



THE 2020 ECONOMICS ASSOCIATION OF MALAWI (ECAMA) ANNUAL ECONOMIC CONFERENCE COMMUNIQUE

SUN 'N' SAND, MANGOCHI, MALAWI

19TH – 20TH NOVEMBER, 2020

Theme: Going Beyond Macroeconomic Stabilization - The Need for Building Resilience to External Shocks

1.0 INTRODUCTION

The 2020 Economics Association of Malawi (ECAMA) Annual Economic Conference (AEC) was held on 19th and 20th November 2020 at Sun 'n' Sand Holiday Resort in Mangochi under the theme: *Going Beyond Macroeconomic Stabilization – The Need for Building Resilience to External Shocks*. The conference was presided over by the Right Honourable, the Vice President of the Republic of Malawi, Dr Saulos Klaus Chilima, Minister of Economic Planning and Development. This year's conference attracted about 180 economists and other key stakeholders from the United Nations Population Fund (UNFPA), World Bank, International Monetary Fund (IMF), the Reserve Bank of Malawi (RBM), Ministry of Finance, Ministry of Economic Planning and Development and other government ministries and departments, private sector, academia, civil society, international non-governmental organizations (NGOs) and the media.

The 2020 ECAMA annual conference theme was chosen against the backdrop that the Malawi economy has experienced episodes of external shocks which have presented setbacks to economic development and structural transformation. Over the years, authorities have been forced to implement stabilization policies, monetary and fiscal policies to counter these shocks. In 2020, the effects of external shocks to the economy were exacerbated by the impact of COVID-19 Pandemic which complicated efforts to achieve inclusive, equitable and sustainable growth.

As Malawi remains highly vulnerable to external shocks and other challenges, it is therefore important to consider complementing demand side policies with supply side policies as a way of building resilience to external shocks. Hence there is a need to focus on structural economic reforms that are critical in unlocking sustainable and long-term economic growth on the road to recovery from these external shocks. There is a need to come up with structural policies that will address structural challenges such as uncompetitive agricultural sector, controlled energy prices, low export base, weak private sector as well as weak economic governance institutions.

In line with this year's theme, the following sub-themes and topics steered the agenda for the conference:

- 1) Impact of COVID-19 on the Economy.**
- 2) Identifying Opportunities for Dynamic Inclusive Growth for Malawi.**
- 3) Key Structural Economic Reforms for Building Economic Resilience to External Shocks.**

2.0 SUMMARY OF THE DELIBERATIONS

In terms of structural challenges, members noted that, over the years Malawi has become increasingly vulnerable to shocks both on the domestic and external front. In addition, members noted that often times, the level of the structural deficit in Malawi is bigger than what is usually reported. This is a result of enormous fiscal responsibility on the part of the government, compounded by the lack of growth in revenue sources. The government is unable to provide adequate resources for development due to fiscal constraints.

Generally, it was observed that the incentive structure that sees individuals undertaking risky behaviour but get rewarded for it as opposed to being punished, excessive dependency on debt and donor support, lack of visionary leadership and mindset issues were pointed out as key obstacles to Malawi's development challenges.

It was noted that historic record is replete with instances that exemplify Malawi's vulnerability to shocks. For example, Malawi has experienced more than 19 major floods and seven droughts over the past five decades. Broadly, there are two sources of this vulnerability: structural and exogenous.

Structurally, the **Malawi economy is vulnerable to climate related shocks due to its over-reliance on low productivity rain-fed smallholder agriculture.** Over the years, volatility in agricultural output has resulted in unstable and episodic

economic growth for the country. External shocks emanate from Malawi's narrow export base coupled with a high propensity to import, which has persistently exerted pressure on the Malawi Kwacha. This has been worsened by movements in the international oil prices and fall in commodity prices.

The government also lacks capacity to effectively respond to and manage shocks. Government's vulnerability emanates from limited fiscal space. As a result, government has consistently been running a budget deficit, adding to the high debt stock and hence has no fiscal shock absorbers.

It was also observed that the missing link in Malawi's development trajectory is leadership. In order to marry development with leadership, there is need to rethink policy and legal sequencing and legal reforms. Malawi requires leadership that will promote the creation of inclusive institutions, and reward performance as opposed to patronage. Just like everywhere else, it is the poor and the vulnerable who get hit the hardest with structural shocks. In addition, conference delegates recognized the fact that shocks happen all the times to all countries; what distinguishes them is the level of preparedness and the effectiveness of the response. In view of this, members made the following recommendations that would help Malawi effectively manage shocks as well as embark on a transformative and inclusive growth.

3.0 CONFERENCE KEY OBSERVATIONS AND RESOLUTIONS

In view of the above discussion, members made the following recommendations that would help Malawi to effectively manage shocks in order to support a transformative and inclusive growth:

- I. **Build buffers** (domestic and external) in good times to weather future adverse exogenous shocks. Foreign exchange reserves [i.e., 4.5 months], strategic food reserves, strategic reserves of medical equipment, Sinking Fund and Disaster Relief system, rules-based Stabilization Fund, etc.
- II. **Restoring a strong macro-fiscal anchor.** The government lacks the fiscal space to respond to or to recover from shocks as a result it 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.

- Reforms in the public finance management (PFM) are a welcome development. In addition, it is crucial that government plug leakages; act with resolve in fighting against corruption under the principle of zero tolerance on corruption.
- Research that most African countries including Malawi loses 30% of their budget money to corruption. This implies that for the 2020/21 financial year, Malawi may lose about K660 billion out of Its K2.2 trillion budget money to corruption.

III. There is need to **step up revenue mobilization** to respond to the rising demand for public services from a rapidly growing population, to reduce aid dependence, and to meet Malawi's sustainable development goals. Broaden the tax base by clamping down on tax evasion, cut on tax exemptions that are ineffective. With the rebasing of GDP and nominal GDP estimated to expand by 20% to K8.1 trillion, about 300 billion kwachas in revenues can be raised at 20% of nominal GDP.

IV. **Managing the exchange rate.** Monetary authorities need to maintain flexible exchange rate on either direction as first line of defense against external shocks and build reserves. The Malawi kwacha remains on a broadly stable path of gradual depreciation vis-à-vis the US dollar, largely reflecting developments in international financial markets. A more flexible exchange rate would further complicate macroeconomic management, leading to further challenges in managing inflation, export competitiveness, balance of payments difficulties, strained fiscal and foreign reserve positions, and welfare loss to citizens due pass through inflation.

V. **Diversification of the economy** – both within agriculture and ultimately re-balancing between agriculture and other sectors of the economy is critical to restoring resilience. Malawi's exports are highly concentrated in three agricultural commodities tobacco, sugar and tea, making the economy vulnerable to drought and terms of trade shocks. There is need to diversify exports beyond the three key crops. In addition, 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. Rebalancing the economy is the fundamental and necessary flip-side to commercializing agriculture and creating jobs. In addition, there is also need to diversify the economy to other sectors such as tourism with strategic value chain development [high-quality tourism facilities], high

value agriculture, mining and manufacturing [Agro-processing, agriculture value chains].

VI. Members noted that the decentralization act [1998] for Malawi clearly intended that **urban governance** be set in such a way that our cities and/or assemblies be autonomous.

- However, it was noted that **local councils and cities lack fiscal autonomy**. For example, municipal councils or city assemblies are only allowed to charge market rates, but are not allowed, to get portion of Value Added Tax (VAT). In other countries there are federal taxes, state taxes, and city or municipal taxes. In Malawi this can be done as well.
- In terms of urban governance, it was also noted that **land is controlled by so many government agencies**. Therefore, there is no synchrony in certain kinds of development and policy. There is need to institute legal reforms to enable different institutions involved in land management in our local councils or cities to synchronize their land policy and development.

VII. Members also agreed with government's observation that **informality pervades urban life in Malawi**. The micro, small and medium- enterprise sector, in which some 91% of businesses operate, employs more people than the formal sector. Yet most businesses that operate in the informal sector are neither registered nor regulated and hence do not pay taxes. Their transactions are mostly cash based and-hence outside formal system. However, members noted that it is practically difficult to follow individuals in the informal sector. If players in the informal sector are organized into cooperatives, then the cooperatives can be registered and therefore become part of the informal sector.

VIII. **Growth in public debt stock** was also noted as one of the fiscal issues that needs urgent addressing. Malawi's total public debt stands in excess of MK4.1 trillion, the majority of which (57.3 percent) is domestic debt. Members welcomed government's decision to create the Debt Retirement Fund. However, members advised that in order to raise the revenues required to reduce the debt stock, government should desist from taking advantage of cheap loans in order to raise money for repayment. Rather, government need to identify sectors in the economy where levies or taxes could be introduced. The identification of these sectors is subject to feasibility study to understand how responsive different

sectors would be as well as the welfare effects of such taxes on specific products given their elasticities.

- IX.** It was also noted that **intra-regional trade**, rather than global trade networks, has emerged as critical for resilience to external shocks such as COVID-19. Malawi should take advantage of regional trade agreements such as the Africa Continental Free Trade Agreement (ACFTA). However, to fully exploit the benefits of this platform it is imperative for policy makers to identify areas that Malawi has comparative advantage, what products and what infrastructure is needed to take advantage of intra-regional trade. Some studies, for example, have shown that despite tobacco being the major export commodity for Malawi, there are a lot of challenges with revenues and lower prices on the international market. Political leadership is also key to unlock opportunities for the domestic markets because the domestic market is far too thin to generate the right incentives for production.
- X.** In terms of **energy** members noted that the country's installed electricity is way below the demand. Across the region, it is only Malawi that is producing less than a thousand megawatts. These energy challenges directly feed into lack of foreign direct investment. Main challenges in the energy sector include confining our choices of energy sources to hydro as well as taking too long to implement planned projects.
- XI.** **On population growth**, it was noted that most of the population indicators are improving. However, population is projected to continue increasing in the near term. In view of this, members proposed that the adaptation of policies by governments is a necessary step in halting population growth; education, job creation and empowerment of women must continue in order to reduce fertility. Initiating action early can better prepare our country to deal with the social, economic, and political effects of an impending altered population structure
- XII.** Members also resolved that our experience with shocks as a country should help us coming up with strategies of **turning a crisis into an opportunity**. Shocks often roll back progress that a country has achieved over years. The flipside to this is that the same shocks also highlight development challenges which have been overlooked and/or underestimated over time. In this way, they open up potentials to drive

development. The private sector needs to be proactive by coming up with innovations that would help government when shocks hit.

3.0 CONCLUSION

Overall, members noted that any country including Malawi must afford its development. As Malawians, we must take ownership of our destiny. Becoming self-reliant as a country requires us to make very hard choices. Most importantly, visionary leadership is the key ingredient in ensuring inclusive and sustainable development. Going forward, ECAMA endeavors to follow through with all relevant stakeholders to ensure that the aforementioned resolutions are implemented in the foreseeable future.