Economics Association of Malawi (ECAMA)

RETHINKING THE PILLARS AND STRUCTURES FOR MALAWI'S TRANSFORMATIVE AND INCLUSIVE ECONOMIC DEVELOPMENT

ECAMA Annual Conference Report 2017

Sunbird Nkopola, Mangochi

9th-10th November 2017

Foreword

Since 2012, ECAMA has successfully organized an Annual Conference targeting high-level representatives from the private, public and civil society sectors. The annual conference aims at encouraging open, proactive debate and policy dialogue on pertinent economic issues in Malawi so as to inform policymaking and influence the development agenda of the country. The annual conferences have attracted numerous high-level policymakers, including sitting Presidents namely: Her Excellency Madam Joyce Banda and His Excellency Professor Arthur Peter Mutharika. Thus there is no doubt as to the value of a high-level policy dialogue platform such as provided by the ECAMA annual conference—the conference communiques are highly regarded in policy circles.

The 2017 ECAMA Annual Conference was held under the theme: Rethinking the Pillars and Structures for Malawi's Transformative and Inclusive Sustainable Economic Development. The conference attracted over 150 participants which included economists and other related professionals from various sectors of the economy including in Government, academia, parastatal entities, private sector, non-governmental organizations, development partner organizations, and many others.

Unlike in the previous years' conferences where the output of the conference was only communique, the 2018 Annual Conference output also included a report and action matrix. The report sought to outline key issues that emerged from the Economic Association of Malawi conference of 2017. Given the conference theme, the central observation in this report is that Malawi's development is constrained by a deficit of beneficial geography, institutional and technocratic failure and development plans that are too focused on international development discourse instead of national agenda. In the end, whether Malawi's fortunes change depends on how she leverages her geographical endowments, reorients her institutional make-up to create a developmental state and formulates policies and plans that are visionary enough.

Chikumbutso Kalilombe
PRESIDENT

Acknowledgments

Authors

This synthesis report was compiled by Dr. Winford Masanjala, Associate Professor of Economics at the University of Malawi, Chancellor College. The report benefited from the comments from ECAMA Executive members and Secretariat. Meanwhile, the attached Communique on Conference Resolutions and Action Matrix in the report were prepared ECAMA.

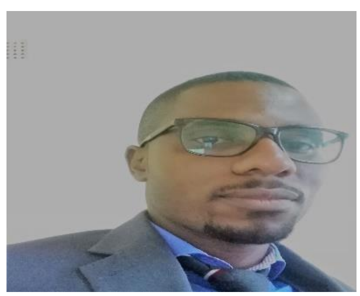
Disclaimer

Management Team

Economics Association of Malawi (ECAMA) Annual Conference was held side by side with the Annual General Meeting (AGM) at Sunbird Nkopola Lodge, in Mangochi on 10th November 2017. The AGM elected new Executive Committee on a 3-year tenure replacing the old one whose term expired in August 2017. Mr. Chikumbutso Kalilombe, a seasoned economist and a banker replaced Mr. Henry Kachaje, as the President of ECAMA. The full list of executive members is as follows: *Lowina Mwasigala Banda (Vice President); Andrew Kumbatira (Secretary General) Esnat Chilije (Deputy Secretary General); Frank Chantaya (Treasurer) Lauryn Nyasulu (Vice Treasurer) and Executive Members are: Eric Hanjahanja; June Kambalametore; Hope Chavula; and Enock Kondowe.*

Mr. Chikumbutso Kalilombe, President,

The association also recruited, on a full time basis, the Executive Director, Mr. Maleka Thula. Mr. Thula brings to ECAMA a wealth of experience acquired over the years working as an Economist for the Reserve Bank of Malawi. He has been involved in formulation and assessment of public and private sector policies including but not limited to development planning, monetary, fiscal, financial and external sector policies.



Maleka Thula, Executive Director

Table of Contents

Executive Summary

The report outlines key issues that emerged during the Economic Association of Malawi conference of 2017. Given the conference theme, the central observation of the report is that Malawi's development is constrained by a deficit of beneficial geography, institutional and technocratic failure and development plans that are too focused on international development discourse instead of national agenda.

Although Malawi's development is constrained by a deficit of beneficial geography, geography is not destiny. Reliance on rain-fed agriculture increases Malawi's economic vulnerability due to weather-related shocks. And indeed the emerging consensus was that whether, how and when Malawi's fortunes change depends on more on institutional make-up, reforms and policies and plans rather than deficit in geographical endowments.

Institutional and technocratic failure and development plans that focus on achievement of or compliance with international development agenda are more responsible for Malawi's episodic growth. Institutional failure manifested by lack of national ethos, increasing cases of social banditry, deficient public services (especially deficiencies in power), rise in real and perceived corruption and increasing expectation for bribery. The evolution of Malawi's development plans and policies has mirrored global development in development discourse.

Malawi's geographical, institutional and strategic constraints have deleteriously affected private sector's ability either to act as an engine of growth or just pull its own weight. Persistence of power deficits have raised the cost of doing business as firms have to operate back-up gensets leading to loses of an equivalent of 6 percent sales. Inconsistent policies in financial sector manifested in high inflation and interest rates, low access to finance and credit, and suffocating collateral requirements have caused firms to resort to self-finance. Similarly, lack of other infrastructure also undermine foreign direct investment.

The first imperative on the ladder for Malawi's economic recovery is restoration of macroeconomic fundamentals. If Malawi is to unlock the private sector, she needs to formulate policies that ensure macroeconomic stability (both internal and external) before gradually switching gears to other endeavours. Malawi should also know her fiscal space and utilize it efficiently.

Second, it is imperative that Malawi creates a conducive environment for private sector to fulfil its potential and thrive. This includes assuring macroeconomic stability especially lowering and stabilizing inflation and interest rates, and stabilizing the exchange rate. Government also needs to formulate policies that improve access to finance and credit and lighten collateral requirements. It is also imperative for Malawi to prioritize investments in infrastructure to reduce the cost of doing business, especially increasing and stabilizing power supply and transport infrastructure. In addition, Government needs to address policy and regulatory challenges to

increase predictability and transparency especially in government-to-business interaction and curb corruption.

It is imperative that development policies and plans be Malawi-centric and reflect national aspirations. Malawi's growth and development needs to inclusive i.e. economic growth and development needs to be in sectors where most of the population and indeed the poor eke out their living. In addition, Malawi's transformation requires comprehensive change in mind set, strategy, operational model, organizational, people and processes. To realize these aspirations good governance is a critical anchor for effective implementation of any development plan.

1. Introduction

This report presents a synthesis of proceedings of the 2017 meeting of the Economics Association of Malawi (ECAMA) which took place at Sunbird Nkopola from 9th to 10th November 2017. Rather than capturing and summarizing individual presentations as had hitherto been the practice, it was decided to provide a thematic synthesis of the issues proceeding from different presentations. This synthesis does not purport to be an exhaustive record or chronicle of the conference since it does not include reactions, observations or feedback from the plenary[1]. In fact, the themes being emphasized are more reflective of emerging common themes than consensus. Neither does this analysis capture issues emerging from the proceeding of the opening session.

An editorial caveat is quite in order. Writing a synthesis is inherently problematic on many fronts. First, in so far as presenters have different presentation styles, organization and points of emphases, it is difficult to cull out common themes to guide analysis and synthesis. Second, given their institutional affiliations, different presenters were bound by different degrees of academic freedom - some presenters' message was constrained by their institutional affiliation and positions on the issues under discussion. Institutional affiliation also poses additional problems of attribution – whether the views expressed in the presentations be attributed to the institution or the presenter. An editorial decision was made to credit all presentations where the presenter came in official capacity or the presentations bore institutional logos to the institution.

Apart from this introduction, the synthesis proceeds in three substantive sections.

- Section 2 draws from the IMF presentation to situate Malawi's economic recovery against the narrative of a broader African recovery.
- Section 3 presents a situational analysis based on conceptual framework for understanding constraints to development in Africa. The framework, which considers the role of geography, institutions and policies in development, is employed to isolate issues that emerged from different presentations in so far they assist in understanding Malawi's growth, or lack thereof.
- Given the identified constraints, Section 4 presents selected imperatives for economic growth and recovery. It is recommended that Malawi should first address economic fundamentals, before learning from Africa's recovery story. More importantly, Malawi's need to walk the talk in creating a conducive environment for private sector to play its role and present technically sound development plans.
- Finally, Section 5 provides some concluding thoughts while section 6 list presentations on which this synthesis has been based.

[1] Resolutions of the conference and action matrix are in Appendix 1 and 2, respectively.

2. Malawi Growth in a Regional Context

2.1 Regional Economic Outlook

A recent Regional Economic Outlook by the IMF suggests that in the real sector Africa's prospects for the following year were promising. Relative to the preceding year, the broad-based slowdown in Sub-Saharan Africa (SSA) was easing and growth has picked up (from 1.4 percent in 2016 to 2.6 percent in 2017), although vulnerabilities remained resulting in somewhat subdued growth**.** This pick-up in activity reflected diverse drivers including a combination of benign external environment and several one-off domestic developments. Cases in point were Sub-Saharan Africa (SSA) two largest economies. Whereas Nigeria's recovery was on account of a rebound in oil and agricultural production, South Africa's rebound was on account of a one-off pick-up in agriculture and mining while recovery in eastern and southern Africa was due to the easing of drought conditions that impacted much of the region in 2016 and early 2017.

Although overall growth momentum in SSA remains precarious, positive developments in the external sector were supportive of real sector resurgence. Buoyed by falling cost of funds, SSA saw favorable developments in the external sector resulting in growing appetite for sovereign borrowing in money markets, especially in frontier economies[2]. Owing mostly to global developments - and to a lesser degree improved domestic fundamentals - SSA market frontier economies witnessed a sharp compression in the cost of financing which, in turn, encouraged them to return to the market. The Fund estimates that by the end of the first half of 2017 sovereign issuances in SSA amounted to $4.6 billion - more than five times the $750 million raised in the entire 2016.

In the external sector, the favorable external financing environment has also alleviated the strong negative pressures experienced by several currencies in recent years, pressures remain for smaller economies. On the one hand, the easing of pressures facilitated implementation of measures toward liberalizing access to foreign exchange, which has encouraged portfolio inflows and contributed to the narrowing of the parallel market spread, e.g. in Nigeria. On the other hand, in a number of low-income, resource-intensive countries e.g. DR Congo, Guinea, and Liberia, the general outlook remains that despite significant monetary policy tightening, currency pressures remain high.

Across much of SSA, developments in monetary sector were fairly benign culminating in receding inflationary pressures. Yet this general picture masks regional differences in inflationary trends and drivers. Due to monetary tightening and improvements in exchange rate market conditions, the sharp rise in inflation that characterized 2015–16 had given way to

[2] e.g. Côte d'Ivoire, Nigeria, Senegal

receding inflation especially in oil-based economies. In contrast, following the drought-induced spike in food prices several East African countries witnessed a temporary pick-up in inflation in early 2017.

A consequence of the external developments is that by and large current account balances have improved or are expected to improve, especially in resource-intensive countries. Across SSA, current account deficits have narrowed, especially in oil exporting countries (e.g. Angola and Nigeria), due to increased oil production as well as import compression related to a scaling back in public investment. In other resource-intensive countries, the narrowing of the current account balance reflects a contraction in imports related to weak domestic demand (e.g. South Africa), financing constraints (e.g. Togo) and the completion on investment projects (Ethiopia). Current account deficits in non-resource-intensive economies are expected to remain high—averaging close to 8 percent of GDP in 2017—but are largely financed through foreign direct investment. The foregoing notwithstanding, the improvement in current account balances has yet to translate into an appropriate reconstitution of reserve buffers.

T**he IMF also suggests that development in the fiscal sector (stabilization of fiscal deficits) have, in turn, contributed to the stabilization of the external sector.** Beyond the external environment, emerging signs in the containment of fiscal deficits, albeit at high levels, have likely eased pressures on exchange rates and reserves, which also showed signs of stabilizing. Domestic factors have also been at work in some cases (e.g. tighter domestic policies earlier on (in 2016) (Mozambique, Uganda). In 2017, fiscal deficits were also expected to improve in oil-exporting countries on the back of further cuts in capital expenditures. Although, fiscal deficits were expected to deteriorate further in Angola and Nigeria due to expected fall in non-oil revenues, in the rest of the countries, fiscal deficits were expected to stabilize around their 2016 levels - close to 4.5 percent of GDP. The IMF concludes that Africa's recovery remained fragile and recommended that to sustain this recovery Africa should formulate and implement policies in three domains: addressing debt vulnerabilities; putting emphasis on revenue mobilization; and fostering economic diversification.

2.2 Malawi's outlook in the regional context

Malawi seems to be marching to the beat of a different drum such that economic trends in Malawi have hardly been in synch with those in the rest of SSA. In contrast to much of SSA, Malawi is not winning the war on macroeconomic stability and has in fact been stuck in a vicious cycle of *Weak growth → Fiscal deficits → Money printing → Inflation and depreciation → Investor retrenchment→ Weak growth*. The good news was that relative to her peers, in the last five years Malawi's economic performance was comparable, averaging 5.3 percent and at par with the SSA average. Unfortunately, given Malawi's initial conditions, this growth was not strong enough for

Malawi to catch up with her neighbors. Holding constant economic shocks like the floatation of Kwacha in 2012, the Cashgate of 2013 and weather shocks of 2014 and 2015, the major culprit to Malawi's economic vulnerability has been inflation. At a time when Africa's low income countries (LICs) experienced low inflation, Malawi was relatively behind the curve in terms of inflation management, and missed out on Africa LIC's disinflation story.

3. Constraints to Malawi's development

3.1 Growth conceptual framework

Three schools of thought have held sway over most explanations for the slow rate of economic growth in Africa: the Geography, Institutions and Policy hypothesis (Masanjala, 2017). The general argument of the Geography Hypothesis is that geography directly affects development either through endowments, quality of factors of production or the production function itself.[3] Geography, as in the case of natural resource endowments may positively influence national income. On the other hand, geography can permanently limit a country's production and competitiveness. For example tropical geography gives climatic conditions that, on the one hand, increase fragility of soils and erosion and inhibit crop production; on the other hand tropical climate gives ecological disease vectors that promote debilitating diseases for both people (e.g. mosquitoes and malaria) and livestock (e.g. tsetse fly and sleeping sickness)[4].

The Institutions Hypothesis argues that *geography is not destiny* and development outcomes are mostly a function of whether and how economic agents play by *rules of the game* (institutions). This hypothesis posits that the effect of geography operate through institutions in that most tropical countries fail to develop because they are characterized by existence of extractive institutions which create conditions for rent-seeking behaviour to thrive[5]. Better economic outcomes, it was argued, are usually associated with good institutions. In particular good institutions are characterized by whether citizens have a voice and the government is transparent and accountable; the existence of political stability and absence of violence including a low likelihood that the holders of public office will be changed by unconstitutional or violent means; Government effectiveness as reflected in the quality of public service delivery and competence of civil servants; low regulatory burden, especially relative absence of government controls on commerce; adherence to the rule of law; and Freedom from graft, especially absence of the use of public power for private gain (corruption).

[3] See Easterly (1992); Sachs and Warner (1995).
[4] (Bloom and Sachs, 1998; Collier, 2007
[5] (Acemoglu, Johnson and Robinson, 2001).

The policy hypothesis, stresses the importance of major national policies and reforms, and de-emphasizes the importance of endowments in determining economic development. It's argued that sound macroeconomic policies, openness to international trade, and the absence of capital account controls will tend to foster long-run economic success. This hypothesis is an amalgam of views that argue that geography only matters by affecting institutions which, in turn, affect how government works in formulating, adopting and implementing polices. This perspective is clearly embedded in the policy recommendations adopted by major multilateral institutions and a motivation for creating international financial institutions was to facilitate the adoption of sound national policies that foster economic development.

3.2 The Role of Geography on Malawi's Economy

Malawi appears to suffer from a deficit of beneficial geography or natural endowments. Masanjala (2017) observed that the world over, the most transformative geographical asset is sub-soil assets (mineral resources). However, Malawi has not made the investment necessary to find economically viable sub-soil assets. National wealth statistics (World Bank, 2006) show that contrary to what Malawians believe, natural capital accounts for only 15 percent of Malawi's wealth, while intangible capital accounts for 74 percent and created capital is 10 percent. Unlike other developing countries, the dominant asset within Malawi's natural capital is cropland (which has low unit value) while least is sub-soil assets (which commands higher unit values).

Malawi has not managed to leverage or add value to its geographic endowments for greater economic contribution. Although 20 percent of her land area is covered by water, Malawi has not leveraged this most abundant natural resource (water in lakes and rivers) either for economic development or just to assure food security by promoting irrigation thereby engendering multiple cropping season in a year. Similarly, in its tourism marketing, Malawi continues to sell "unprocessed" geography (Masanjala, 2017). Existence of beautiful lakes, imposing mountains and wild life has not translated into a high market tourist destination due to lack of investments in value addition (e.g. water sports and casinos) and complimentary infrastructure.

Malawi's geography increases economic vulnerability and impacts the ease and cost of doing business and hence Malawi's attractiveness as an investment destination. The IMF and Standard Bank pointed out how volatile weather was a production shock and major driver of Malawi's episodic growth, noting that Malawi had too much rainfall leading to flooding in 2014/15 and too little rain leading to drought in 2015/16, either severely impacting agricultural output and overall GDP. The Standard Bank further noted that due to her land-lockedness, Malawi has a high cost of doing business - land lockedness resulted in about 56 percent of Malawi's costs of international trade are transportation and logistics related. In addition, total reliance on hydroelectricity generated on the Shire River (98 %) raises the vulnerability of the nation's power supply.

3.3 The Role of Institutions in Malawi's Economy

The general position was that institutions matter for creating facilitative and conducive environment for private sector and effective policy formulation and implementation (governance). In highlighting the importance of institutions both for leveraging sub-soil assets or overcoming geographical limitations, Masanjala (2017) quotes the World Bank (2006) who asserted that "there are no sustainable diamond mines, but there are sustainable diamond-mining countries". In other words, what distinguishes economic development in Botswana from that in DR Congo or Liberia is not the amount of mineral resource endowment (since DRC is more endowed) but institutions regulating the exploitation of the mineral resources. So long as there exists a set of institutions capable of managing the natural resource, collecting resource rents, and directing these rents into profitable investments, geographical resources can be positively leveraged. Both the Standard Bank and Masanjala (2017), argued that since Malawi has a deficit of good geography it must therefore rely on developing intangible capital - a combination of human capital and the quality of formal and informal institutions (World Bank, 2006).

Recent developments in Malawi's social and political realm manifest and portend a breakdown in institutions. The following selected evidence makes the point

- **State and regulatory capture by political elites coupled with technocratic failure at all levels of the government.** Malawi is characterized by weak institutions which have been captured by the political and technical elites leading to a growing emphasis of party manifesto at the expense of nationally agreed development agenda. This has resulted in proliferation of rent-seeking activities at national, district and local levels (Chirwa, 2017). In the public square, Malawi is witnessing *Technocratic failure*, where technicians seeking to buy favours of politicians are promoting party-driven plans howsoever technically unsound and join politicians in celebrating micro achievements.

- **Institutional failure, manifested through corruption, is increasingly seen as a big challenge to business activities in Malawi.** Based on the Investment Climate Assessment (ICA), the World Bank reported that corruption was rated as the third most significant obstacle to setting up and doing business in Malawi. Malawi was one of the top three worst performers amongst comparable countries in the region with high corruption levels (in form of 'gifts') when enterprises get services from public institutions. The ICA reported that it has become customary for business to give gifts in order to meet tax officials, to secure government contracts (33%), to obtain business operating licenses, import licenses, construction permits (34 %), and to get connected to an electricity grid or water supply and even to acquire land.

- **Overtime bribery incidences appear to be increasing and deepening in Malawi.** The ICA also showed that between 2008 and 2014 bribery worsened significantly, with one in every three firms (33%) surveyed identifying bribery as a critical constraint. More importantly, the percentage of firms experiencing at least one bribe payment request within a year rose, with a gift or an informal payment being requested in one in every five (20%) public transactions. The court system in Malawi was also reported as a major constraint mostly for large enterprises.

- **There is growing distrust of formal institutions by both political leaders and citizens and increasing impatience with formal institutions and normal processes.** Masanjala (2017) argued that on matters regulated by law and public policy, political leaders are increasingly appealing to traditional leaders and informal institutions instead of relying on the formal institutions that ushered them into office. On their part, citizens increasingly distrust formal institutions of law and order and seem to manifest a belief that there exists a shorter or quicker solution to justice – evident from an increase in cases of social banditry e.g. in the cases of bloodsuckers and resultant mob justice, and vandalism of police stations.

- **Lack of national ethos and shared values resulting in moral decadence, low ethics and entrenchment of a culture of freebies and handouts**. Malawians are increasingly becoming incapable of fending for themselves but believe that there exists a shorter or quicker solution to material deprivation (corruption). Most harbor the belief that you can get something without working (be it fertilizer, toilets or cement and iron sheets) and most keep waiting for some benefactor out there to relieve their plight (Masanjala,2017). This malaise is being exploited by politicians who promise handouts in the name of development and religious leaders who promise miracle money. The sad result is that there is increasing tolerance for mediocrity in all facets of life – *ku Malawi'tu ndi choncho, mungozolowera*.

3.4 Policies and Development Plans

Malawi's development planning, policies and practice have not occurred in a vacuum and their evolution needs to be viewed through the prism of the global development discourse. In his presentation, Chirwa (2017) argued that as the global development discourse evolved from the nationalist ideologies of the 1960s, to structuralism of the 1970s and then the return to the market that characterised the Washington and post-Washington consensus in the 80 to 2000s, so did Malawi's policies and approaches to development.

The 1960s were characterised by fights for independence and a distrust of markets as a mechanism for allocating national resources. Chirwa (2017) observed that in the immediate post-independence era, state-led planning became the norm and nationalist ideologies dominated. In concert with other newly born states, Malawi articulated development plans focusing on investing in basic development conditions: education, health and infrastructure. The state-led development focus of the first development plans, the Nyasaland Development Plan (1962 -1965) and Second Development Plans (1965 – 1969) led to creation of Malawi Development Corporation to invest in 'private goods' on behalf of the state and laid out proposals for direct investment in key sectors like the Lake shore road, airports, and creation of National University.

In the 1970s although Structuralist ideologies still pervaded development discourse, the appeal of Structuralism and nationalist ideologies began to wane. While a healthy distrust of the market continued coupled with belief in state-led development, the fervour of nationalism began to wane and there emerged a need for post-independence economic consolidation. In Malawi, this resulted in an initial shift of emphasis from development **plans** towards development **policies**. At the conclusion of the Second Development Plan (1965-69) Malawi formulated her first ten-year *Statement of Development Policies (1971 – 1979)* (or DevPol I) which highlighted a few high profile investments including the Salima - Mchinji rail construction, the actualization of the relocation of the capital city from Zomba to Lilongwe and construction of the national university.

Owing to the global recession due to the first and second oil shocks, by late 1970s Structuralism was discredited and the 1980s were characterised by rebound of Neo-classical orthodoxy under the Washington consensus. In the emerging global consensus which emphasised the need for markets to be allowed to play critical role in development, Malawi shifted towards policies for structural reforms and continued to prioritise policies over plans. After a five year hiatus, Malawi developed her second *Statement of Development Policies (1987 – 1996)* (DevPol II) which espoused limited central planning, deregulation and a return to market mechanism characterised by privatisation. Under DevPol II, Malawi reformed the fiscal, financial and agricultural sector, including gradual removal of fertiliser subsidy and put in place the institutional mechanism to guide state withdraw from commerce through privatisation. Deregulation in trade resulted in inability of most protected public owned companies to compete and resulted in closure and de-industrialisation.

Malawi's recent efforts towards development planning seem to be more reflective of her commitment to the international development agenda. In the Post-Washington Consensus era (2000 to date) international discourse still contends that markets should be allowed to play critical role in development but social safety nets be devised for potential losers from structural adjustment (Chirwa, 2017). Development planning has also been in the context of the UN's Millennium (and now Sustainable) Development Goals – to deal with social development. In the run-up to the rolling out of the MDG agenda, the United Nations Development Programme sponsored a long-term constraints study which culminated in the formulation of the Malawi Vision 2020 (Masanjala,2017). Malawi's Vision is that

> *By the year 2020, Malawi as a God-fearing nation will be secure, and democratically mature, environmentally sustainable and self-reliant with equal opportunities for and active participation for all, having social services, vibrant culture and religious values and being technologically driven middle income country (Malawi Vision 2020).*

After 20 years of implementation, Malawi has succeeded in remaining a God-fearing nation with a vibrant culture and religious values but has failed to realize all the economic and developmental dimensions of the vision (Masanjala, 2017). Chirwa (2017) adduced two explanations for the limited impact of Malawi's development planning efforts. First is the proliferation of rent-seeking activities at national, district and local levels. Malawi is characterised by weak institutions which have been captured by the political and technical elites thereby relying on political party manifesto driven public investments and development. In turn, this had led to Technocratic failure, where technician seek to buy favours of politicians by promoting party-driven plans howsoever, technically unsound and join politicians in celebrating micro achievements.

Malawi's failure to achieve the Vision 2020 arises from a lack of alignment between the medium term plans and the Vision and internal inconsistencies in the medium term plan themselves. In the life of Vision 2020, Malawi had produced six medium term development strategies, with limited central planning and proposing mega-investment. Chirwa (2017) further notes that Malawi's post-2000 strategies were characterised by a number of shortfalls including poor designs - having too many focal areas and undefined public investments; lack of coherent strategies for human capital development- e.g. fragmented investments in education and health; Poor implementation and mismatch of resources - resulting in part from poor designs and weak institutions; Limited monitoring and evaluation and 'perverse' learning from experiences - Malawi tend to learn the bad things. New strategies are drawn before full implementation of previous ones and without benefiting from proper independent evaluation of previous ones (especially since internal evaluations tend to be full of self-praise)[6].

Due to lack of accountability on the part of politicians, a number of constraints that have not been resolved in past development plans continue to be carried over without assurance of successful resolution. In concert with the MCCI and World Bank, MGDS III acknowledges a

---

[6] For instance a preface to MGDS II claims that, "It follows the successful implementation of the country's medium term strategy, the Malawi Growth and Development Strategy (MGDS) between 2006 and 2011.

number of such constraints that previous plans sought to address but still remain including, inadequate power supply for social, industrial and domestic use; Corruption; an underdeveloped financial sector; a narrow export base (Malawi being in perpetual trade deficit); and high unemployment rate. In addition, unsustainable use of natural resources and overreliance on rain-fed agriculture has increased vulnerability of rural masses.

Technocratic failure in planning is manifested by choice of flagship projects a number of which are hardly transformative, being recycled projects that failed in the past MGDS. The conference observed that flagship projects included in MGDS III e.g. the Greenbelt Initiative and Nsanje World inland port were in the just-lapsed MGDS II. It was not clear why and how these project failed to materialise in the previous MGDS and whether the requisite framework is now in place for their successful implementation.

Malawi development plans recognise the need for achieving economic stability as a springboard for other development. MGDS III asserts that, although Malawi's growth rate averaged around 6% per year over the last ten years, attributed to first MGDS, that growth did not benefit the majority of Malawians, and worsening poverty levels exacerbates the already high dependence ratio. Between 2012 and 2017, the inflation rate was stable but still high averaging around 20%, compared to single-digit levels in the first decade. Similarly, with the bank rate averaging as high as 27.6%, the cost of capital was too high especially for small and medium enterprises.

3.5 Private Sector Development

In Malawi, the common adage that *the Private Sector is the Economy's Engine of Growth* is now recognized as an over-used cliché. Government efforts to promote private sector do not match the strategic emphasis in policy documents and, over time, the private sector has been much maligned and its contribution increasingly marginal. The World Bank, MCCCI and Standard Bank observed that the private sector is highlighted as the engine of growth in all the economic policy documents including the Industrial Policy, the Trade Policy, the Export Strategy and past and current versions of the MGDS. Yet that this is no more than an honorable mention as Government has been delinquent in its commitment of creating a facilitative and conducive environment for private sector to deliver on its potential, let alone to thrive. In fact, Malawi's experience remains atypical of the African experience (Standard Bank) where the private sector remains viable and accounts for over four-fifths of total production, two-thirds of total investment, three-fourths of total credit to the economy, and employs about 90 percent of the employed working age population (AfDB, 2011).

Owing to overreliance on patronage and political alignment to access government business instead of capitalizing on market-based opportunities, Malawi's private sector has recently

been unable to play its rightful role. Aside from public policy failures, recent experience clearly testifies how some companies thrive when a certain party is in power but totally collapse once that party leaves office. Whereas de-industrialization of the 1990s was a result of Structural Adjustment Programmes adopted in the late 1980s, the more recent developments suggest an inability of the private sector to innovate and wean itself from overreliance on party and government largesse for survival, and inability to separate personal connections with corporate alliances.

Performance of Malawi's private sector has been constrained by institutional failures manifesting themselves in government ineffectiveness and deficiencies in public service. A number of surveys, including the World Economic Forum's Global Competitiveness index, MCCCI's Malawi Business Climate Surveys, and the World Bank's Ease of Doing Business and Business Climate Assessment all suggest that among many obstacles, private sector in Malawi has to deal with non-effective tax rates, high interest rates, high inflation rates, lack of development finance, poor infrastructure services, high levels of corruption, and electricity challenges, among others. Of these, the following were emphasized.

1. *Macroeconomic Instability*

Since 2012, demand-side management policies that sought to control inflation have also had unintended but deleterious supply-side effects. Consequent to the devaluation of the Kwacha and its precipitous depreciation due to the subsequent floatation and the deregulation of energy pricing allowing for pass-through of international prices to domestic pump prices, since 2012 Malawi has faced stubbornly high inflation. In a bid to contain the inflation the RBM kept interest rates high which, in turn, kept market rates high. In addition, inability of revenues to cover expenditure resulted in growing government domestic borrowing putting stress on the fiscus and monetary sector through accommodations in ways and means, automatic securitization and build-up of domestic debt.

2. *Deficient Public Services*

- **Private sector growth and government effectiveness is constrained by institutional failure as measured by availability of public services**. In concert with previous studies by the MCCCI, the World Bank and Standard Bank took turns to highlight how electricity supply is a major constraint to business and general economic development. With an installed capacity of 351, electricity supply remains risky and vulnerable to vagaries of weather especially with 98% being hydro power. The power is also mis-priced since electricity tariffs are not cost-reflective and hence an impediment to private sector investment in the sector. Consequently, the ICA argued that although an average of 24.8 percent of respondent firms identified electricity as a very severe obstacle, for manufacturing sector electricity was the number one constraint with four in every ten business rating electricity as a major constraint. Electricity is problematic at all levels of the electricity supply chain and two reasons explain this rating.

- **Malawi firms face challenges even to get connected to the electricity grid**, as firms reported that it takes 50.4 days to obtain an electrical connection (upon application). The wait for a connection in Malawi is even higher than the average in SSA. For instance, the number of days waiting for connection is 52.6 in Tanzania, 50.4 days in Malawi but a mere 12 days in Mozambique and an average of 36.7 days for SSA. In general, the situation worsened in 2014 compared to 2008 as firms continue to face challenges to get connected to the electricity grid.

- **Although electricity in Malawi electricity is generally recognized to be reasonably low-cost, the potential benefits are offset at the enterprise level by the cost of investing in and running back-up generating capacity**. For those connected, prospects for increased output growth are also undermined by the outages and recourse to use of generators. Whereas ESCOM power costs an average of US0.10 per Kilowatt hour, thermal power from diesel generator cost about US35 per kilowatt hour. The ICA found that in a typical month Malawian firms experienced 6.7 outages, each lasting an average of 3.5 hours. Although relative to her peers, Malawi's blackout incidence was better than in Tanzania (8.9) and the SSA average (8), the economic impact of Malawi's blackout has been estimated at loses equivalent to six percent of sales.

3. Policies, Structure and Conduct of Financial Sector Players

Apart from deficient public services, another critical hindrance to private sector development has been policies in the financial sector that are not pro-industry, and industry specific rigidities e.g. risk aversion and imposition of not effective interest rates. Specifically the following were highlighted:

- **Private sector investment is low because the private sector lacks access to finance and credit due to high risk-aversion of the financial sector**. The ICA found that access to finance was a severe constraint for 34.5 percent of respondent companies. In addition, access to credit in Malawi was not only low (26.7 %), but lenders favoured large-scale enterprises over medium and small scale enterprises. There was evidence of sectoral preference with credit more skewed towards foreign owned firm, firms engaged in exports (53.3 percent) compared to those with domestic orientation. Similarly, access to finance and credit is further mediated by gender of top management - firms that are headed by female top managers still reported having more access to bank credit than their counterparts.

- **Owing to economic instability and rise in non-performing loan, access to finance is further constrained by more onerous collateral requirements.** Malawi was amongst countries that had the highest percentage of loans requiring collateral and highest collateral to loan value ratio (World Bank). The ICA reported that about 93 percent of loans in Malawi required collateral (worsening from 88.1 % in 2008) and the value of collateral needed for a loan was relatively large (around 293.6 percent of the value of a loan). This translates to over three hundred percent above 2008 level and was the highest in the region. The Bank even argues that very little, if any, relationship exists between the value of loan requirements and non-performing loans.

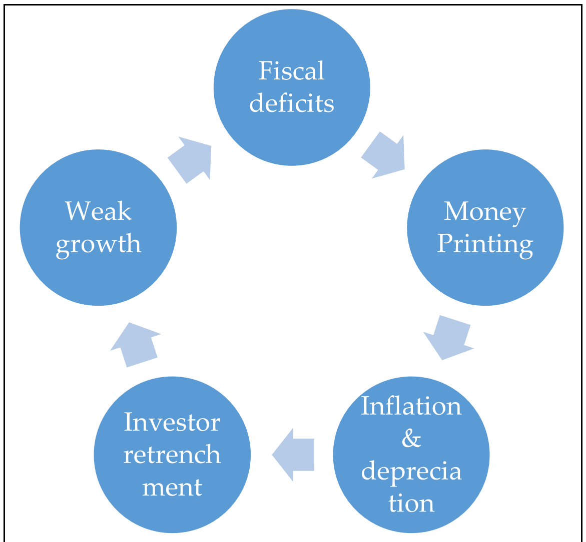
- **A consequence of the structure of finance for private sector is that firms in Malawi depend heavily on funding investment from own funds.** In Malawi 65.8 percent of total investment was financed internally and the rest by banks (about 33 percent), with little amounts coming from supplier credit, equity or stock sales. This is in stark in contrast to Kenya which leads the way in Africa with 43 percent of companies benefiting from bank financing. Although Malawi seems to do better than SSA (21 percent) with a third of the firms in the country accessing bank finance for investment, the reality was that it was large-scale, export oriented and the foreign owned firms that have more of this access than their local, small scale domestic oriented counterparts.

4 Imperatives for Economic Recovery and Development

This section presents a synthesis of recommendations for economic recovery and sustainability that emerged from the presentations. Of necessity it proceeds in four sub-sections, in part, highlighting the conditional and progressive nature of the recommended remedies and interventions.

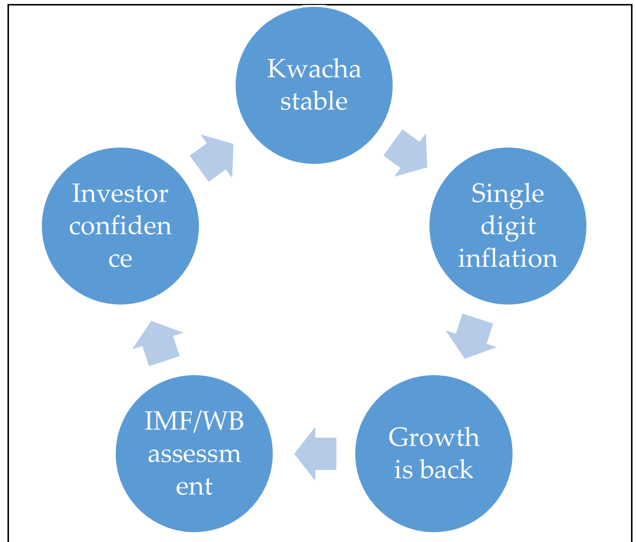
4.1 First Thing First - Address Economic Fundamentals

Malawi first needs to address economic fundamentals by ensuring economic stability and sustaining economic growth. A macroeconomic window of opportunity exists for Malawi to reset the economy and ensure that it addresses economic fundamentals (IMF). This requires that Malawi first seek to break the vicious cycle of *Weak growth → Fiscal deficits → Money printing → Inflation and depreciation → Investor retrenchment→ Weak growth* that current characterizes her macroeconomic outcomes. If this cycle is broken and the macroeconomic window is properly leveraged, Malawi can usher in a virtuous cycle of S*table currency → Single digit inflation → Sustained growth → Positive IMF/WB assessment → Return of investor confidence → Stable Kwacha.* To these ends, three pillars were proposed for consideration:



Vicious Cycle

⇒



Virtuous Cycle

1. **Malawi should first seek to achieve macroeconomic stability**. Malawi needs to adopt policies that ensure macroeconomic stability (low and stable inflation, stable exchange rate and sustained economic growth) before gradually switching gears to other endeavours.

2. **If Malawi is to turn her 'vision' into a 'plan' it is imperative to first know her fiscal space and utilize it efficiently.** Malawi lacks fiscal space given that her budget are deficit-financed. In addition, given Malawi's infrastructural deficits and the emerging requirements for successful implementation of MGDS III, Malawi needs to explore infrastructure financing by planning how to marry flagship infrastructure projects in MGDSIII with a sustainable fiscal planning. Otherwise many flagship projects will never be funded and hence implemented.

3. **Having achieved macroeconomic stability and fiscal space, Malawi should then seek to unlock private sector investment**. It is difficult for Malawi to address private sector needs if the macroeconomy is not stable and fiscal sector is under stress. Only after addressing the preceding can Malawi seek to unlock private investment. However, at that point, Government needs to listen to private sector and undertake necessary structural reforms.

4.2 Learn Lessons from Africa's Recovery

Africa's recovery remains fragile and the IMF recommends that to sustain this recovery Africa should formulate and implement policies in three domains: addressing debt vulnerabilities; put emphasis on revenue mobilization; and Fostering economic diversification

1. **Malawi should address debt vulnerabilities by implementing fiscal consolidation plans.** The historical record suggests that in Africa planned fiscal adjustments tend to be postponed. Yet if fiscal adjustments are not made public debt will continue to accumulate at an elevated

pace and result in unsustainable debt levels among all country groupings. The fears of negative impact may not be well founded since the relationship is not as straightforward - although changes in fiscal policy have knock-on effects on output, fiscal multipliers in SSA are lower compared with other regions and the impact depends critically on the composition of fiscal policy.

2. **Malawi, like the rest of SSA, has significant potential for growth by emphasizing on revenue mobilization.** Revenue mobilization can be growth enhancing if the funds are targeted at the financing of growth-friendly investments. Given that fiscal multipliers are largest for government investment and lowest for revenues, the IMF argues that attempts at raising revenue will be less distortionary and have a statistically little significant effect on output. On the other hand, since fiscal multiplier for Government are large, to the extent that the additional revenues would be earmarked for growth-friendly investment, it will greatly contribute to economic growth.

3. **Diversification offers a path to growth:** While sub-Saharan Africa has achieved a period of strong growth, Malawi's growth has mostly been episodic. Yet in both cases structural transformation has been slower that peers in other regions (IMF). Successful diversification is contingent on countries getting the policy mix right and playing to their strengths because a successful diversification strategy has to build on a country's endowments and tackle specific constraints. In Malawi's case Structural diversification is essential along-side consumption evolution (Standard Bank). The path to poverty alleviation will be founded market-led growth beyond the primary sector - Malawi need growth beyond agriculture.

4.3 Technically Sound & Politically Acceptable Development Plans

Against a background of UN's Agenda 2030 and Africa's Agenda 2063, Malawi's plans need to be Malawi-centric, reflect national aspirations and technically sound and politically acceptable. In order to recover and develop, development planners need to present viable growth and transformational imperatives (Masanjala, 2017).

1. **In Malawi's development plans, the choice of growth sectors needs to be based on sound technical analysis having regard to sectoral multiplier effects on output, job creation and contribution to economic resilience.** Malawi's growth imperative should address the question, *if Malawi is expected to recover and grow sustainably, where will the growth come from?* Or *what will our engine of growth be*? Hitherto, agriculture's position as Malawi's engine of growth has been more by default than strategic choice. Yet the conference seemed reticent to pick a new sector but agreed that rather than debating what the actual engine of growth should be, Malawi should first address pre-conditions for growth e.g. infrastructural deficits and investment in human capital e.g. health and education.

2. **In the immediate term Malawi needs to diversify within agriculture but in the medium to long term she needs diversify away from agriculture**. This transformational imperative should answer the question*, if Malawi is to transform, into what will we transform*? It is imperative for Malawi needs to diversify within agriculture from rain-fed to irrigation based farming and from reliance on subsistence to commercial agriculture. In addition, Malawi needs to diversify away from agriculture (not abolish agriculture) to increase economic resilience. Transformation also requires Malawi to change mindset including cutting wastage of human capital by increasing transitional rates from primary to secondary and higher education; Malawi should divorce the past - stop waxing nostalgic and romantic about the past and accept new ways of doing business.

3. **To assure inclusive economic growth and development Malawi needs to grow in sectors where most of the poor eke out their living.** According to MGDS III identified key priority areas to underpin Malawi's growth include Agriculture, Water Development and Climate Change Management; Education and Skills Development; Energy, Industry and Tourism Development; Transport and ICT Infrastructure; and Health and Population. It is expected that over the life of MGDS II, if Malawi achieves sound macroeconomic management and the targeted economic growth rate averaging 7% it will lead to a doubling per capita income.

4. **Good governance is a critical anchor for effective implementation of any development plan.** Instead of implementing development agendas driven by party manifesto, political parties should commit to nationally agreed agenda and politics should work towards fulfilling nationally agreed investments (Chirwa, 2017). Government has argued that if MGDS III objectives are to be achieved several governance tenets need to be emphasised including ensuring transparency, accountability and institutional strengthening to deal with corruption. In addition, due to critical nature of public sector management, public sector reforms will be critical and so too will public finance management. Government should also respect and protect human rights as well as upholding rule of law; and consider human capital development central to development plans.

5. **While development plans need to be visionary, they also need to be logical and address fundamental socio-economic constraints and resolve critical development bottlenecks.** The basis of planning is a critical analysis that seeks to answer basic but fundamental questions (Chirwa, 2017). In planning what to do in the present, Malawian planners should be asking simple but futuristic planning questions e.g. *If we want 90% of our primary school learners to transition into completing secondary education in 20 years' time, what kind of investments do we need*? This type of reasoning should pervade planning for all sectors e.g. transitions from secondary

to tertiary levels, or health and sanitation (including water) and infrastructure and matching manpower development.

4.4 Unlocking the Private Sector

1. **Malawi should ensure a return to economic fundamentals to achieve macroeconomic stability.** Lowering and stabilizing inflation, lowering interest rates and stabilizing the exchange rate remain critical preconditions for predictable private sector growth and survival. This should be coupled by private sector-friendly fiscal prudence especially clearance of public sector arrears to the private sector.

2. **It is imperative for Malawi to formulate policies that ensure improved access to finance and credit for small and medium scale enterprises.** It was recommended that Malawi should consolidate some of the recent reforms in financial sector e.g. operationalization and strengthening of credit referencing, reform of collateral requirements, popularizing the warehouse receipts systems, deepening the payment infrastructure and innovations in electronic payments. Government also needs to develop long-term financing schemes, including introduction of development bank and new financial instruments, especially those that seek to create, support and buttress the middle class.

3. **At a minimum, Malawi needs to prioritize investments in infrastructure that reduce the cost of doing business, especially increasing and stabilizing power supply.** Stable and sufficient power supply can reduce cost of business, increase industrial output and worker productivity.... The World Bank and Standard Bank recommended that
   - Malawi should continue with legal and policy reforms that have commenced in the energy sector and sound regulation of the sector to bring substantial investment, as well as deeper efforts to improve the governance and efficiency of utility suppliers.
   - Work on issues of cost-reflectivity in tariff in order to attract and bring in independent power producers and utilization of alternative sources of renewable energy;
   - Expansion of national grid to be able to uptake and efficiently transmit increased generation of electricity;
   - Implementation of interconnector program with Malawi's neighbors such as Mozambique and Zambia

4. **Malawi needs to prioritize investments in complimentary infrastructure so as to reduce the cost of international trade and increase competitiveness**. Due to land-lockedness, Malawi faces high cost to international trade that impacts her competitiveness. With ttransport costs contributing 56% of Malawi's import bill and 30% of exports. Therefore, promoting trade will require refurbishing rail networks (especially Nacala corridor), rejuvenating its lake transport and warehousing (Standard Bank). Chirwa further argued that beyond promotion of

industry, an inter-modal transport infrastructure (rail and road) would be key in supporting human capital mobility.

5. **Malawi needs to address policy and regulatory challenges to increase predictability and transparency of government-to-business interaction and curb corruption.** Measures need to be taken, especially in Government institutions, to ensure transparency and accountability, as well as to improve the provision of services that facilitate businesses (World Bank). These measures include
   a. Simplification and automation of Government to business systems such as licensing and business permit systems;
   b. ensuring highly sound public financial management system and processes;
   c. Improving the IFMIS infrastructure, and the reductions of cash transactions in favor of e-payments for Government services;
   d. Ensuring that Governance institutions are adequately financed and provided with the necessary independence to effectively execute their mandates;
   e. Implementing reforms in land governance (new set of land laws) and automation of land registry to ensure predictability and ease in acquiring land by investors.

6. **Malawi should focus on measures that can increase the productivity of firms, particularly medium sized ones.** Malawi need to consider the development of an innovation ecosystem and frameworks that facilitate high levels of technology diffusion, especially for research and development; Malawi should also refocus education and skills development with a view to promoting industry-relevance including for agricultural production and meeting the labor needs of the emerging manufacturing sub-sector.

5 Conclusion

This synthesis sought to outline constraints to Malawi's development as they emerged from the Economic Association of Malawi conference of 2017. The central observation this synthesis is that Malawi's development is constrained by a deficit of beneficial geography, institutional and technocratic failure and development plans that are too focused on international development discourse instead of national agenda. In the end, whether Malawi's fortunes change depends on how she leverages her geographical endowments, reorients her institutional make-up to create a developmental state and formulates policies and plans that are visionary enough.

Although Malawi's development is constrained by a deficit of beneficial geography, geography is not destiny. Having no identifiable and economically viable sub-soil assets (minerals resources) and not devoting enough resources to exploration, a large fraction of Malawians rely on agriculture as the default sector. Reliance on rain-fed agriculture increases Malawi's economic vulnerability due to weather-related shocks. Malawi also faces relatively higher cost of international trade due to land-lockedness. Yet there was consensus that geography is not destiny and that the real causes of Malawi's slow growth and recovery lie elsewhere. And indeed the emerging consensus was that whether, how and when Malawi's fortunes change depends on more on institutional make-up, reforms and policies and plans.

Institutional and technocratic failure and development plans that focus on achievement of or compliance with international development agenda are more responsible for Malawi's episodic growth. Institutional failure manifested by lack of national ethos, increasing cases of social banditry, deficient public services (especially deficiencies in power), rise in real and perceived corruption and increasing expectation for bribery especially in Government to business interaction. The evolution of Malawi's development plans and policies has mirrored global development in development discourse. Recent medium term plans or strategies have sought to integrate obligations that Malawi has committed to under international development agenda e.g. millennium development agenda and sustainable development into national plans.

Malawi's geographical, institutional and strategic constraints have deleteriously affected private sector's ability either to act as an engine of growth or just pull its own weight. In spite of government rhetoric about private sector being engine of growth, Malawi continues to prioritize investment in primary sector over the secondary sector. Persistence of power deficits have raised the cost of doing business as firms have to operate back-up gensets leading to loses of an equivalent of 6 percent sales. Inconsistent policies in financial sector manifested in high inflation and interest rates, low access to finance and credit, and suffocating collateral requirements have caused firms to resort to self-finance. Similarly, lack of other infrastructure also undermine Malawi's appeal as an investment destination for foreign direct investment.

The first imperative on the ladder for Malawi's economic recovery is restoration of macroeconomic fundamentals. If Malawi is to unlock the private sector, she needs to formulate policies that ensure macroeconomic stability (both internal and external) before gradually switching gears to other endeavours. Malawi should also know her fiscal space and utilize it efficiently. Second, there are lessons to be learned from Africa's recovery and fiscal consolidation especially need to manage debt vulnerabilities, increasing revenue mobilization and economic diversification.

Second, it is imperative that Malawi creates a conducive environment for private sector to fulfil its potential and thrive. This includes assuring macroeconomic stability especially lowering and stabilizing inflation and interest rates, and stabilizing the exchange rate. Government also need to formulate policies that improve access to finance and credit and lighten collateral requirements. It is also imperative for Malawi to prioritize investments in infrastructure to reduce the cost of doing business, especially increasing and stabilizing power supply and transport infrastructure. In addition, Government needs to address policy and regulatory challenges to increase predictability and transparency especially in government-to-business interaction and curb corruption.

It is imperative that development policies and plans be Malawi-centric and reflect national aspirations. Malawi's growth and development needs to inclusive i.e. economic growth and development needs to be in sectors where most of the population and indeed the poor eke out their living. In addition, Malawi's transformation requires comprehensive change in mind set, strategy, operational model, organizational, people and processes. To realize these aspirations good governance is a critical anchor for effective implementation of any development plan.

6 Reference Presentations

Chirwa, E.W. (2017) **Reflections and Thoughts on Development Planning in Malawi,** Presentation at the 2017 Economics Association of Malawi Annual Conference.

Government of Malawi (Ministry of Finance, Economic Planning and Development), the **Malawi Growth and Development Strategy (MGDS III),** Presentation at the 2017 Economics Association of Malawi Annual Conference**.**

International Monetary Fund (IMF), **Switching gears**, presentation made by Jack Ree, Country Representative IMF, Presentation at the 2017 Economics Association of Malawi Annual Conference.

Malawi Chamber of Commerce and Industry (MCCCI), **Is Private Sector: Still the Engine for Economic Growth,** Presentation at the 2017 Economics Association of Malawi Annual Conference.

Masanjala, W.H. (2017) **The Role of Geography & Institutions in Transformation**.

Standard Bank, **Investment –led Growth**, Presentation at the 2017 Economics Association of Malawi Annual Conference.

World Bank, **Malawi Investment Climate Assessment (ICA), A Review of Challenges Faced by the Private Sector**, Presentation at the 2017 Economics Association of Malawi Annual Conference

7 Appendix 1: 2017 ECAMA Annual Conference Key Resolutions

The 2017 ANNUAL ECONOMICS ASSOCIATION OF MALAWI (ECAMA) CONFERENCE

COMMUNIQUÉ

NKOPOLA LODGE, MANGOCHI, MALAWI
9TH-10TH NOVEMBER, 2017

Theme: Rethinking the Pillars and Structures for Malawi's Transformative and Inclusive Economic Development

1. Introduction

The 2017 Economics Association of Malawi Annual Conference was held on 9th and 10th November 2017 at Sunbird Nkopola Lodge in Mangochi. The conference was officially opened by the Deputy Governor, Economics and Regulations, Reserve Bank of Malawi, Dr. Grant P. Kabango. In attendance were officials from the World Bank, IMF Resident Representative, officials from the Reserve Bank of Malawi, officials from Malawi Confederation of Chambers of Commerce and Industry (MCCCI), government officials from Ministry of Finance, Economic Planning and Development and other ministries, captains of the private sector, academicians, civil society leaders, international delegates, economists from various sectors of the economy and the media.

ECAMA is grateful to the following institutions that financed the conference: Standard Bank, Toyota Malawi, Malawi Confederation of Chambers of Commerce and Industry (MCCCI) and Whistle Blower Limited.

The deliberations of the conference on this year's theme were largely informed by the following key presentations:

a. The Role of Geography & Institutions in Transformation
b. Reflections and Thoughts on Development Planning in Malawi
c. Switching Gears: How to Turn Malawi's Economic Fortunes at this Juncture
d. Malawi Investment Climate Assessment: A Review of Challenges Faced by the Private Sector in Malawi
e. Private Sector: Still Malawi's Engine for Economic Growth?
f. Malawi Growth and Development Strategy III: Key Highlights
g. Investment-Led Economic Growth: Produce Our Way to Prosperity

2. Resolutions of the conference

Following deliberations of the conference, it was clear that there are a number of bottlenecks hindering the country from attaining transformative and inclusive economic development. Against this background, the conference made the following resolutions:

2.1 The **Agricultural sector** needs transformation to fully contribute to the country's economic development. Currently, agriculture accounts for about 30.0 percent of GDP, employs around 64.0 percent of the labourforce and contributes about 75.0 percent of the country's total exports. It was noted that Malawi is heavily reliant on rain-fed agriculture, tobacco as the main cash crop and peasant farming. Hence agricultural output is low, volatile and suffers from various shocks such as adverse weather and price volatility. The maize shortages were bemoaned as no country can progress unless it can feed itself. The conference called for the need to re-engineer Agriculture in the country. **Firstly, it was stressed that there is a need to move away from peasant agriculture to small, medium and large scale mechanized farming. Secondly, the sector needs to make irrigation development a priority to overcome challenges of low productivity and climate change effects. Thirdly, it is high time that Malawi stops its over-reliance on tobacco as a key cash crop.** There is need to borrow lessons from tobacco on how it was institutionalised and identify other key crops that can complement it and in the long-run replace tobacco as main cash crop.

Further the conference stressed the need to deal with the tradition of equating agriculture to maize/food production. Maize being the country's staple food has been at the center of political economy such that its availability is crucial for scoring political points. **Members also stressed that it is high time as a country that we review the efficacy of Farm Input Subsidy Program (FISP), otherwise the resources may need to be channeled to other more productive areas. Finally, it is important for the sector to develop the entire value chain from production, value addition/agro-processing and marketing to ensure that farmers get a good return on their produce.** The conference noted the need to holistically review the agricultural sector policies and some of the key stakeholders include: Ministry of Agriculture, Ministry of Lands, Ministry of Industry, Trade and Tourism, Ministry of Justice, Civil Society Organisations (CSOs), Donor Community, Ministry of Finance and the Academia;

2.2 It was also observed that the country's **leadership** at every level is somewhat weak to adequately stir sustainable economic development. Poor leadership in the country is manifested when change in government regime is usually followed by a change in focus on development/economic planning goals. This tendency negatively affects long-term development planning as new development strategies are drawn before full implementation of previous ones. What should be national agendas are implemented as political agendas and attributed to a specific group of people thereby removing the sense of ownership from the general public. Going forward, Malawi can develop **firstly, if leaders are visionary and focus on long-term development plans with well-defined and identifiable rolling investment plans. And secondly, the citizens need to organise themselves and take collective action to hold their leaders, at every level and across all sectors of the economy and society, accountable to implement long-term development policies.**

2.3 **Education** allows people to attain necessary skills that in turn raise productivity for the economy, enhance economic and social progress as well as improve income distribution. Despite the key role that education plays in economic growth, education levels, access to education and quality of education in Malawi remain low. Learners are still learning under trees due to acute shortages of school infrastructure and in some areas schools are not accessible during certain periods such as the rainy season. Even though primary education has been free since 1994, only 65.6 percent of the adult population (aged 15 years and above) in Malawi are able to read and write. For adult men, the literacy rate is 73.0 percent and for women it is 59.0 percent. **In order to achieve inclusive economic growth, it was stressed that attainment of universal education at least up-to secondary school level will go a long way not only in improving literacy levels but also enhancing economic productivity.** It is therefore recommended that authorities review the existing education policy and come up with holistic education policy that will promote education at all levels i.e. primary, secondary, and tertiary levels. Investment in education infrastructure is also required. Key stakeholders for education sector for policy review are: Ministry of Education, Science and Technology, Ministry of Finance, Economic Planning and Development, Ministry of Justice and Constitutional Affairs, CSOs and Donor Community;

2.4 The conference noted the need to address **health sector** challenges in order to achieve transformative and inclusive growth for Malawi. The country is still struggling to reduce communicable and infectious diseases, mortality rate remains a problem as 58 per every 1,000 children under 5 years are dying, children under 5 years are being stunted as child malnutrition is over 45.0 percent for the age group and life expectancy is lower at 53 years against the global average of 71 years. This development is partly a reflection of drug and medical staff shortages as well as health infrastructure inadequacies in the country. **The conference recommended that government i.e. Ministry of Health, Ministry of Finance, Economic Planning and Development, CSOs in consultation with development partners need to come up with holistic policy approach to address the existing health infrastructure shortages, medical staff/manpower mismatches, drug shortages and mainstreaming nutrition to deal with nutrition challenges. In addition, members resolved that there is a need to establish a Cancer Centre and a State of the Art referral hospital to save large foreign exchange outlays incurred on foreign referrals;**

2.5 **Institutions** - institutions are the rules of the game- and how these rules are being followed through will determine policy implementation and their outcomes. Members bemoaned poor quality of institutions (poor governance) in the country as characterized by lack of national ethos or patriotism, poor work ethics, poor public resource management and increased corruption. More precisely, it was noted that judicial system is acutely weak, executive arm of government is more powerful compared to other arms of the government and economic institutions are weak to drive economic growth. **Members stressed that for Malawi to develop, there is a need for collective efforts to revive the judicial system, allow key economic institutions such RBM, MRA and Ministry of Finance to be more autonomous, and executive arm of government needs to break the political dominance**

that stifles efficient operation and autonomy of other arms of government (Judiciary and Legislature). Citizens need re-orientation in order to have trust in the country's institutions. Meanwhile, **politicians** need to break from their past and current patterns of patronage politics in order to support more inclusive and sustainable growth. And finally, **donors** need to provide their assistance in ways that would help to strengthen institutions in the country. Key stakeholders crucial for strengthening institutions include: Ministry of Justice and Constitutional Affairs, Legislature, Office of the President and Cabinet, Ministry of Local Government and Local development, CSOs and Donor Community.

2.6 **Civil service** remains the biggest employer and very crucial for economic development. The conference noted that for Malawi to develop it needs to have vibrant and meritocratic civil service. However, in some instances the civil service fails to uphold meritocratic principles in promoting civil servants to senior positions of influence. Consequently, the country fails to benefit from nation-wide intellect and talent. **The conference stressed the need to revive civil service and move away from rewards system of political patronage as it retards productivity and development of the nation to performance based recruitment.**

2.7 **Private sector** was also identified as a key pillar that Malawi needs to harness to achieve sustainable and inclusive growth. It was noted that Malawi's private sector is shrinking and has of late been negatively affected by: high cost of finance, electricity power outages, corruption, non-effective tax rates, high inflation rates, and poor infrastructure services. **In order to revitalize the private sector, the conference stressed on the need to "listen to what the private sector say" and address the bottlenecks that impinge the sector.** It remains imperative for government authorities i.e. Ministry of Finance, Economic Planning and Development, Ministry of Industry, Trade and Tourism together with the Donor Community to come up with deliberate policies that are going to boost the sector. **As a suggestion the conference resolved to advise government to take advantage of the many existing professional bodies such as ECAMA, Marketers Association, Association of Engineers, Institute of Chartered Accountants in Malawi (ICAM) and other professional bodies to harness ideas specific to sectors.** This in turn also would aid in building a spirit of national service.

2.8 **Energy**- persistent electricity power outages are affecting productivity in the country. Members noted that for Malawi to achieve sustainable economic growth there is a need to have a vibrant energy sector. The installed capacity of electricity generation is at 351.0 megawatts and currently has declined to less than half of total installed capacity, of which 70 megawatts is dedicated to essential services such as referral hospitals and water boards and the remainder is meant for industrial production and domestic use. Arguably, the current level of electricity generation is not adequate to support meaningful private sector growth. **It is therefore imperative for government to put in place long-term policies and strategies that will address the prevailing power supply challenges and even plan for the future energy demand.** The government does not necessarily have to invest heavily in the sector because the private sector can ably invest in it. The Government i.e. Ministry of

Natural Resources, Energy and Mining, Ministry of Justice and Constitutional Affairs, Ministry of Finance, Economic Planning and Development, Ministry of Industry, Trade and Tourism, Malawi Energy Regulatory Authority (MERA), CSOs, Private Sector and Donor Community such as Millennium Challenge Account (MCA) need to work together to create an enabling environment for private sector to invest in the energy sector;

2.9 **Cost of finance** in Malawi remains too high and prohibitive for borrowers. Base lending rate has declined to 27.6 percent as of November 2017 from 36.3 percent in the same month last year, however at this level lending rates remain high. Malawi Investment Assessment Climate survey (2015) by World Bank revealed that most respondents indicated that cost of finance is the main factor affecting private sector investment. **The conference recommended that government i.e. Ministry of Finance, Economic Planning and Development and the Reserve Bank of Malawi should continue with some of the recent reforms –credit reference bureaus (CRBs), collateral, and warehouse receipts systems, improved payment infrastructure and innovations in electronic payments. Secondly, there is a need to develop financial market such that it should be able to offer long term financial products that can finance long term development projects. In addition to Export Development Fund (EDF), RBM should consider coming up with other development funds (such as agriculture development fund, mortgage development fund, and among others) aimed at addressing financing needs in specific sectors.** RBM needs to expedite the establishment of the Development Bank as this is expected to address some long-term financing gaps. Members noted that sustained macroeconomic stability as characterized by low inflation, interest rates and stable exchange rate will remain important in addressing cost of financing;

2.10 **Corruption** in Malawi remains a significant impediment for transformative and inclusive growth. Corruption has far reaching impact on public and private sector growth. With high levels of corruption it is difficult for a country to raise enough revenue/tax to finance health, education, legal institutions and police; in the end it is difficult to achieve long term development goals. In terms of private sector, corruption is seen as a key bottle neck to doing business in Malawi, for instance the private sector is still struggling with getting permits for construction, electricity connection, obtaining import licenses and acquiring land for new investment. **Firstly, it was noted that government institutions need to implement the reforms that are being drafted to ensure transparency and accountability of public funds. Secondly, it was recommended that in order to ensure highly sound public financial management system and processes there is a need to improve the IFMIS infrastructure, and the reductions of cash transactions in favor of e-payments for government services. Finally, it also suggested to improve the provision of services that facilitate business automation of government systems such as licensing and business permit systems will go a long way in reducing corruption and improve ease of doing business;**

2.11 Members also noted that the **tourism sector** represents another avenue that could spur growth for Malawi. However, the conference noted that the sector remains largely underdeveloped and that it is not very feasible to sell Malawi as a tourist destination in its current state. **The conference recommended that Government i.e. Ministry of Industry, Trade and Tourism, Ministry of Finance, Economic Planning and Development and the Private Sector to come up with deliberate policies to promote the tourism sector in Malawi;**

2.12 Members noted that **transport infrastructure** acuity continues to negatively impact the country's economic growth to an extent that it has negative effects on the general public access to social services such as schools, health facilities; negatively affects ease of doing business by private sector and also generally impedes private sector development due to high transportation costs. Members noted that government put in place very good development plans, however prioritization given limited resources and implementation remain key challenges in achieving long-term development for the country. The conference noted with concern that government did not consult all key stakeholders before having the MGDS III finally approved, as such there were sentiments that the document lacks prioritization of key areas and is not very different from its predecessor development strategy, MGDS II. **The conference recommended that government should prioritise transport infrastructure development as outlined in the Malawi Growth and Development Strategy (MGDS) III.** Further it is recommended to government to consider revamping rail transportation as it remains the most viable option for the country in as far as reduction of transportation costs for both public and private sectors is concerned;

2.13 The conference noted that about 82.0 percent of the population is 40 years of age and below, meaning that the **youth** represents a hidden potential that can support the country's growth. Despite Malawi's lack of mineral resource endowment, the country can use its youthful labourforce as impetus for growth. **One way to do that is for government to implement policies that empower the youths such as introduction of community colleges would empower the youths through skills development. Secondly, Malawi can benefit from its growing and youthful population through export of skilled labour to developed economies and in turn receive remittances which would help to reduce foreign exchange financing gaps;**

2.14 The conference noted that Malawi needs to cultivate **culture and religion** that will support growth. Members bemoaned the culture of clan based thinking which perpetrates tribalism and nepotism as such the country fails to benefit from the national wide best talents required for development. The conference also noted that Malawians waste more time than necessary on attending some cultural and social gatherings such as funeral and weddings instead of engaging in productive activities. In addition, it was noted that as God fearing nation as enshrined in the Vision 2020, Malawi's religion is to some extent acting as a hindrance to growth as some religious beliefs in the country do not demand hard work. **It was therefore stressed that it is high time that Malawi embraces the cultural and religious**

beliefs that will promote hard work and recognize best talent to support economic growth.

Signed

Chikumbutso Kalilombe
President

Maleka Thula
Executive Director