

## Towards Malawi 2063: Staying on track amidst significant downside risks and shocks.

May 2023

### 1.0 Background

Malawi has been hit by Tropical Cyclone (TC) Freddy, on the backdrop of longstanding structural challenges, compounded by the impact of multiple shocks (exogenous and endogenous), including the COVID-19 pandemic, the war in Ukraine, tropical cyclones Ana (2022) and Gombe (2022), and challenges with economic governance. Tropical Cyclone Freddy induced torrential rains from 11 to 13 March 2023 that caused flooding and landslides, which affected 14 districts and two cities in the southern region of the country. According to “Malawi’s Post-Disaster Needs Assessment, TC-Freddy – 2023” report produced by the Government of Malawi in April 2023 with support of the United Nations, European Union, and the World Bank, an estimated 2,267,458 people were affected; 659,278 (336,252 female and 323,026 male) displaced; 667 people killed and over 500 people declared missing by mid-March 2023. It has also been reported that the total recovery and reconstruction cost is estimated at USD 764 million, while the total disaster effect is USD546.5 million.

The interconnectedness of low and volatile growth, rising poverty, deprivation, inequalities, and increasing frequency and intensity of natural disasters, such as tropical cyclones and prolonged droughts, are clear indications that these challenges can no longer be dealt with in isolation. A routine/business as usual approach will mean that Malawi will not be able to alter the trend and accelerate achievement of the aspirations of the Sustainable Development Goals (SDGs) by 2030 and the country’s long-term development framework (Malawi 2063) by 2063. Yet, turning the tide demands new and innovative ways of thinking and action. Regaining Malawi’s growth and development trajectory will require policy shifts based on analysis of impacts and addressing root causes, maximizing, and effectively coordinating synergies and development efforts, creating

efficiencies from within and managing them better and transforming challenges into opportunities.

This policy brief aims to inform strategic prioritization of policy and programmatic interventions to ensure the country stays on track to achieve the aspirations of the Malawi 2063, its current 10-year Malawi Implementation Plan (MIP) and successive medium-term plans.

### 2.0 A brief synopsis of the Malawi development context

**Malawi 2063 aims to address the structural challenges underlying the low and volatile growth over decades.** Limited economic transformation and diversification characterized by heavy reliance on subsistence and rain-fed agriculture, underdeveloped tourism, extractive and manufacturing industries, and narrow financial markets limit the country’s growth potential. This is exacerbated by over-exploitation of natural resources coupled with ever-growing of households who depend on natural resources (forests, fisheries, and land) for energy and income. The agriculture sector, mainly rain-fed, has traditionally contributed over 40 percent of the country’s Gross Domestic Product (GDP)<sup>1</sup> and generates 82.5 percent of foreign exchange earnings. The agriculture sector is also the leading employer, accounting for 84.4 percent of those in the labour force. However, the sector faces several challenges, including climate variability, underutilisation of productive land, declining productivity, and low access to finance. Lack of significant investment in modern agriculture technologies has also severely impacted natural resources (water, land, and forests) hence limiting the availability and productivity of arable land. The Government provides significant support to agriculture mainly through the flagship Agriculture Inputs Programme (AIP). Meanwhile, the manufacturing sector, still in its nascent stage, is strongly linked to the country’s agriculture sector and contributes only 11 percent of GDP. The

<sup>1</sup> World Bank. Malawi Economic Monitor. December 2022  
<https://documents.worldbank.org/en/publication/documents->

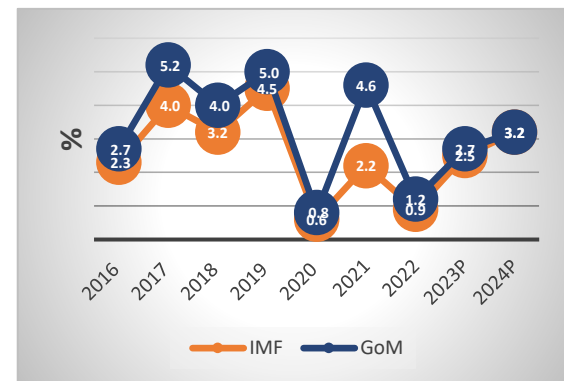
[reports/documentdetail/099945012012289449/p17952904c6c4603d0b0660c8a8483efa59](https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099945012012289449/p17952904c6c4603d0b0660c8a8483efa59)

variable agricultural performance directly impacts the manufacturing sector, which gets a significant share of its inputs from agriculture. Key manufacturing sector activities mainly comprise agro-processing in the tobacco, coffee, tea, and sugar industries. In addition, underdeveloped industry, and infrastructure –energy, water, ICT, and transport – undermine production and distribution of goods and services. Although the services and distribution sector contribute a significant share - 22 percent of GDP<sup>2</sup> - the sector contributes very little to the country’s export earnings due to capacity challenges. The mining sector is also not fully exploited, despite great potential. Minerals that are assumed to be present in the country are uranium, coal, bauxite, phosphate, granite, graphite, black granite, vermiculite, aquamarine, tourmaline, rubies, sapphire, and rare earth minerals.<sup>3</sup> Exploitation of these resources and their contribution to the economy also remain minimal due to lack of investment and limitations caused by bottlenecks in mining sector governance frameworks.

**More regular and intense shocks have undermined Malawi’s sustained and inclusive growth.** Low resilience, limited economic diversification and transformation has exposed the economy to severe impacts of shocks, such as climate-related disasters, public health outbreaks, market shocks, sudden reductions of capital inflows, including aid, and geopolitical events. More recently, tropical cyclones Anna, Gombe and Freddy, the COVID-19 pandemic and cholera outbreaks, the impacts of the war in Ukraine, as well as a worsening balance-of-payments crisis caused by sustained fiscal and external imbalances,<sup>4</sup> are at the centre of the current economic slowdown. The consequences, including loss of livelihoods and household savings, food insecurity, stagnating poverty levels and exacerbated inequalities across income, gender and geography perpetuate exclusion and undermine internal dynamism to stimulate sustained inclusive economic growth and development. Economic growth, projected by the Government to rebound by 2.7 percent in 2023, will likely decelerate amidst significant downside risks and the latest impacts of Cyclone Freddy. The World Bank has downgraded Malawi’s 2023 growth forecast to 1.4 percent due to the impact of Tropical Cyclone Freddy and uncertainty in the global economy, high inflation, and a sharp deceleration of investment growth.<sup>5</sup> Cyclone Freddy is expected to

further strain the Malawi economy due to the loss of human lives and properties, loss of livelihoods, displacement of people, and damage to the agriculture sector and infrastructure, including power generation. Shocks resulting in internal displacement of persons not only impacts livelihoods but also general social cohesion. With living conditions heavily impacted, there is increased risks xenophobia, sexual and gender-based violence (SGBV) and opportunities for human trafficking and migrant smuggling. While long-term economic growth is likely to remain positive, it is unlikely to be strong enough to meet the requirements of a growing population, significantly reduce poverty and attain the Malawi 2063 aspirations of achieving most of the SDGs and graduate to lower middle-income status by 2030, as well as an inclusively resilient, and industrialized nation by 2063.

Fig1 Malawi’s economic growth trend



**With growing public debt accounting for nearly 70 percent of GDP, fiscal space is severely constrained, and the country is at high risk of unsustainable debt.** The accumulation of public debt driven by increased domestic and external non-concessional borrowing started after 2013.<sup>6</sup> As donors shifted from “on-budget” to “off-budget” financing after the “Cashgate scandal,” compounded by the impact of shocks, the Government has increasingly turned to borrowing to cover the deficit. The Public Debt stock as of December 2022 reached K7.90 trillion, or 69.93 percent of GDP. Of this, 56 percent is domestic debt, while 44 percent is external debt. Public debt interest payments have gradually increased and are now the largest item in the national budget, worth 23.6 percent in 2023/24. With very limited fiscal legroom, the country has not been able

<sup>2</sup> Embassy of the Republic of Malawi in the United States, 2023, [www.malawi.embassy-dc.org/page/economy](http://www.malawi.embassy-dc.org/page/economy)

<sup>3</sup> Embassy of the Republic of Malawi in the United States, 2023, [www.malawi.embassy-dc.org/page/economy](http://www.malawi.embassy-dc.org/page/economy)

<sup>4</sup> World Bank. Malawi Economic Monitor. December 2022 <https://documents.worldbank.org/en/publication/documents->

[reports/documentdetail/099945012012289449/p17952904c6c4603d0b0660c8a8483efa59](https://reports/documentdetail/099945012012289449/p17952904c6c4603d0b0660c8a8483efa59)

<sup>5</sup> World Bank Africa Pulse Report 2023

<sup>6</sup> IMF. Malawi – Debt Sustainability Analysis. 2015 <https://www.imf.org/external/pubs/ft/dsa/pdf/2015/dsacr1583.pdf>

to match investment needs to meet the growing demand for social services. Inevitably this also affects the capacity of the country to prepare for and respond to climate-related disasters. Fiscal space challenges are exacerbated by weak public finance management systems, including procurement and expenditure controls and some challenges in effective and efficient tax administration. Funding for the social sectors (health, education, water and sanitation, nutrition, social protection) is unevenly distributed and heavily reliant on the support of development partners. Whereas education and health continue to receive a significant share from national resources (15.6 percent and 8.5 percent in 2023/24, respectively), social protection, nutrition and WASH remain extremely dependent on donor support (over 90 percent). Meanwhile, social protection coverage remains very low, despite high poverty levels, with the flagship social cash transfer programme reaching a fixed 10 percent coverage threshold across the 28 districts, representing only 10 percent of the poorest labour-constrained households – a very small proportion given that 20.5 percent of the population lives in extreme poverty. Poverty is widespread with 51 percent of Malawians living below the national poverty line and 71.2 percent below the international poverty line of US\$2.15 per-day, while 58.8 percent live in multidimensional poverty.

### 3.0 Policy actions for the socio-economic transformation of Malawi

The structure of the Malawi economy renders it vulnerable to exogenous and endogenous shocks. As a result, it is imperative to rethink the policy toolbox if Malawi is to navigate toward the path of structural transformation. In so doing, the policy brief explores potential policy options.

#### 1) Export development and economic diversification

**a. Export development:** With the foreign exchange need of Malawi in dire straits, the need to invest in export development cannot be overemphasized. To date, the Government of Malawi has developed the National Export Strategy 2021 – 2026. To accelerate its implementation, it is important to develop a robust monitoring and evaluation framework, a communication strategy, an implementation action plan, and establish a fully functioning governance and coordination structure comprised of key sector ministries, departments, and agencies (MDAs). This can also be achieved through the strengthening of

the existing Export Development Fund to provide investment capital to potential export-based enterprises. However, this requires robust reforms in the institutional governance and operational systems and processes for the Fund. It will be equally important to ensure targeted incentives and diversify the trading partners for the country's exports through the right policy framework to facilitate the process. Building on the African Continental Free Trade Area (AfCFTA) Agreement, which Malawi has ratified, trading partners on the continent can be of significance to leverage and maximize the benefits and opportunities availed by the Agreement.

**b. Economic diversification:** Diversifying the economy into many other export commodities for which Malawi has the comparative advantage in their production could yield potential benefits for the country in terms of achieving structural transformation. Lack of economic diversification will continue to weaken the foundation of the economy and exacerbate vulnerability to shocks, thereby slowing down the long-term development of the country. Diversifying the economy away from lower productivity sectors like agriculture to higher productivity industries such as the industrial (manufacturing) and services sectors (financial, transportation, ICT, and tourism) and mining sector can strengthen sources of resilience. This will require the development of a fully operationalized economic diversification strategy and policy framework along with the monitoring and evaluation framework, implementation action plan, communication strategy, and an efficient governance and coordination structure.

**2) Fiscal diversification:** Amid limited sources of development finance in the Malawi economy, expanding and diversifying the sources of government revenues and the targets of public expenditures are imperatives. This will require going beyond aid and development assistance and generating fresh and innovative thinking to achieve fiscal diversification. Tools such as the Integrated National Financing Framework

(INFF),<sup>7</sup> the SDG Investor Map,<sup>8</sup> the Digital Finance Ecosystem Assessment and Strategy and the Domestic Resource Mobilization Strategy can provide the Government of Malawi the leverage and opportunity to innovatively harness untapped sources of development finance if adopted at the policy level and effectively implemented. Malawi's diaspora, relatively untapped and counting for only 1.9% of Malawi's GDP in 2021, provides an opportunity for foreign investment and channelling of remittances. Channelling diaspora engagement, such as the exploring of different investment vehicles, would provide an additional economic boost.

- a. The INFF provides the government the opportunity to leverage financing from diversified domestic and international sources, including digitalization and international public sources such as climate finance as well as private finances through various reforms that can help attract foreign direct investment (FDI).
  - b. The SDG Investor Map provides market intelligence that can attract private sector finance, expertise, technology, and innovation in key sectors of the economy with huge investment opportunity and business returns.
  - c. The digital finance ecosystem assessment and strategy provides the country the opportunity to tap into the benefits of digital finance as a means of promoting financial inclusion, applying efficiency in financial transactions, including remittances, and curtailing illicit financial flows and corruption in the economy.
  - d. Efficiency in tax administration through the application of digital technology is also important for enhancing domestic revenue mobilization and reducing incentives for tax evasion and to help create fiscal space.
- 3) Creating an enabling business environment:** Creating the right kind of policy and business environment will go a long way in attracting private sector investment and enterprise development in the Malawi economy. Therefore, a focus on ease of doing business in Malawi will be crucial. Some measures that could help in this regard, include developing policies related to competition, innovation, intellectual and property rights, taxation, business registration and licensing, enabling

better access to finance, improving, and facilitating access to land for investment, establishing an institutionalized platform for public-private partnerships and dialogues and developing appropriate quality standards for products and services to service the export sector. There is also a need to develop and ensure equitable access to business incentives targeting strategic export and industrial sectors to promote significant investment and value addition to commodities. These incentives may include tax waivers, strategic land allocation to export-based investment, etc. Investment in critical infrastructure, such as electricity, water supply and ICT, is also important as a means of creating an enabling environment for investment. However, these policy instruments should ensure equity and transparency to ensure a level playing ground for all potential investors.

- 4) Reforming the public service through performance-based indicators:** Malawi aspires to achieve its long-term development goal of an inclusively wealthy, resilient, and industrialized nation by 2063. This will require trained manpower and a reformed public service that has the relevant human and institutional capacity to deliver quality and efficient public services. This is an objective that has been articulated in the Malawi National Public Sector Reforms Policy (2018-2022) and continues to be emphasized in other policy documents and statements, as well as the overall public sector reform agenda. There is, therefore, the need to build on the existing public sector reform agenda of the Government, which has been supported by key development partners, to strengthen the capacity of the public service at national and sub-national levels to perform with efficiency, commitment, transparency, and accountability to deliver quality public services and fight against corruption and inefficiencies. Part of this effort could mean instituting a performance-based management system in the public service with defined goals and performance indicators to be assessed and evaluated on an annual basis.

<sup>7</sup> The Integrated National Financing Framework (INFF) is an approach to help countries strengthen their planning and financing processes and overcome existing impediments to financing sustainable development at the national level.

<sup>8</sup> The SDG Investor Map is a market intelligence tool that helps to direct private capital to emerging markets where SDG priorities, government policy and market opportunities converge.

5) **Sustained investment in enterprise and SME development, innovation, and digital technology:** With a growing number of Malawians involved in the informal sector and the SME sector, investment in enterprise development should be seen as entry point for creating decent jobs and wealth, eradicating extreme poverty, and reducing inequality in Malawi. Empowerment of businesses managed by women and youth should be prioritized to address the triple development challenges (unemployment, poverty, and inequality). Areas of focus could include entrepreneurship development, business incubation and development services, and business management, as well as access to finance and markets. The women and youth involved in the MSMEs sector can be trained, mentored, and coached using the supplier development model to take advantage of national and regional trade opportunities. While recognizing that SMEs can be heavily impacted by shocks and resultant human displacement, as seen recently with Cyclone Freddy, trainings need to include sensitization towards disaster risks and provide tools for business safeguarding Malawi could consider and leverage the AfCFTA as a strategic priority to unlock continental and regional trade opportunities in key sectors and value chains where the country has great potential such as agriculture. In addition, as many women and youth constitute the informal sector, it could be important to undertake a comprehensive diagnostic of the informal sector to understand the factors, causes and circumstances of informality. The findings could then be used to design policies that will facilitate the empowerment and transition of workers in the informal sector to the formal economy. Effort can also be made to apply digital technology and innovation to focus on the introduction of e-commerce, e-trade and other online transactions building on the lessons learned from the COVID-19 pandemic. Malawi has committed to becoming a pathfinder country for the UN Secretary-General's Global Accelerator on Jobs and Social Protection initiative. Pursuing its adoption and implementation in an integrated manner could help strategically elevate, strengthen, and

mainstream the job and wealth creation in the development agenda of the country.

- 6) **Forging effective development cooperation with a focus on maximizing results and impact:** Boosting the effectiveness of Official Development Assistance (ODA) through nationally-led development cooperation and aid coordination has been the subject of successive global financing for development conferences.<sup>9</sup> The concept of the Global Partnership for Effective Development Cooperation emerged with its core principles agreed on at the Busan High-Level Forum. These principles include ownership by developing countries, a focus on results, inclusive development partnerships, and transparency and accountability between programme countries and their development partners. The Global Partnership Monitoring Framework was then introduced to put these core principles into implementable actions and facilitate engagement with a range of stakeholders, including development partners, civil society, parliamentarians, local government, regional entities, and the private sector. It could be an important strategic direction for Malawi to effectively re-engage in the Global Partnership for Effective Development Cooperation and its monitoring framework, while at the same time strengthening domestic mechanisms at the home front to manage development cooperation with its development partners in line with the country's development aspirations and priorities. Such mechanisms could be strengthened to better monitor results for all development assistance; make sure that best practices are shared, and learning is taking place from peers in the global south and north; make sure that donors are aligning their development assistance with national priorities, recommending sectors and geographical areas where assistance should be concentrated; and make sure that duplication of efforts amongst development actors are avoided. The Pillar Coordination Groups of the MIP-1 can be re-arranged and strengthened at policy and technical levels to perform these roles.
- 7) **Strengthening the Humanitarian-Development-Sustaining Peace nexus** is critical for smooth transitions from

<sup>9</sup> High-level forums and meetings were convened in Rome (24-25 February 2003), Paris (2 March 2005), Accra (2-4 September

2008), Busan (29 November – 1 December 2011), and Kenya (28 November – 1 December 2016)

preparedness, immediate response to disasters to recovery and reconstruction. Strengthened and coordinated preparedness can help to reduce the severity of disasters by minimizing losses of life and property and displacement. This can also reduce the amount of resources that will be required in the response, recovery, and reconstruction phases. There is need for pulling resources together to achieve a high level of preparedness to disaster through collaborative disaster risk analysis, vulnerability assessment, risk awareness at community level and prepositioning of necessary resources for immediate response. This means better inter-Ministerial/Departmental coordination, development of joint analysis and national/international coordination. Being intentional about connecting the dots between immediate humanitarian response to disaster to medium-term recovery, and the bigger long-term development and resilience agenda, while

addressing inherent grievances and tensions associated with relief operations, limited resources and decision-making would lead to more sustainable impacts and efficient use of resources. Empowering local communities is also important in achieving inclusive socio-economic development. There is need for coordinated effort in developing community-led development programmes that maximize the participation of all vulnerable groups including internally displaced persons, elderly, people with disabilities, women, youth, and children. There is also need to strengthen migration and refugee management to ensure that there is greater statutory control over migration and refugee issues and that the potential for migrant's and refugee's contribution to socio-economic development is maximized. This can be achieved through reforms in in the policy and legislation governing human mobility and refugees.

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