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INTL Sustainability Journal

1 August 2025

Online at https://mpra.ub.uni-muenchen.de/126555/
MPRA Paper No. 126555, posted 10 Nov 2025 13:21 UTC

Municipal bonds as sustainable means of constructing secondary cities in Malawi under the Medium-term Implementation Plan (MIP-1) of the Malawi Vision 2063

By

Brian Phiri Kampanje

Abstract

Malawi urgently needs the eight secondary cities it plans to build by 2030 to improve the social and economic welfare of its citizens. There is however little progress made in that regard in view of the absence of the financing structure. The local councils to host the secondary cities should seriously consider the municipal bonds as a sustainable financing mechanism and encourage their citizens to own the projects. There is a need to align the Local Government Act and the Public Finance Management Act on the municipal bonds. Other pertinent issues must be resolved too. This requires commitment from multistakeholders and is highly achievable.

Type of Paper: Research paper

Key words: Municipal; Bonds, Secondary Cities; Malawi

1.0 Introduction

The Medium Implementation Plan (MIP-1) of the Malawi Vision 2063 which runs from 2021 to 2030 touted the development of secondary cities as part Pillar 3:

[Urbanisation of the country's long-term agenda. Government of Malawi (2021:28) averred: The need of taking development to the people through the creation of planned secondary cities based on existing economic potentials in those localities must happen earlier as part of operationalizing the inclusive wealth creation and self-reliance agenda. …

Urban development, that includes tourist areas, will create opportunities that will facilitate the absorption of the unemployed population emanating from rural-urban migration. It is expected that a successful implementation of this Pillar will accord opportunity for comfortable lives to the 60 percent of urban Malawians currently living in informal settlements. Transformation of the agriculture sector and improved industrialization will lead to the creation of secondary cities across the country that will provide space for sustainable social economic activities.]

The MIP-1 planned for development and construction of eight secondary cities by 2030 and budgeted for MWK155 million for the fiscal years of 2022 and 2023 for development of the master plan for those eight secondary cities but also a create through appropriate legislation the establishment of the Secondary Cities Development Agency/Corporation with an estimated budget of MWK2.650 billion between 2022 and 2026. The Malawi Government (2022) identified the eight proposed secondary cities which are Karonga, Nkhata Bay,

Salima/Chipoka, Mangochi/Monkey Bay, Liwonde, Luchenza and Bangula in the Malawi Secondary City Plan (MSCP).

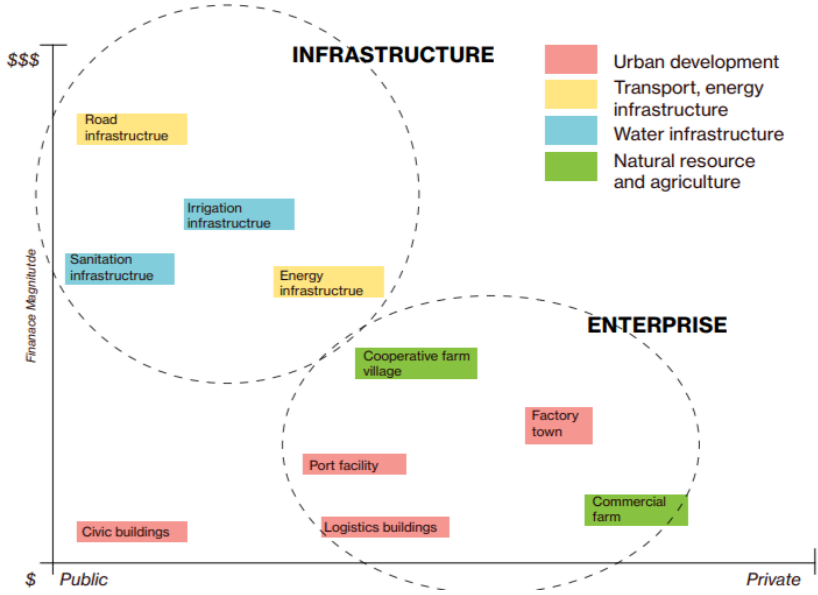
1.1 Financing model of the MSCP

This was extensively presented in the Malawi Government of Malawi (2022:85) as follows:

[The MSCP process dedicates specific attention to the difference between infrastructure and enterprise developments, both on the spectrum of public vs private finance, as well as on the spectrum of anticipated cost, where mostly infrastructure projects tend to be much more expensive – as illustrated in the diagram below. Yet it is important to note that the differences between infrastructure and enterprise financing do not necessarily imply the inability of the private sector to invest in projects which are normally associated with expensive and large infrastructure. Specifically, more affordable options for investment in water, power and transportation sectors should not be merely envisaged as 'off-grid' rural options for locations which are too far to conceive as urban, but also to the locations that are being proposed in this Report as key secondary cities. In such cases, small investments in gravity fed water supply systems, or small solar panel farms, as examples, could well become early stage investments in larger infrastructure networks, which will take a longer time frame and larger budget to become reality. Still, even those preliminary and small investments should be located in such strategic locations where the overall grid could develop, as dots connect over time.].

The above financing strategy was also presented in a diagrammatic form as follows:

Diagram 1: Public/Private Cost Scales in MSCP



Source: Government of Malawi (2022:85)

There is a clear indication that the secondary cities have to be developed under the public private partnerships as the Government cannot finance all the projects in the secondary cities.

1.2 Problem statement

While Malawi developed the Malawi Secondary Cities Plan (MSCP) accordingly in 2022 which was in line with the target of the MIP-1, no proper funding mechanisms

were incorporated in the MSCP but the Malawi Government (2022:54) annotated:

[Some of these projects have been approved and were allocated funding while others await funding. Some are in the process of being implemented while others have not been initiated yet.].

A critical review of the MIP-1 indicates that MWK72.890 billion was budgeted for the development of the eight secondary cities between 2022 and 2030 - Government of Malawi (2021:125) while MWK673.672 billion was earmarked for the Support establishment of anchor firms in designated areas of secondary cities for niche products and selected high value chains from the existing NES II and Agriculture Commercialization Projects, largely through PPP arrangements - Government of Malawi (2021:121).

Some notable weaknesses with the the MSCP are as follows:

a) No link between MIP-1 and MSCP in terms of the estimated project costs. For example, the Malawi Government (2022) incorporated the rehabilitation of the Limbe-Marka Rail as part of the Bangula City but the cost of such a project was estimated at MWK287 billion in MIP-1 as outlined in Government of Malawi (2021:98). Consequently, no set targets of what to be done.
b) There is little awareness made on the private sector involvement in the development of the secondary cities.

c) There has not been a financial strategy to finance the secondary cities' blue prints.
d) No involvement of the citizens to take active roles in the raising of funds.

The absence of the possible funding mechanisms cast doubt of the success of the Malawi Secondary Cities Plan. While the National Planning Commission Annual Report (2023) had an extensive coverage of the establishment of the secondary cities to be aided by the enactment of the Special Economic Zone Bill, the National Planning Commission Annual (2024) just stipulated that the National Planning Commission supported Ministry of lands in carrying out the perimeter survey of secondary cities of Chipoka and Bangula but also achieved the legislation of the Special Economic Zones Act. Meanwhile, the National Planning Commission Annual Report (2025) did not address any issues regarding the secondary cities in Malawi, perhaps signifying a natural death of the project. The development of the secondary cities were featured in the Annual Economic reports as outlined section 11.3.1 of the Government of Malawi (2023) and the Government of Malawi (2024) but no budgetary allocations were made thereof. There is a huge possibility that the development of the secondary cities in Malawi can remain a concept paper and not achieved by 2030 which is the expiry of the MIP-1 of the Malawi Vision 2063. Meanwhile, Nkhotakota District Council and Lilongwe City Council announced their intentions to issue municipal bonds for the development projects in their

respective jurisdiction. Could this be the sustainable funding model for the secondary cities in Malawi?

1.3 Research objectives

Three research objectives were pursued as follows:

a) Identify the knowledge gap of the municipal bonds at the councils' level.
b) Examine the potential funding which could be raised through the municipal bonds across Malawi.
c) Investigate potential technological solutions to enhance issuance and subscription of municipal bonds.

2.0 Literature review

The literature review prioritised the local setting to be more relevant in line with the research objectives.

2.1 Purpose of the development of secondary cities

The development of secondary cities in Malawi would improve sanitation and reduce some waterborne communicable diseases - The Nation Online (2025b).

2.2 Estimated costs of the secondary cities

The MSCP did not provide estimates for the construction of the secondary cities in Malawi but only identified infrastructural projects which can be financed by the

public sector and those by the private sector in the special economic zones as per diagram 1 above and in reference to the Malawi Government (2022:85). Mason (2024) postulated that Malawi Vision 2063 special economic zone regulations allow secondary cities and urban centres to be designated as special economic zones and this will greatly help with the realization of the Malawi Secondary Cities Plan. The Government of Malawi (2021:121) provided budgeted figures from 2022 to 2030 totalling MWK673.522 billion (USD0.899 billion) and averred:

[Support establishment of anchor firms in designated areas of secondary cities for niche products and selected high value chains from the existing NES II and Agriculture Commercialization Projects, largely through PPP arrangements].

With the significant devaluation of the Malawi Kwacha from MWK749.53 in 2021 - the Government of Malawi (2021) to MWK1,750.48 as at 30th June 2025 - Bridgepath Capital (2025). This means that the Malawi Kwacha estimates would be quadrupled to factor in the high inflation rates as well. Malawi Institute of Architects said creation of the smart secondary cities would require concerted effort among the government, private sector and non-state actors such that active and productive engagement was not an option - Kumwembe (2023).

2.3 Funding for the secondary cities

The Government of Malawi (2021:121) stated that

secondary cities together with the establishment of the anchor firms would be financed by the Government of Malawi, private sector, venture capital and contracting. The Flanders Government pledged thirty million Euros to finance various projects in the development of secondary cities in Malawi - The Nation Online (2023).

2.4 Alternative purpose-built cities initiatives

There are several other alternative initiatives for the construction of purpose-built cities in Malawi. Some of the notable ones are stipulated below:

2.4.1 Airport City

Airport Development Limited (ADL) a wholly owned Government of Malawi company has plans to construct an airport city at Kamuzu International Airport such that a developer was already identified and will jointly undertake a feasibility study with ADL - Jassi (2024). The project is dubbed Aero City and since been allocated 700 hectares adjacent to Kamuzu International Airport and will feature recreational facilities including hotels, an aviation university, hospitals, shopping malls and other commercial city with the feasibility study underway by Portuguese Firm, José Ferraz & Associados Group (JFA) - Mhango (2025).

2.4.2 The smart cities concept in Malawi

A new concept has emerged regarding the smart city with

Mvera Smart City being spearheaded by the Malawi Communications Regulatory Authority (MACRA) with over MWK8.1 billion already spent to develop a tech city (the local Silicon Valley) along the Salima-Lilongwe Road with 207 hectares of the 1,000 required hectares already secured - The Nation Online (2025a). The smart city project to be developed by Mvera Development Corporation which is a government concept driven by MACRA, National Commission of Science and Technology as well as the Malawi Defence Force - Lumwira (2025b).

2.4.3 Industrial parks

Plans to establish two industrial parks one in Chigumula, Blantyre and the other at Magwero in Lilongwe are advanced stage in line with the Special Economic Zone Act but delays in formalising the Special Economic Zones Regulations to provide clear oversight function in the industrial parks development means this might not materialize soon - Lumwira (2025a).

2.5 Involvement of the local councils in MSCP

The Nation Online (2022b) stated that the Malawi Secondary Cities Plan augurs well with the decentralisation policy reforms that embrace the entrenchment of a democratic developmental local government system in Malawi.

2.6 Municipal bonds in Malawi

Malawi is yet to issue a municipal bond as Nkhotakota District Council showed its interest to do so in 2022 for both social and economic projects - The Nation Online (2022a). Nkhotakota District Council is yet to finalize the issuance processes. Lilongwe City Council has plans to issue an infrastructure bond to raise capital for the city's development - Jassi (2024b).

2.6.1 Characteristics of the municipal bond

This is perhaps well articulated by Kumar 2014:

[Municipal bonds are issued by state or local authorities. The interest income received by holders of municipal notes are often exempt from federal and state income taxes. Basic municipal bonds consist of general obligation bonds and revenue bonds. In the case of general obligation bonds, the principal and interest bonds are secured by the credit of the issuer. Revenue bonds are issued for financing public projects such as toll roads, bridges, airports, and water and sewage treatment facilities.].

The above definition is supported by Tiron-Tudor et al (2021:175):

[Municipal bonds are widely issued by local municipalities as a feasible financial alternative to fund infrastructure projects. On the other side, from the investors' perspective, bonds issued by municipalities have historically been a popular investment option due to often favorable tax treatment for investors as well as the issuer's credibility and generally high credit quality of the market.].

2.6.2 Malawi's initiatives on the municipal bond

The Minister of Local Government appealed to banks to consider providing municipal bonds in order to facilitate accelerated infrastructure development in councils - Mzungu (2022). Nkhotakota District Council requested the Reserve Bank of Malawi to facilitate the possible issuance of the MWK7 billion municipal bond - The Nation Online (2022a). Lilongwe City Council is working with the commercial banks to raise an undisclosed sum of money through the municipal bonds - Jassi (2024b). While not disclosing the municipal bonds, the Malawi's Central Bank included in its capital market strategy the possibility of raising funds through the bonds for infrastructure development as noted in the Reserve Bank of Malawi (2021:21):

[Tax policy

Tax affects how much is appropriated back in returns to financiers of projects. An overburdening tax regime erodes profits and acts as a disincentive for corporations to undertake long term projects. On specific instruments of the capital markets, tax specific to certain instruments discourage use of those products in favour of alternatives.

In Malawi, tax is one area mostly highlighted by investors and issuers as a barrier and a potential leverage for development of the capital markets. Hence, the Ministry of Finance collegially with the RBM, MSE, and Malawi Revenue Authority (MRA) should review tax barriers and incentives to capital markets development. The review may consider introducing tax incentives and eliminating tax barriers to; issuers and investors

of long-term infrastructure bonds, listed companies for increased public float, and investment vehicles such as special purpose vehicles, repurchase agreements, funds structured as corporate entities, real estate investment trusts, and securitization transactions among others for improved savings mobilization.].

3.0 Gaps in municipal bonds in Malawi

No single municipal bond has ever been issued out in Malawi and it is therefore not surprising that there are a lot of grey areas.

3.1 Confusion on the issuance of the municipal bond

There seems to be a confusion regarding the initiation process for the issuance of the municipal bonds as the local councils believe that the banks are the ones who take a leading role in the issuance of the bonds like was the case with the Roads Fund Administration (RFA) Infrastructure Bonds. RFA issued two bonds. Roads Fund Administration (2025) averred:

[The RFA raised the first roads bond in 2015 from NBS Bank amounting to MK10.2billion which was used for the rehabilitation, to dual carriageway of Area 49 to Parliament round about and the construction of the first ever clover leaf interchange at area 18 in Lilongwe.

In June 2023, RFA raised a second roads bond with a consortium of financing institutions consisting of Standard Bank PLC, Old Mutual Investment Group Ltd and Continental

Asset Management Nominees Ltd. A total of MK34.5billion was raised].

While banks and other financial institutions touted the successful conclusion of the transactions, it was RFA which did all the homework through its financial advisors on the following:

a) How much was exactly required, how it would be spent and all the necessary costs estimates.
b) Determine the appropriate repayment period to maximise the value for money borrowing including the possible repricing mechanisms.
c) Collateral to be offered for such borrowings including requirements to seek authorisation from the Ministry of Finance in line with the Public Finance Management Act.
d) Negotiations with the possible subscribers of the bonds through private placements.

The secondary cities can raise substantial amounts of funds from the general public if the authorities in charge of the secondary cities can engage reputable financial advisors to do proper work so that the blue prints of the projects can be sold to the financiers and not rely on the banks to do everything. Some banks undertake financial advisory roles but financing a secondary city is a complex undertaking and would require multiple stakeholders as advised by the Malawi Institute of Architects annotated by Kumwembe (2023).

3.2 Regulatory requirements for the municipal bond

There appears to be no regulations to guide in the issuance or subscription of the municipal bonds. The Public Finance Management Act 2022 is crystal clear on the procedures for borrowings by statutory bodies. Local councils under the Local Government Act are not statutory bodies in view of Part X of the Public Finance Management Act 2022 and particularly Section 91. This however seems to be the departure from Section 2 of the Public Finance Management Act 2022 and Section 2 of the Statutory Bodies (Control of Contracts) Act which designate local authorities as statutory bodies. The local councils are not subjected to 2019 Surplus and Dividend Policy as noted by Kampanje (2023). The Surplus and Dividend Policy is enforced under Section 94(6) and 103 of the Public Finance Management Act 2022 which do not apply to the local councils.

Section 49 of the Local Government Act provides power to borrow as follows:

[The Council may, subject to the Finance and Audit Act, raise loans within Malawi of such amounts, from such sources, in such manner, for such purposes and upon such conditions as the Minister, in consultation with the Minister responsible for finance, may approve].

The Finance and Audit Act was repealed by the Public Finance Management Act 2003 and later the Public Finance Management Act 2022. It can therefore be

deduced that borrowing powers of the local councils might have no legal authority derived from the Public Finance Management Act 2022 and there is thus a need to come up with proper regulations to enable the local councils to issue the municipal bonds. Important matters such as collateral for the municipal bonds, the appointment of the registrar for the issuance of the securities and any other pertinent matters must be dealt with through appropriate regulations.

3.3 Types and mode of issuance of the municipal bond

The construction of the secondary cities is a gigantic undertaking requiring substantial investments from the investors and in this case through the municipal bonds. It would be ideal to consider several factors below.

3.3.1 Municipal bonds for different projects

It would be ideal to have separate bonds for a particular project within the secondary city plan with guidance provided by diagram 1 above. The private sector would be encouraged to raise its own financing so that the local councils would have better accountability of each project and would also have different tenors which would influence the pricing mechanisms.

3.3.2 Private placement versus public listing

The local council should have the flexibility to issue municipal bonds under private placement to selected

subscribers such as banks, life insurers, pension funds and other high net-worth individuals as well as blue chip companies. This could be a quick way of raising a significant amount of funds. Public listing on the other hand would require the municipal bonds to be listed on the stock exchange. The municipal bonds would qualify as sustainable bonds according to Malawi Stock Exchange (2023:9):

Type of bond	Indicative projects
Green bond	- Renewable energy - Biodiversity conservation - Pollution prevention - Green buildings - Clean transportation
Social bond	- Access to health care services - Affordable housing - Access to education - Food security - Economic empowerment
Gender bond	- Women's economic empowerment - Women's access to health care services - Eradicating gender-based violence - Women's access to education - Advancing women in leadership positions
Sustainability bond or SDG bond	- Access to education (SDG 4) - Clean water and sanitation (SDG 6) - Affordable and clean energy (SDG 7) - Reduced inequality (SDG 10) - Decent work and economic growth (SDG 8)
Sustainability linked bond	- Reduction in carbon emissions - Waste reduction and management - sustainable supply chain management - climate resilience and adaptation - Renewable energy

The listed bonds should be widely advertised to the

general populace especially the citizens who would directly benefit from the intended projects so that they could purchase the bonds and increase the chances of raising adequate funds for the secondary cities plan.

3.3.2.1 Trading platforms for listed bonds

The adoption of mobile trading would encourage initial municipal bond subscription but also secondary trading which is currently the biggest hurdle for listed bonds trading in Malawi. If the mobile trading platforms would encourage selling and buying of the municipal bonds, more people would be attracted to participate in such financing schemes.

3.4 Capital market financial literacy programme

The issuance of the municipal bonds will largely depend on the financial literacy of the general populace. More needs to be done on this part both from the local citizens and the local council members to understand the municipal bonds. There is a lot of idle money in the rural areas which end up being spent on consumption rather than investment activities. There is a need to enhance the capital markets financial literacy programmes and use of mobile platforms rather than the traditional high street banking route could see more people participate in the subscription of the municipal bonds.

4.0 Conclusion and recommendations

The Malawi Secondary Cities Plan is a great idea but it has to be owned by the local councils to raise the funds for the implementation of the projects through issuance of the municipal bonds. The municipal bonds would enable the local councils to have realistic targets as part of the due diligence exercises before the municipal bonds could be issued and give maximum chance of being subscribed to. There are obviously a lot of gaps to be addressed but now is the better time to do so. The Ministry of Local Government and the donor community can provide resources for development of appropriate regulatory framework to ensure that the municipal bonds are effective tools for the creation of the secondary cities in Malawi.

There is a need to make the necessary amendments to the Public Finance Management Act 2022 and the Local Government Act on how municipal bonds can be issued as there is a gap regarding the borrowing powers of the local councils and how that has an impact on the overall public debt.

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