost of child marriage in terms of lost earnings. At the same time, other factors could lead to larger costs than reported. First, the estimation does not factor in the potential effect of ending child marriage on labor force participation or hours worked. In addition, through multiplier effects, increasing women's earnings through better educational opportunities could generate larger gains for both men and women than suggested here. Finally, intergenerational benefits from higher earnings for women through better education for their children are also not factored. In the long run, gains from ending child marriage could thus be larger than suggested by earnings regressions capturing current conditions.

86. In addition, over time there would be budget savings due to a reduced demand for public services as a result of lower population growth, as well as benefits from reduced under-five mortality and stunting. Based on an analysis derived from a model developed by Wils (2015), the elimination of child marriage and early childbirths could result in education budget savings for the Government of up to US\$ 108 million (current \$) if Malawi were able to achieve universal secondary education completion by 2030 (see Wodon, 2018, for more details on the methodology). However, these estimates for education budget savings are an upper bound, with actual savings likely to be lower, since Malawi may not achieve this target (for an example of another implicit budget cost in the case of education, see Box 9). Furthermore, the benefits from the reduction in under-five mortality and stunting are valued at US\$ 43 million (PPP) by 2030.

Box 10: Why Are Some Impacts and Costs Large and Others Smaller?

In economic terms, the fact that child marriage or early childbirths may only lead to relatively small reductions in national measures for some outcomes does not imply that the economic costs associated with those impacts are small. For example, across many countries, child marriage tends to reduce the earnings of populations by about one percent on average at the national level. One percent may not appear to be a very large proportion, but the associated economic cost is very large, and for the women affected, the losses in earnings are much greater.

Some of the most significant impacts of child marriage in terms of economic costs tend to be related to fertility and population growth; education and earnings; and the health of the children born of young mothers. These impacts are closely related. Particularly when the rate of use of modern contraception is low, child marriage is strongly correlated with early childbirths, which in turn is strongly correlated with increased health risks for mothers and the children born of young mothers, while also leading to higher fertility rates. The timing of child marriages and early childbirths conflicts with the ability of girls to continue their education, which has a negative impact on women's earnings potential. All those effects are at work at the time of marriage (in the case of educational attainment) or soon after (in the case of childbearing).

By contrast, impacts in other domains, including domestic violence, labor force participation and decisionmaking, are observed throughout a woman's life. They may also depend on many other factors apart from whether and when girls marry. For example, intimate partner violence and a lack of decision-making ability are at least partially the result of widespread gender inequality. While child marriage contributes to perpetuating gender inequality, delaying marriage by a few years may not be sufficient on its own to fundamentally change gender roles and social norms. Thus, in these domains, while the elimination of child marriage may play a significant role, the impact tends to be relatively small compared to the impact of higher levels of girls' educational attainment.

Another large economic benefit from ending child marriage is higher earnings for women in adulthood, estimated at \$167 million (PPP) for Malawi in 2015. 87. In Malawi, the total value of potential earnings lost due to early marriages in 2015 stood at US\$ 167 million (PPP). Given the impact of child marriage on the level of girls' educational attainment, early marriage also has implications for women's earnings. This refers to the increased earnings that women who married early would have generated if they had been able to marry later (and attain a higher level of education). There is a significant literature on the potential impact of educational attainment on

earnings, regardless of gender (see Psacharopoulos and Patrinos, 2018, for a recent review). Given the impact of child marriage on educational attainment for girls, child marriage, child marriage results in losses in earnings throughout a woman's life (Savadogo and Wodon, 2018b). Due to data and time limitations, this study does not attempt to determine the potential impact of low educational attainment and child marriage on monetary poverty. However, these effects are likely to be large, as suggested by a UNESCO study (2017) that provides an estimate of the impact of educational attainment on poverty at a global scale.

Box 11: Inefficiency Costs of Girls Dropping Out of School

This study provides estimates of selected costs associated with child marriage, early childbearing, and low educational attainment for girls. Many other costs could be computed. For example, we do not estimate the investment losses incurred by the Government as well as families when girls drop out of school without completing a cycle. Typically, higher returns to education are associated when girls or boys complete a cycle, as opposed to starting and dropping out. To some extent, investments made are lost when girls do not complete a cycle, leading in the case of Government spending to substantial efficiency losses, as is the case for grade repetition.

88. The estimates of the cost of child marriage are large. To illustrate the magnitude of the benefits from ending child marriage, comparisons with net Official Development Assistance (ODA) may be useful. ODA consists of disbursements of loans made on concessional terms (net of repayments of principal) and grants by official agencies. The agencies included are the members of the Development Assistance Committee (DAC), multilateral institutions, and non-DAC countries. Net ODA includes loans of which at least a quarter of the value consists of grant elements. In Malawi, net ODA has ranged from 10 percent to more than 20 percent of Gross National Income over the past decade. While the benefits from eliminating child marriage are smaller, they are

nevertheless large as a proportion of GDP, especially for the gains from lower fertility and population growth, which are cumulative over time.

Policy Options to Improve Opportunities for Adolescent Girls

89. As the preceding sections have demonstrated, the elimination of child marriage and improved educational opportunities for girls could generate substantial economic benefits for Malawi, providing a strong economic rationale for investments to achieve these ends. There are three main reasons why investments to improve opportunities for adolescent girls are often highly cost-effective. First, earlier investments tend to have a persistent effect, with a positive impact throughout women's lives after the intervention. If a girl completes her secondary education and/or avoids an early marriage, this generates benefits that persist throughout her life. Second, the cost of interventions for girls in their adolescence or even earlier tends to be lower than the cost of interventions implemented later in women's life-cycle. Third, as the interventions are targeted at girls at a formative age, they may be more successful in influencing values and behaviors, not only for the girls directly targeted, but at the community level. If women are targeted later in life, the returns on the investment may be lower, as it will become increasingly difficult for them to fully benefit from new opportunities provided to them. While interventions for women at a later point in their life cycle may also be justified, it must be recognized that adolescence is a crucial period, with investments at this point likely to generate the highest returns. To eliminate child marriage and early childbearing and to enable all girls to complete their secondary education, some general conditions must be met. In addition, a number of specific interventions should be implemented. The following sections discuss these general conditions and specific interventions.

Box 12: Improving Educational Attainment and Learning for Girls

As a range of different factors may contribute to gender gaps in educational attainment and learning, a wide range of interventions may also be necessary to reduce these gaps. These interventions may involve reducing the distance to schools, either through the construction of new schools in remote areas or through the provision of modes of transportation. They may involve the provision of scholarships to girls or the deployment of a greater number of female teachers. They may also involve the construction of separate toilet blocks for girls and boys or efforts to understand and change specific cultural practices. They may require the implementation of pedagogical interventions targeting girls. The selection of the appropriate interventions is heavily dependent on the specific context of a country or community. However, reviews of the evidence may assist in determining the appropriate selection of interventions.

One such review was prepared by Unterhalter *et al.* (2014) to assess the evidence on the impact of interventions for girls' education, with a focus on interventions (i) providing resources (including transfers) and infrastructure; (ii) changing institutions; and (iii) changing norms and including the most marginalized in education decision making. The review summarized the impact of different types of interventions in terms of three outcomes: (i) participation; (ii) learning; and (iii) empowerment. For each type of intervention and category of outcome, the evidence on the likelihood of impact was classified as strong, promising, limited, or weak. For participation, the evidence for the impact of conditional cash transfers, information about the potential employment returns to education, and the provision of additional schools in underserved and unsafe areas was found to be strong. This was also the case for the evidence involving a range of interventions related to teacher training, group-learning, measures to promote girl-friendly schools, and learning outside the classroom, such as through tutoring. Several of these interventions (group-learning, programs for learning outside the classroom, and scholarships linked to student performance) were also found to have impacts on learning. The evidence for the impact of interventions on learning.

Source: Unterhalter *et al.* (2014)

General Conditions

90. Multiple interventions are needed to provide opportunities to girls and ensure that their needs are met. Many of these interventions were discussed in a series of policy briefs on adolescent girls by the World Bank in 2016. These briefs focused on four pillars: (i) keeping girls in school (McConnell and Mupuwaliywa, 2016); (ii) equipping out-of-school girls with skills (Khan and Mupuwaliywa, 2016); (iii) beginning a family and adopting a healthy lifestyle (Hasan et al., 2016); and (iv) addressing the early childhood development needs of children born to teenage mothers (Bakilana et al., 2016). Another relevant study focuses on demographic challenges and opportunities (Schneidman et al., 2018). In many cases, multiple policies and strategies are already put in place by the Government to improve outcomes for adolescent girls. For example, the brief on beginning a family and

adopting a healthy lifestyle mentions Malawi's multisectoral National Population Policy as well as the National Health Policy, the Health Sector Strategic Plan, the Sexual Reproductive Health and Rights Strategy, and the National Youth Policy as well as the Gender Policy and its Implementation and Monitoring and Evaluation Plan. At the same time, the various briefs also note that in these and many other areas, gaps in policies and programs remain.

91. Given that one of the best ways to end child marriage and early childbearing is keeping adolescent girls in school, measures are also needed to improve Malawi's education system. Multiple entry points are often needed to eliminate child marriage and achieve universal secondary education for girls. These entry points include: (1) reducing disadvantages that girls face in remote communities in part due to poor targeting of Government resources (see Box 12); (2) creating a more inclusive school culture for girls; (3) providing girls with role models—including through female teachers in Grade 6-8; and (4) raising the returns to secondary school completion for women at the local level through employment opportunities. More generally, Malawi, in common with many other lower income countries, still needs to improve basic general conditions in its education system so that all girls remain in school. Several such basic conditions are worth emphasizing here:

- The need for an adequate schooling infrastructure: Secondary education completion rates remain low at least in part because there are just not enough secondary schools to facilitate the achievement of universal completion, especially in rural areas. Schools also need to provide access to water, latrines and hygienic facilities, which may be particularly important for adolescent girls. In cases where schools cannot be constructed in locations that meet the needs of specific communities, it may be necessary to provide modes of transportation to enable girls to attend school. Finally, it is essential to ensure that girls do not suffer physical, sexual, or other harassment either at school or while travelling to and from school (see for example, Abramsky et al., 2014, on gender-based violence and the means to reduce it).
- The need to ensure that the education system delivers effective learning outcomes: In many countries in Africa (Bashir et al., 2018), and more generally in the developing world (World Bank, 2018f), student learning outcomes are poor, as measured by national and international student assessments. This needs to be addressed through investments to ensure not just improved access, but also improved quality.
- The need to ensure the participation of girls, schooling must be affordable for their families: Affordability refers not just to the direct costs of participation in secondary education, but also to opportunity costs. In Malawi as in other low-income countries in the region, these costs remain high especially for the poor.
- Government programs and policies: These issues are not new in Malawi. They have been recognized among others in the design of the DfID-sponsored Keeping Girls in School project that delivers cash transfers to primary school girls, bursaries to secondary school girls, and improved sanitation and hygiene facilities in secondary schools. The Ministry of Education, Science, and Technology also supports education for girls through bursaries and cash transfers and it has adopted a strong National Girls Education Strategy to align activities in this area. Most recently, the Government has taken important steps to make secondary education affordable by ending tuition fees. The general purpose fund and the text book fund will also be abolished in January 2019. Yet while providing secondary education free of tuition and other direct costs is important, it may not be enough to ensure the participation of all school-age children, particularly girls (on Malawi and selected other African countries, see Koski et al. 2018). To reduce these costs, targeted interventions that provide additional incentives may be needed, as already recognized. Lessons from international experience on these programs are shared below.

92. In addition to reforms to policies related directly to education, a number of broader efforts are required to change social norms that perpetuate gender inequality. Although an extensive discussion of these issues is beyond the scope of this study, the study recognizes that the issues of child marriage, early childbearing, and low levels of educational attainment for girls are part of deep-seated patterns of gender inequality (Klugman at al., 2014). Broad reforms are needed to change these social norms and to address other constraints that limit opportunities for girls. Specifically, the Convention on the Rights of the Child emphasizes the need for full and informed consent to marriage, noting that children do not have the capability to provide such full and informed consent. This is one of the reasons why the age of 18 is recommended as the minimum age for marriage. The implementation of laws to this effect is an important step in the right direction. In April 2017, Malawi's President assented to the constitutional amendment to outlaw child marriage. While this measure should be applauded, it is not sufficient in itself to eliminate the practice. In addition to laws banning child marriage, specific interventions are required. In fact, as noted by Wodon, Tavares *et al.* (2017), most child marriages take place below the legal minimum age for marriage adopted by countries, demonstrating that adopting laws is not enough. In 2018, a

national strategy aimed at ending child marriages in the country was launched. This was also an important step forward, but as noted in the literature, expanding specific interventions will be needed, as discussed next.

Specific Interventions

93. While it is essential that countries promulgate appropriate laws to facilitate the elimination of child marriage, specific strategies and interventions to empower girls are also required. In particular, interventions to empower girls are required to ensure that they have appropriate life skills and knowledge of reproductive health. Economic incentives may also need to be provided to ensure that girls are able to remain in school, to return to school if they dropped out, or to expand their livelihood opportunities if they cannot go back to school.

94. To facilitate the selection of the appropriate interventions, this section summarizes the international evidence related to three types of interventions for adolescent girls, as follows: (i) programs that provide girls with life skills and reproductive health knowledge; (ii) programs that expand girls' economic opportunities; and (iii) programs intended to ensure that girls remain in school or that enable them to return to school. The focus on these three types of interventions stems from a body of evidence showing that each of these types of intervention can, under certain circumstances and in certain contexts, have positive impacts. The three types of programs are hypothesized to potentially delay marriage/childbearing and to increase girls' level of educational attainment in a number of different ways. Each of these three types of program is based on different theories of change (see Box 13). The summary of findings provided below is based on a review of close to 40 interventions by Botea et al. (2017). To qualify for inclusion in the review, interventions had to fulfill the following selection criteria: (i) they had to target girls aged 10-19, either exclusively or as part of a broader target group; (ii) they had to provide girls with life skills and sexual and reproductive health (SRH) knowledge, economic opportunities, and/or educational opportunities; (iii) they had to demonstrate results in terms of improving the health of young women, especially for SRH, or in terms of delaying marriage or childbearing; and (iv) they had to have been tested in a developing country, usually in sub-Saharan Africa, but also in other low income settings such as Bangladesh or parts of India (see also Kalamar et al., 2016, for another review of the international evidence).

Empowering Girls

95. The first category of programs emphasizes the empowerment of girls by providing them with life skills and reproductive health knowledge. One typical intervention involves the provision of a "safe space club" for adolescent girls. These clubs serve as delivery platforms for convening girls under the guidance of a trusted adult mentor at a specific time and place. The approach was pioneered by BRAC in South Asia and by the Population Council in Africa and Latin America.

Without other interventions, safe space programs may not be sufficient to delay marriage and childbearing or improve schooling. Still, they achieve important intermediary outcomes related among others to aspirations and self-esteem, confidence, and SRH knowledge.

The clubs have proven to be effective when they are implemented well. By combining opportunities to socialize and have fun with access to mentors, the clubs are attractive for girls to attend. These facilities also serve as a platform for the delivery of other services. Clubs can be held in a variety of settings, including schools or community centers. Girls meet regularly and are able to discuss a range of issues under the guidance of the mentors, including those related to SRH. The clubs facilitate the delivery of life skills, including "soft" or socioemotional skills such as critical thinking and problem solving, communication and negotiation (for example within the girl's household). One of the objectives is often to boost the girls' levels of self-awareness and self-esteem so that they can explore and fulfill their own aspirations. In many cases, safe space clubs are also used to facilitate the delivery of "hard" skills, such as basic literacy and numeracy, or basic business skills.

96. These programs have helped to improve girls' knowledge of SRH and behaviors. Improvements include an increase in girls undergoing HIV testing or counseling; an increase in the use of modern contraception or other methods of family planning; a reduction in the desire for practicing female genital mutilation for daughters in countries where the practice is prevalent; a reduction in the risk of intimate partner violence when the program also reaches out to men; an increase in self-esteem; and gains in specific skills taught during safe space sessions, such as in the areas of financial literacy or basic literacy and numeracy.

97. At the same time, without additional interventions to enable girls to participate in schooling or employment or to otherwise improve their livelihoods, it is not clear that safe spaces are sufficient in themselves to delay marriage and childbearing (though that may not have been a primary goal of these projects). Therefore, it is important to consider programs whereby safe spaces have been combined with measures to improve livelihood opportunities and to provide incentives to remain in school, with such programs usually having more significant impacts in terms of delaying marriage and/or childbearing.

Box 13: Theories of Change for Interventions Targeting Adolescent Girls

Life skills and SRH knowledge: By increasing girls' level of knowledge, life skills can raise these girls' awareness of the risks associated with becoming pregnant at an early age and increase their desire and ability to avoid early pregnancies (through family planning). Through these channels, life skills may lead to better health outcomes for the girls and their children. By increasing girls' confidence and self-esteem, life skills may also facilitate an expansion to girls' aspirations. With expanded aspirations, girls may be more highly motivated to delay marriage and childbearing. Finally, life skills can increase young women's communication and decision-making skills, leading to increased abilities to negotiate their preferences for delayed marriage and childbearing. At the same time, while life skills and SRH knowledge may empower girls, they may not be sufficient to delay marriage and childbearing if social norms curtailing agency for girls are not also addressed at the same time.

Life skills together with economic opportunities: Programs intended to increase young women's earnings potentials may also increase their ability to plan and improve their marriage and childbearing decisions in three ways. First, the women's improved ability to make an economic contribution expands their role beyond that of sex and reproduction. This can increase their desire to delay marriage and/or childbearing. The transformation of girls from economic liabilities into assets in the eyes of their communities and families can also alleviate external pressures on girls to marry or have children early. Second, the loss in earnings associated with childrearing is an opportunity cost which may increase women's desire to limit or space births and to exercise reproductive control. Third, a young women's increased earnings may improve her bargaining power within the household and allow her to effectively exercise reproductive control by negotiating delays in sexual debut or marriage, and to better negotiate the terms of sex, including the use of contraceptives. Creating income-generating opportunities for women can therefore contribute to female empowerment by widening personal choice and control over SRH outcomes, in addition to the direct economic benefits for the women.

Incentives for girls to participate in schooling or to delay marriage: In many communities, the economic, cultural, and social environment does not provide viable alternatives to marriage for adolescent girls. Once girls drop out of school, possibly because of the poor quality of these schools or their high cost, it may be difficult for parents to consider any option other than marrying off their daughters. In those communities, improving the provision of quality and affordable primary and secondary education may be one of the best ways to delay marriage and childbearing, as parents often see schooling as a viable alternative to marriage for their daughters. Incentives and programs to keep girls in school may also lead to "tipping points" in communities whereby more and more girls remain in school and are able to delay marriage. A few interventions have also aimed to delay marriage through the provision of financial incentives conditional on not marrying early, with additional schooling often an additional benefit.

Source: Botea et al. (2017)

Providing Employment Opportunities

98. The second category of programs combines an emphasis on empowering girls, often through safe spaces, with in additional focus on providing livelihood opportunities. These programs are particularly appropriate for girls who are not in school. For these girls, building income generating skills may provide viable alternatives to early marriage and childbearing. Two groups of interventions are distinguished: livelihood interventions and interventions to improve financial literacy/access to financial services. For example, the Girls Empowerment Network Malawi works through village savings and loan associations that lend money to adolescent girls and young women to enable them to start their own businesses, as noted by Khan and Mupuwaliywa (2016). In general, the literature suggests that impacts in terms of delaying marriage and/or childbearing tend to be larger through these programs than is the case for life skills/SRH knowledge programs without the additional focus on generating employment opportunities, although this is not true all cases.

99. With their focus on improving girls' economic opportunities, the programs often have some success in terms of increasing their earnings, employment, and/or savings. Several of the programs have also been demonstrated to result in the increased use of modern contraceptives and/or improved SRH knowledge, which may help to delay childbearing. In some cases, the programs also succeed in delaying the age at marriage and in reducing teen pregnancies. For example, the BRAC Uganda Empowerment and Livelihoods for Adolescent Girls was demonstrated to have the following impacts: (i) increased the likelihood of engaging in income-generating activities by 32 percent; (ii) increased self-reported routine condom use by those sexually active by 50 percent; (iii) reduced fertility rates by 26 percent; and (iv) reduced

Interventions combining an emphasis on empowering girls, often through safe space clubs, with livelihood opportunities may improve reproductive health outcomes and delay marriage or childbearing. This has been for example the case in Uganda, but not systematically so in other countries. Since these are often the only option available for out-of-school girls, more research is needed to figure out what works and what doesn't.

reporting of unwanted sex by 76 percent. There were also reductions in teenage pregnancies and child marriage, as well as a shift in gender dynamics in the community (Bandiera *et al.* 2014 and Buehren *et al.* 2016). The message from the review is that adding a livelihood dimension to life skills and SRH knowledge programs may help delay marriage and childbearing, but not in all cases. The focus on economic opportunities may also help to ensure regular participation by girls in the programs.

Providing Incentives to Keep Girls in School

100. The third set of programs focuses on specific interventions to ensure that girls remain in school, to enable them to return if they have dropped out, or to directly delay

marriage. The literature shows that there are multiple intervention options available to keep girls in school and delay marriage (Kalamar *et al.*, 2016). In a few cases, evaluations are also available to demonstrate that programs that provide incentives for girls to remain in school are often successful in delaying marriage and/or childbearing. While the primary focus of many of these programs is to ensure that girls remain in school, some of them are also designed to enable girls who dropped out to return to school.

Of the three types of interventions reviewed in this study, interventions to promote education, including by reducing out-of-pocket and opportunity costs for schooling, are the most likely to help delay marriage and childbearing.

101. Conditional cash transfers to incentivize girls' schooling and promote health that also provide support for families during shocks may be effective. These incentives are often conditional on children's attendance at school or participation in preventive medicine programs. A significant body of research shows that conditional cash transfers (CCTs) are an effective means to improve the level of participation in schooling among children in developing countries. Around the world, programs of this sort have been introduced in more than 29 low-income countries. Cash transfer programs (CTs) and income support also have a range of other positive outcomes, such as reduced child labor, increased schooling, and improved childhood nutrition. One of these programs is the Zomba Cash Transfer Program that demonstrated substantial impacts (Blair et al., 2012; see also more generally Bastagli *et al.*, 2016, for a review of those issues in Malawi). While not all programs reviewed above, those focusing on schooling for girls, or in some cases on delaying marriage with financial incentives, may be more successful in delaying marriage and childbearing.

Summary for Targeted Interventions

102. The three types of interventions described above are not intended to be an exhaustive list. To improve girls' level of educational attainment, additional interventions may also be needed. The three types of interventions listed above were selected because there is evidence that they help in improving SRH knowledge and delaying child marriage and/or early childbearing. The various programs and interventions are also not mutually exclusive, but rather may be implemented simultaneously to complement each other. While some of the programs work better than others to delay marriage and/or childbearing and to improve educational attainment for girls, all three categories of programs may have significant benefits, including in other areas. With different interventions targeting different groups of girls (for example those in school or with the potential to return to school, and those who dropped out and may not be able to return), all three categories of programs should be considered when implementing a strategy intended to improve opportunities for adolescent girls. Another example relates to the need to associate cash transfers with accompanying measures intended to boost girls' agency, such as through

the development of soft skills and through promoting knowledge on nutrition and reproductive health (World Bank, 2012).

Investing in Girls is Not Only the Right Thing to Do: It is a Smart Investment

103. Finally, it should be emphasized that investments to eliminate child marriage and early childbearing and to promote education for girls should not be based solely on economic considerations. These are also important goals in and of themselves, in terms of equity and social justice. The primary motivation for eliminating child marriage and early childbearing and for promoting education for girls should be to address the substantial risks and suffering faced by adolescent girls and their children. However, this study demonstrates that in addition to these multiple benefits, the economic benefits from such investments in Malawi would be extremely significant, with the costs of failure to address these issues being high. Demonstrating the magnitude of these costs provides an additional justification for investments in adolescent girls. While further work is needed to identify the best policy options for investments to improve opportunities for adolescent girls in Malawi, useful lessons can be learned from international experience, including some programs implemented in Malawi. Ending child marriage, preventing early childbearing, and improving education opportunities for girls is not only the right thing to do from a moral and ethical standpoint, it is also a smart investment for Malawi's development.

Data

Table 12: Selected Macroeconomic Indicators

	2014	2015	2016	2017	2018 Proj.
National Accounts and Prices					
GDP at constant market prices (percentage change)	5.7	2.8	2.5	4.0	3.5
Agriculture	5.9	-2.0	-2.3	5.0	2.4
Industry	4.7	3.5	2.4	2.2	2.0
Services	5.8	4.7	4.4	4.0	4.3
Consumer prices (annual average)	23.8	21.9	21.7	11.5	9.2
Central Government (percent of GDP on a fiscal year basis)					
Revenue and grants	23.2	21.4	21.6	23.5	20.8
Domestic revenue (tax and nontax)	19.7	18.6	17.8	20.0	19.3
Grants	3.5	2.8	3.7	3.5	1.4
Expenditure and net lending	28.9	27.1	27.6	28.2	28.5
Overall balance (excluding grants)	-9.2	-8.5	-9.8	-8.2	-9.2
Overall balance (including grants)	-5.7	-5.7	-6.1	-4.8	-7.8
Foreign financing	2.0	2.5	1.9	2.5	2.5
Domestic financing	4.2	3.3	1.7	0.9	6.2
Amortization (zero coupon bonds)	0.0	0.8	2.5	1.3	-0.5
Privatization Proceeds	0.0	0.0	0.0	0.3	0.0
Money and Credit					
Money and quasi money (percentage change)	20.7	23.7	15.2	19.7	11.9
Credit to the private sector (percent change)	20.0	29.9	4.6	0.4	8.0
External Sector (US\$ millions, unless otherwise indicated)					
Exports (goods and services)	1,737	1,616	1,502	1,675	1,852
Imports (goods and services)	2,399	2,346	2,569	2,606	2,709
Gross official reserves	588	670	605	757	703
(months of imports)	3.1	3.4	2.9	3.3	3
Current account (percent of GDP)	-8.5	-9.2	-14.7	-11.3	-10.9
Exchange rate (MWK per US\$ average)	424.4	499.6	714.8	727.5	-
Debt Stock					
External debt (public sector, percentage of GDP)	33.1	33.5	32.0	33.2	31.2
Domestic public debt (percentage of GDP)	14.9	20.9	23.6	24.5	26.1
Total public debt (percentage of GDP)	48.0	54.4	55.6	57.7	57.3
Poverty					
International Poverty rate (US\$ 1.9 in 2011 PPP terms)	69.3	69.4	69.6	69.4	69.1
Lower middle-income poverty rate (US\$ 3.2 in PPP terms)	87.4	87.5	87.3	87.7	87.6
Upper middle-income poverty rate (US\$ 5.5 in PPP terms)	95.6	95.6	95.7	95.8	95.8

Source: World Bank staff calculations based on MFMod, MoFEPD, RBM and IMF data

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