ECAMA: "Going beyond macro-economic stabilization – the need for building resilience to shocks"

- His Excellency Saulos Klaus Chilima, Vice President of the Republic of Malawi
- Etc
- Members of Non-Governmental Organizations
- The Media
- Distinguished ladies and Gentlemen

Welcome & Opening

Good morning to you all.

It is a real honor to be invited - on behalf of the World Bank Group - to address this eminent group.

I want to particularly thank the organizers - ECAMA – with whom the WBG has a proud association over the years.

Ladies and gentlemen. Moving beyond macro-stability to resilience is a challenge the whole world is dealing with now. ECAMA could not have picked a more relevant issue for our discussions.

I have tried to extract the core and most relevant lessons from the current crisis from other countries to inform our debates here.

I will frame my remarks round three areas:

- the shape of the COVID-19 crisis and what we know about its impacts on Africa and Malawi;
- what we can learn about resilience looking across different countries' responses to the crisis; and
- an agenda for Malawi, moving beyond stabilization, towards resilience.

A. *The world today is facing an unprecedented crisis caused by COVID-19*

Although we can take some comfort from the recent announcement of vaccines, many parts of the world are experiencing a devastating second wave of the virus. Uncertainty remains high.

Already, in Sub-Saharan Africa, the pandemic has taken a toll on economic activity.

- A 3.3 percent contraction is expected in 2020, Africa's first recession in 25 years.
- Real GDP per capita will regress to 2007 levels.
- Up to 40 million people could fall into extreme poverty; progress is stalling in building human capital, nearly 253 million students are impacted by school closures.

The main transmission channels have been (1) the drop in domestic production resulting from lockdowns, (2) the impact on demand for goods and services, and (3) the disruption of global trade and its effects on commodity prices and exports.

2020 growth in Malawi is estimated to be 1.3% - far below pre-COVID estimates of 4.8%. What is interesting is that Malawi is – together with Burundi and Mozambique – among the few countries with growth reductions of around 3%.

Why is that? A strong harvest in early 2020 has shielded a largely rural population. In many countries, COVID has been an urban crisis, channeled through global supply chains and impacting areas of agglomeration.

Of course, we can take little comfort from this. The factors that have protected the economy from this crisis – the predominance of the rural population that rely on subsistence agriculture - are the same factors that make Malawi vulnerable to many other worse shocks.

And this crisis has shone a light on a growing segment of urban poor, reliant on a nascent private sector and impacted by income losses. A survey from the Malawi Chamber of Commerce and Industry has noted that 93% of firms anticipate reductions in sales of more than 10%. This is therefore a private sector crisis.

B. *what we can learn about resilience looking across different countries' responses to the crisis*

Before we review the situation in Malawi more specifically – it is instructive to review the lessons from other countries.

What is increasingly clear from the cross-country analysis is that resilient countries are those who retain flexibility. All countries face shocks – what distinguishes them is the ability to respond, and to build back better.

Four key elements underpin this resilience:

- fiscal space;
- manageable debt levels, and wise debt choices;
- intra-region trade; and
- digital platforms to enable government and businesses

The WBG points to two key pathways common for SSA economies to resilient recovery: (a) restoring fiscal space and (b) generating jobs and growth.

This is challenging. But it is worth noting that for some countries the crisis has become an ***opportunity*** to fast-track important and long-pending reforms.

Restoring fiscal space

COVID-19 has exposed acute macroeconomic vulnerabilities across Africa – the crisis is an urgent call to all countries build back better, expand the tax base and to improve tax efficiencies. Some – like DRC and Togo - have instituted digital tax systems linked to IDs, using mobile technologies to reduce evasion, corruption and increase transparency.

On the expenditure side some commodity rich countries are taking advantage of global prices to withdraw subsidy programs – and re-prioritize expenditures to protect services and human capital. Others have introduced new transparency measures as a response to COVID, publishing awards online and introducing performance audits.

WB analysis has also found that the composition of countries' debt exposure appears to make a difference: countries with a greater share of their debt to external and official creditors face lower risks than those borrowing from private creditors.

What are the pathways that countries are taking to diversify economies for resilience

I will note 4 key ingredients in structural transformation: digital, trade, urbanization and social support.

The **digital economy** is emerging is a central pillar of post-COVID recovery. At the height of the lockdown, one quarter of Sub-Saharan African firms accelerated the use of digital technologies and increased investments in digital solutions. Governments have also moved on reforms to expand access and increase affordability, partnering with businesses to deliver public health information and e-learning.

Intra-regional trade – rather than global trade networks – have emerged as critical for resilience. Policy-makers can proactively develop regional value chains and African Continental Free Trade Agreement also has an important role to in reducing costs associated with tariffs, non-tariff barriers, and trade facilitation.

Cities are job creation zones. Strengthening **the links between rural and urban area** through improved connectivity and services is a key to creating new markets, innovation and industrial sectors.

Finally, **cash transfer systems** are playing a key role across Africa in protecting lives and livelihoods. By mid-September, 46 countries had put in place additional social protection measures. Extending access through digital financial systems and lowering transaction charges to improve uptake.

C. So what does all this mean for Malawi – beyond stabilization to resilience

Before we review how these lessons could be applied in Malawi, let us take a step back and look at the context of Malawi in terms of vulnerability and resilience.

As is well known, Malawi is increasingly vulnerable to external shocks. Over the past five decades, the country has experienced more than 19 major flood and drought events. We say "natural" disasters, but their impact is substantially amplified through the actions of man. At 2.8% p.a., Malawi has the highest rate of deforestation in the Southern Africa region.

These shocks have direct impacts especially on the poorest. But they also impact on aggregate output and revenues so they can destabilize budgets if accompanied by increased relief expenditures.

In fact, there is mounting evidence that it is not the shock itself that has the most impact: rather the most important causes of economic instability appear to be internal and related to economic management. These cases are well documented in Malawi and often involved expenditure overruns; fixed exchange rates leading to macroeconomic imbalances and unplanned aid suspensions in the wake of high-profile corruption cases.

In contrast, when the fiscal situation was well managed – such as during 2004–09, the economy survived food crises, terms-of trade shocks and even the global financial crisis of 2008/9 without any instability.

So the implication is clear for Malawi.

Shocks happen all the time to all countries – what distinguishes them is the level of preparedness and the effectiveness of the response.

There are four key elements for restoring resilience in Malawi.

<u>Firstly, a strong macro-fiscal anchor is key:</u>

Currently, Malawi lacks the fiscal space to respond or to recover – and relies too heavily on costly domestic commercial debt creating new vulnerabilities. Restoring a fiscal anchor is therefore urgent and will require credible budget targets, hard choices on reining in expenditure, stronger accountability for managing expenditures and a highly prioritized PIM.

We are therefore pleased to hear of plans to update the PFM Bill. We are also encouraged to see the government's focus on the reform of key SOE's and their corporate governance. SOEs have been a source of repeated fiscal risk and corruption in the past. Their reform will improve performance and create new opportunities to mobilize private capital.

Finally, let the light shine in. Access to Information and transparency will be important steps towards rebuilding public trust, improving government performance and ultimately increasing fiscal space through the mobilization of increased public and private resources.

Secondly, diversification of the economy is key:

As is well understood, the structure of Malawi's small, open economy make it highly subject to terms-of-trade shocks such as oil and fertilizer price increases and tobacco price declines. Economic diversification – both within agriculture and ultimately re-balancing between agriculture and other sectors – is critical to restoring resilience.

Diversification within agriculture calls for predictable and transparent trade policies for agricultural products. The implementation of the COGA regulations will be a key element in this. Increased investment and commercialization will increase production and exports in the medium term, while supporting food security. Where state intervention is necessary, the key will be to ensure transparency and timeliness to reduce market distortions.

Moreover, the Government can rebalance spending in the agriculture sector to promote more sustainable farming practices and climate smart agriculture technologies including irrigation, as well as nutrition-sensitive crops.

Currently, despite considerable investments in agriculture, the government's own MVAC numbers highlight that 15% of the population will not meet their annual food requirement during the upcoming lean season. A new way forward – that reflects a shift towards market-centered approaches within a clear government-regulated system – must be found.

Re-balancing the economy means developing new growth poles in secondary cities, new trade corridors like Nacala and Beira, new urban and regional markets for rural products – this is the fundamental and necessary flip-side to commercializing agriculture and creating jobs. Rightly – these objectives are at the center of the new vision for national transformation 2063 – and the WB will be aligning our new strategy for Malawi towards these ends.

We are already seeing some modest changes in the structure of Malawi economy. Labor has started to leave on-farm employment in agriculture towards services. Population and land pressures are likely to see this accelerate.

However, the experience from other countries shows these shifts can be counter-productive, increasing un-planned urbanization, informal sector employment and low-level productivity. Malawi can plan ahead, and can leap-frog to an enabling urban and per-urban environment where small and medium sized enterprises in agri-processing and agri-logistics can drive job creation for the young.

To help kick-start this process, the WB has provided government with a new $86m package to provide financial stimulus to SMEs through the financial sector, as well as incubation and skills development. It will be key to activate the implementation and we call on commercial banks, the RBM and the GoM to come together to ensure that the package reaches the small & medium sized players who will be so critical to the recovery.

In parallel, Malawi can pursue a transformative agenda to upgrade targeted ICT, energy and water infrastructure. But let us agree: it is only through the mobilization of private sector risk capital that Malawi can achieve the delivery of these critical infrastructures. Fiscal space too squeezed; debt too costly; external financing too uncertain and too little. Transformative investments like Mpatamanga and the major irrigation scheme in the Shire Valley will be big wins for Malawi – but they can only be achieved though public private partnerships. And PPPs are themselves only possible where policy is predictable, public finance transparent and where capital can flow flexibly.

We are therefore encouraged to see the reform of strategic SOEs at the heart of the government's new vision: financial turnaround plans, new levels of transparency and best practice corporate governance will all be key.

<u>Thirdly, upgrade Malawi's systems for resilience</u>

Malawi will continue to face repeated cycles of drought and flooding.

It is critical – and possible – that Malawi shifts from *responding* post-crisis to early-warning and preparedness systems. And from seeking un-predictable donor financing to pre-positioning financing in its own budget and adopting new innovations for risk transfer.

It is notable that Malawi is one of the countries that is taking the opportunity of COVID to upgrade its cash transfers system. For the first time, the cash response includes the urban poor as well as top ups in rural areas. Combined with the increased use of mobile payments and the digitization of the unified beneficiary registry this signals a modernization. It should further shift towards a shock-responsive and scalable mechanism that will promote new financial products and financial inclusion and can be linked in future to financial instruments to meet the cost of transfers in the case of pre-agreed climatic shocks.

Malawi can also complete key legal and policy frameworks for Disaster Risk Management, Land Reform, Urban Development and the Water Resource Management.

Wrapping up

In wrapping up let me summarise. I have tried to synthesize the lessons the world is learning from COVID about resilience. I have discussed the importance of rebuilding fiscal space through accountability and transparency; the need to sustain open and efficient trade in key markets; the need to promote the private sector and the need to upgrade social safety nets. Although it faces real challenges, Malawi is already forging a new pathway in a number of these areas.

Ladies and gentlemen, in the short time I have been in-country I have been impressed by the sense of urgency and the sense of purpose. There is clearly a long road to recovery – but the tone from the top is action-oriented. This will be key.

Indeed, it is worth noting that in the course of last year's political events, Malawi has as a country demonstrated one of the best examples of what this word "resilience" means. The resilience provided by institutions, the space for debate and dissent; the role of the judiciary and the management of smooth political transitions. The message that Malawi has sent to the world is clear - looking ahead, let us capitalize on this moment and on this momentum. The Bank is a longstanding partner to Malawi and we hope to fashion a new Country Program for the next five years around these core areas.

Thank you.