



# **Assessment of the Impact of COVID-19 on Employment in Malawi**

Prepared by

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### **Disclaimer**

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## ACRONYMS

ADMARC	Agricultural Development and Market Corporation
AU	African Union
COVID-19	Coronavirus Disease 2019
ECAM	Employers' Consultative Association of Malawi
GDP	Gross Domestic Product
KIIs	Key Informant Interviews
ILO	International Labour Organization
IMF	International Monetary Fund
LRR	Liquidity Reserve Requirements
MGDS	Malawi growth and Development Strategy
MEDF	Malawi Enterprise Development Fund
PCA	Prompt Corrective Action
PPE	Personal Protective Equipment
PSIP	Public Sector investment Programme
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
UN	United Nations
WEO	World Economic Outlook
WHO	World Health Organization
UIF	Industrial Development Corporation

## EXECUTIVE SUMMARY

The Covid-19 pandemic has caused a global health and economic crisis that has severely affected many countries in the world. Malawi reported its first COVID-19 cases on 2<sup>nd</sup> April 2020 and since then, cases have continued to increase, surpassing 1200 with 14 deaths as of end June 2020. In an effort to contain the virus, the government instituted several measures designed to promote hygiene and social distancing which necessitated limiting certain social-economic activities thus affecting the livelihoods of many people in the country. In view of this, the Employers Consultative Association of Malawi (ECAM) in collaboration with the International Labour Organization (ILO) conducted a study aimed at assessing the effects of Covid-19 on the livelihoods of people in Malawi. Specifically, the study looked at the effects of Covid-19 on the overall economy with a focus on the labour market.

The study utilized a scenario-based analytical method where different assumptions regarding the future trajectory of the pandemic were analysed in order to draw a more complete picture of the potential impact of the pandemic on labour market outcomes and the economy as a whole. To that effect, the study came up with the following scenarios: (i) Baseline scenario (projections before the onset of the pandemic), (ii) Scenario 1 (projections assuming pandemic would be contained by September 2020), Scenario 2 (Covid-19 would fade away by December 2020) and, Scenario 3 (the pandemic would be contained by March 2021). The analysis used primary and secondary data collected from desk reviews of archival documentation, members of ECAM and other relevant stakeholders.

The findings show that the, the Malawi economy is set for a significant slowdown in both 2020 and 2021 due to Covid-19. **The crisis will cost the country a minimum of MK 124 billion (US\$164.71 million) in real output (MK1.018 trillion in nominal terms).** On sectoral level, *accommodation and food services, transport and storage, wholesale and retail, and manufacturing are set to be the worst hit sectors by the Covid-19 pandemic.* These sectors are expected to slow down significantly in 2020, with some them projected to enter a recession if the pandemic persists until the end of 2020. Consequently, **the pandemic is expected to have a devastating impact on the country's labour market with an expected loss of current and future jobs between 273,712 and 680,496.** Accommodation and food services are anticipated to record the highest job losses amongst all sectors, potentially losing up to 14.0 percent of its jobs the longer the pandemic continues. **The virus is also likely to have a profound effect on labour income with an estimated loss of MK 84.6 billion** in monthly earnings.

In order to respond to the pandemic, the government had instituted the National COVID-19 Preparedness and Response Plan and COVID-19 Workplace Guidelines that covers health measures (protecting workers in the workplace), social protection measures (supporting employment and incomes), and macro-financial measures (stimulating the economy and labour demand). These measures are found to be well aligned to international best practices as they conform to the four key pillars of the ILO's global policy response framework.

In view of these findings, the report proposes several policy recommendations including: the need to enhance interventions towards social protection programmes and other fiscal bailouts targeting workers and small-scale businesses in the informal economy, providing support to people with underlying health conditions such as HIV/AIDS, and implementing labour market reforms to reduce labour market frictions between employees and employers and smoothen the adjustment process to pandemic. Furthermore, the government needs to continue with prudent fiscal and accommodative monetary policies that would stimulate aggregate demand and create more jobs.

## 1. INTRODUCTION

### 1.1. Background and Context

On 11<sup>th</sup> March 2020, the World Health Organization (WHO) declared Covid-19 a pandemic following alarming levels of its spread and fatalities. By mid-June, there were over 9.2 million confirmed cases worldwide with over 470 thousand deaths and 4.6 million recoveries recorded. In Sub Saharan Africa (SSA), the South Africa had been the most affected country with over 106 thousand confirmed cases and 2, 101 deaths as of end-June 2020. In the case of Malawi, although the country had only confirmed its first cases on 2<sup>nd</sup> April 2020, by end-June the confirmed cases had increased to 1224, with 260 recoveries and 14 deaths.

Since its insurgence, Covid-19 has caused a global health crisis that has severely affected economic activity. The April 2020 International Monetary Fund (IMF) World Economic Outlook (WEO) projected that the global economy would contract sharply by 3.0 percent in 2020, representing a negative 6.0 percentage points downward revision from the October 2019 WEO projection. The International Labour Organization (ILO) estimates the economic effects of the pandemic to increase global unemployment by almost 25 million, proving worse than the 2008-2009 global financial crisis that increased unemployment by 22 million.

Although Malawi did not have a full lockdown and was unlikely to have one in the near future, the social distancing measures adopted, and the measures instated by trading partners such as South Africa have already caused major disruptions to the local economy and labour market. Workers, especially those in the informal economy, which employs more than 80 percent of the labour force, have lost significant amounts of their labour income. It is against this background that the Employers' Consultative Association of Malawi (ECAM) as the Employers' representative body in Malawi took the initiative to commission this study in order to assess the effects of COVID-19 pandemic on the economy and the labour market in Malawi. The aim is to identify reforms that government could undertake to stimulate the economy and protect workers' livelihoods, and also recommend complementary actions for the private sector.



## 1.2. Objectives

The main objective of the assignment is to assess the effects of Covid-19 on the economy and the labour market in Malawi. Specifically, the study aims to:

- 1) assess the effects of Covid-19 on the overall economy and social fall out, on businesses, and on individuals/employees.
- 2) identify sectors hardest hit by the pandemic and those with growth potential, and propose measures for those sectors to achieve good growth;
- 3) recommend short-term support aimed at stimulating investment in the growth sectors by among other things reviewing legislation that may hinder recovery;
- 4) assess how the crisis impacts on ECAM in terms of revenue (subscription and services) and its policy work.

## 2. METHODOLOGY

### 2.1. Study Approach

In this study, we base our analysis on different scenarios (assumptions regarding the trajectory of the pandemic) to examine potential impacts of the pandemic on the economy and the labour market. We use growth estimates by the government of Malawi and the IMF, and survey data to inform our projections of economic growth and labour market outcomes. The following are the scenarios assumed in the study:

- i. **Baseline scenario:** This is the scenario that would have been if it were not for Covid-19. For this, we adopt the government's growth projections before the outbreak where aggregate GDP was projected to grow by 5.5 percent.
- ii. **Scenario 1:** This scenario assumes that the pandemic is subdued in the third quarter of 2020 (2020Q3). Here we adopted the government's projection of a 1.9 percent growth which was based on the same assumption.
- iii. **Scenario 2:** This scenario assumes that the pandemic would fade away by the fourth quarter of 2020 (2020Q4). For this we used our own projections by extrapolating the Governments projections up to Scenario 1.
- iv. **Scenario 3:** assumes the pandemic would be over by the first quarter of 2021 (2021Q1). For this we also extrapolate from the government's projections.

In general, it is assumed that the pandemic will have peaked by 2020Q3 after which severity of the disease and the restrictions imposed locally and internationally will begin to diminish. Given the Covid-19 developments in Malawi thus far, our analysis does not consider a scenario where a complete lockdown is imposed in the country. For detailed explanation on the computations, refer to technical annexes 1 and 2.

## 2.2. Data Collection Methods

The following data collection methods were employed:

1. **Desk review:** Our study mainly relied on data from secondary sources. These include Malawi government economic reports, IMF economic reports, 2013 Malawi labour force survey, ILO monitors, and other studies. We also reviewed relevant legal documents in order to identify labour laws that need reform. A review of the national response which is well documented as press releases and official government documents is also done.
2. **Questionnaires:** In order to understand the impacts of the crisis from the perspective of businesses, we also issue questionnaires to business enterprises. Information collected through this survey focusses on business performance, employee retention, and wage decisions during the crisis. We also obtain information on the challenges faced and recommendations for government.
3. **Key Informant Interviews (KIIs):** For in depth understanding of the impacts on businesses we conduct key informant interviews with selected stakeholders.

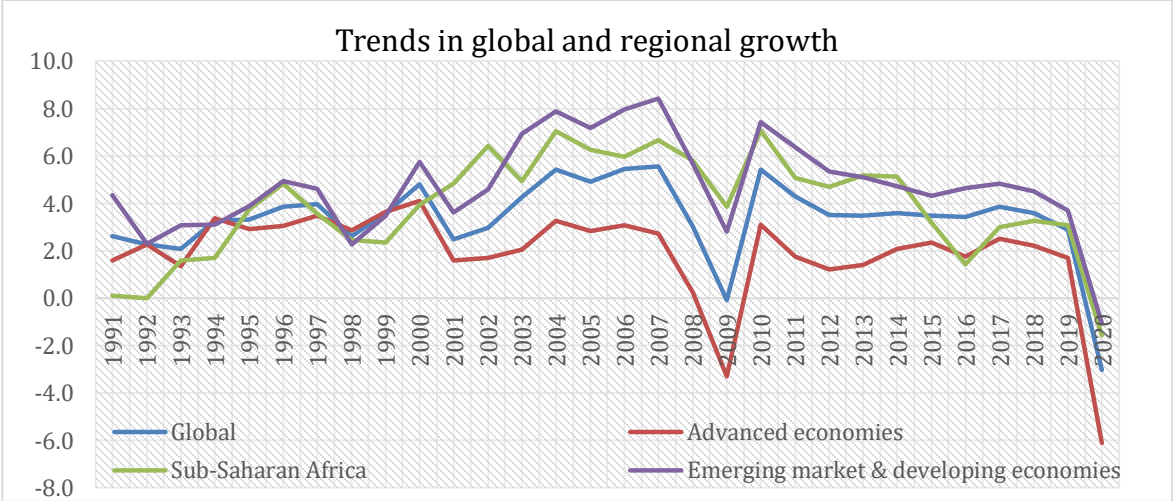
## 3. KEY FINDINGS

### 3.1. The Covid-19 global and regional context

By now it is evident that the Covid-19 pandemic has directly or indirectly affected every single economy throughout the world. It is estimated that this crisis will be much worse than the 2008 global financial crisis whose contagiousness and impact depended on countries' level of integration in the global financial system. In contrast, the economic crisis of the Covid-19 pandemic has mainly been driven by deliberate efforts to minimize certain social and economic activities and this has made its impact on economic growth and employment swifter and more robust. Figure 1 shows the growth trends for the global and selected regional economies

spanning over the last three decades. Here we see that the Covid-19 crisis is expected to cause more damage than the 2008/09 global financial crisis which itself was the biggest economic crisis since the great depression.

Figure 1: Evolution of global and regional outlook



Source: IMF World Economic Outlook

3.1.1. Impact on global and regional growth

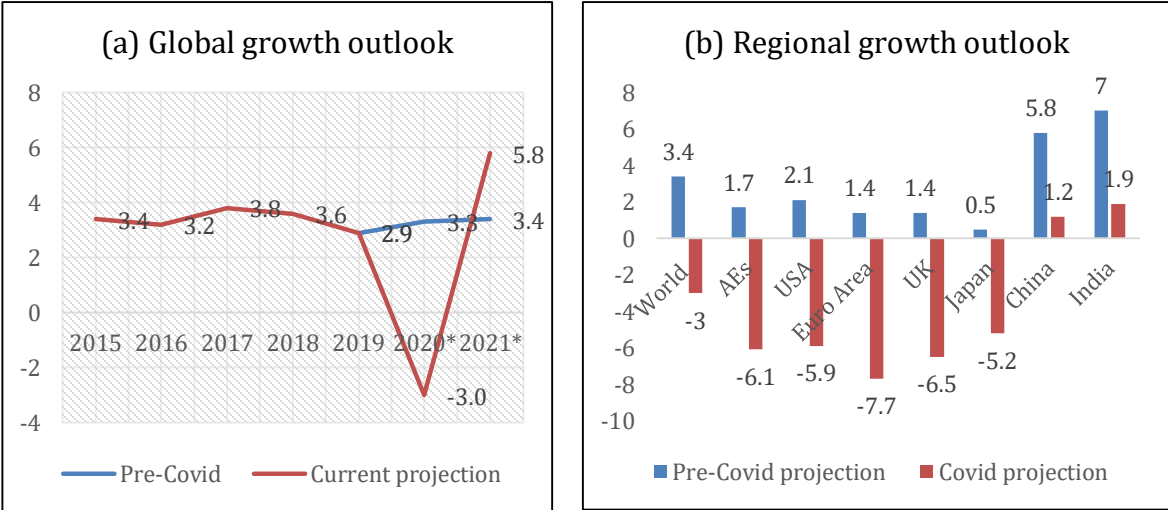
**The COVID-19 crisis has affected the world economy on a scale not seen since the Great Depression of the 1930s.** It has come at a time when world economic growth was set to pick up from a relatively weak growth experienced in 2019. The IMF had before the crisis (in October 2019) projected a 3.4 percent global economic growth for 2020. This is 0.5 percentage points higher than the 2.9 percent growth estimate for 2019. However, following the emergence and escalation of Covid-19 outbreak and the subsequent reduction in economic activities throughout the world, growth projections for the global economy have substantially been revised downwards as prospects of a great recession become more and more likely.

**The global economy is set to contract by up to 3.0 percent in 2020** (IMF WEO, April 2020). This recession will mainly be driven by severe contraction of advanced economies including the United States, the Euro area, the United Kingdom, and Japan, all of whom are projected to contract by more than 5 percent (Figure 2b). Consequently, aggregate growth for the advanced economies is expected to go down to -6.1 percent if the pandemic persists to 2020Q4. China and India, the other

major economies are also facing significant economic slowdown although both countries are not expected to enter a recession. Substantial reduction in industrial activity, investment, and retail sales in the first quarter of 2020 suggests that even with a major rebound in the second half of the year, the Chinese economy is set for a significant slowdown. According to the IMF, China's economy will grow by 1.2 percent against a pre-crisis projection of 5.8 percent. India on the other hand is expected to grow by 1.9 percent against a pre-crisis projection of 7.0 percent.

As noted by the IMF, there remains great uncertainty regarding global and regional growth as these depend on factors that interact in ways that are hard to predict. Such factors include shifts in spending patterns, changes in consumer behaviour and investors' confidence, supply disruptions, volatility of commodity prices, and the repercussions of the dramatic tightening in global financial market conditions. The United Nations (UN) notes that the Covid-19 pandemic has rattled the financial markets, tightened liquidity conditions in many countries, created unprecedented outflows of capital from developing countries and put pressure on the foreign exchange markets. The UN further notes that weak local currencies will constrain governments' ability for fiscal stimulus at the scale needed to stabilize the economies and tackle the health human crises brought by the pandemic.

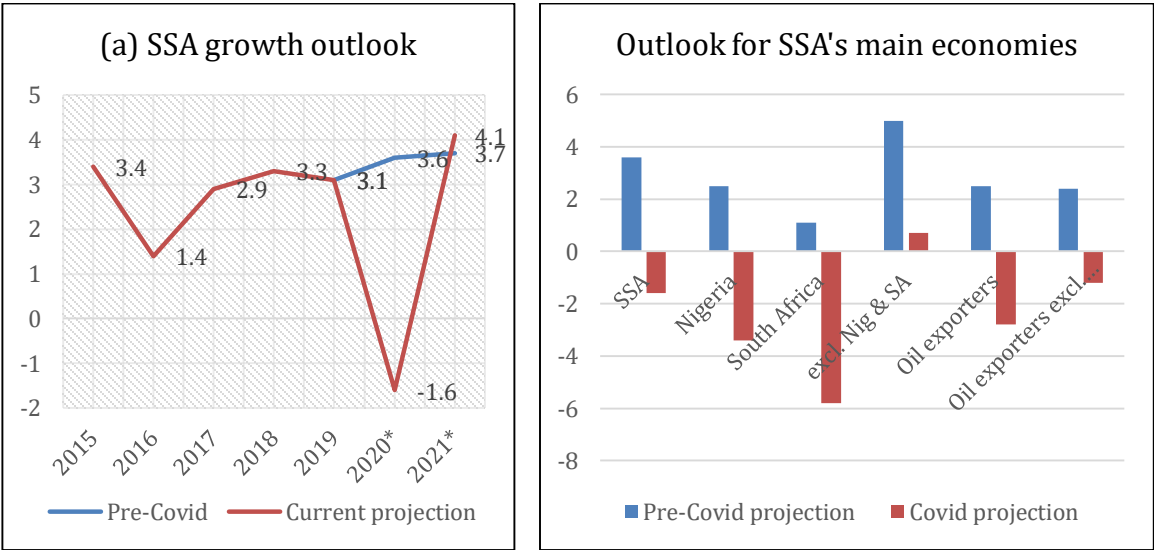
Figure 2: Global and regional growth projections



Source: IMF World Economic Outlook

**The Covid-19 crisis has also devastated the Sub-Saharan region which is poised to record a negative growth of 1.6 percent, the worst reading on record.** This is against the pre-crisis growth projection of 3.6 percent which implies that up to 5.2 percent of output will be lost to the Covid-19 crisis. The recession in the region will be mainly driven by Nigeria and South Africa, the two biggest economies in the region. Nigeria's economy is expected to contract by 3.4 percent, South Africa's by up to 5.8 percent while the rest of the region is actually projected to have positive growth albeit by only 0.7 percent. Nigeria and South Africa have both suffered from the Covid-19 containment measures, particularly the lockdowns imposed by their respective governments. Being the main economic hubs in the region, the effects of the crisis on the two economies and the imposed lockdowns have had some negative spill over effects to other countries near them.

Figure 3: Growth outlook for the sub-Saharan Africa region

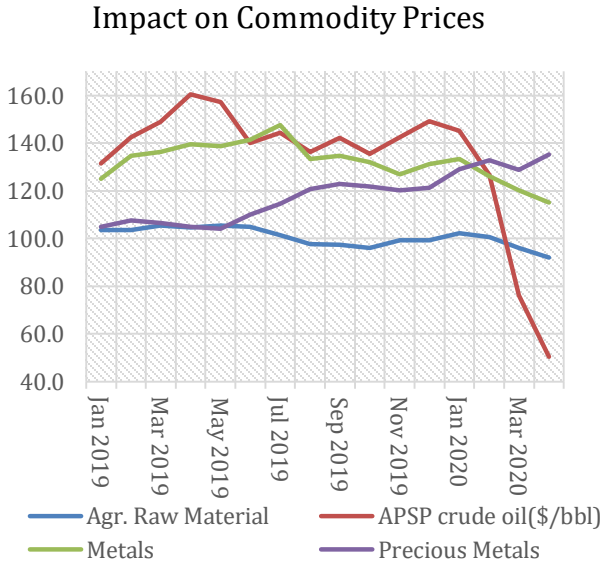


Source: IMF World Economic Outlook

**Massive drop in commodity prices, particularly oil, is also a major factor in the economic downturn for the region.** According to the World Bank's World Integrated Trade Solutions, oil constitutes more than 41.0 percent of total exports of the sub-Saharan region. For Nigeria it accounts for more than 90.0 percent of its export revenues. With world oil prices plunging by more than 66 percent between

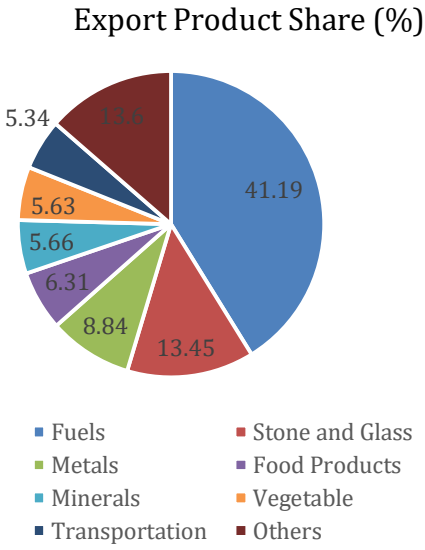
December 2019 and April 2020 (Figure 4), the region loses up to 27.0 percent (more than USD 76.0 billion) of its export revenues. For oil dependent countries (countries whose net oil exports make up 30 percent or more of total exports), growth is expected to decline from 1.8 percent in 2019 to -2.8 percent in 2020 (IMF WEO). This is mainly on account of the 3.4 percent contraction in Nigeria as the rest of the oil exporting block in the region is expected to contract by only 1.2 percent.

Figure 4: Impact of Covid-19 on commodity prices



Source: IMF and World Integrated Trade Solutions

Figure 5: SSA's export products



Source: World Integrated Trade Solutions

3.1.2. Covid-19 effects on the global and regional employment

With the Covid-19 pandemic heavily affecting the global economy, the world of work will also suffer greatly. Loss of business through reduced demand coupled with governments' mandatory partial or full business closures will affect availability of employment, reduction in work hours, as well as a reduced quality of work in terms of wages and other benefits. Furthermore, some groups of people such as informal workers could be more affected than others.

**The Covid-19 crisis will see global and regional unemployment rise in a manner comparable to the 2008 global financial crisis.** The International Labour Organization (ILO) estimates that in a scenario where global GDP declines by only 2 percent, the

Covid-19 crisis will cause a rise in global unemployment of between 3.5 million and 7 million. However, if the decline in global GDP is up to 4 percent, global unemployment could increase by as much as 18.3 million. The trends in global employment will mainly be driven by high income countries who could lose as much as 14.6 million jobs, compared to 2.8 million potential job losses in lower income countries. This disparity is mainly due to high-income countries having relatively more formal employment which is where most job losses during crises take place.

**In addition to rising unemployment, global underemployment has also seen a substantial increase as businesses are forced to reduce work for their employees in order to minimize costs or losses as well as to observe government directives.**

Consequently, working hours for employees have declined significantly across the globe in the months after the discovery of the virus. Estimates by the ILO show that global working hours in the second quarter of 2020 will be 10.5 per cent lower than in the last pre-crisis quarter. At the regional level, the estimates indicate that America & Europe and Central Asia will experience the biggest losses in working hours with the former losing 12.4 percent and the latter losing 11.8 percent. As for Africa, the estimates indicate that by quarter two of 2020, the continent will be 9.6 percent shy of its pre-crisis working hours.

**The rise in unemployment and underemployment will cause significant loss of incomes for many workers.** ILO estimated that overall losses in labour income could be in the range of 860 to 3,440.0 billion US dollars. Furthermore, the informal sector workers will be more impacted compared to their formal sector counterparts. This is due to the higher vulnerability of informal businesses and the fact that most informal workers cannot work from home. Specifically, informal sector earnings were estimated to have declined in the first month of the crisis by 60.0 percent globally, and up to 82.0 per cent in lower middle and low-income countries that characterize the sub-Saharan and other regions.

### **3.1.3. Global Covid-19 Responses**

**In response to the COVID-19 pandemic, countries all over the world have adopted measures designed to minimize physical contact between people in order to**

**minimize the spread of the pandemic.** However, the extent of the responses has varied across the countries based on exposure to the virus, how much economic pain governments are willing to allow, and the ability of governments to cushion against the economic devastation resulting from the policy responses. Nevertheless, most developed countries imposed total or partial lockdowns in which movement of people across borders and locally within countries or cities were very limited. China where the virus originated was the first country to lockdown some of its cities and provinces in late January 2020 and by end march, most other countries had followed suit with their own versions or lockdowns.

In addition to lockdowns, other less strict measures have also been used as solutions to preventing further spread of the virus. These include limiting movements and gatherings of people and closing some businesses that attract bigger crowds. According to the ILO, around 68 percent of the world's total workforce, including 81 percent of employers and 66 percent of own-account workers, were living in countries with recommended or required workplace closures as of end April 2020. These responses, while seemingly beneficial from a public health perspective, have caused serious economic problems for people and countries around the world.

**In response to the devastating effects of the pandemic, countries have put in place various strategies and policies to lessen its impact on people, businesses as well as the entire economy.** In the USA, the government responded by coming up with both fiscal stimulus and deliberate monetary policy to galvanize the resilience of the economy and manage the social fall out. The fiscal stimulus measures adopted include: US\$484 billion Paycheck Protection Program and Health Care Enhancement Act, US\$2.3 trillion (around 11% of GDP) Coronavirus Aid, Relief and Economy Security Act, US\$8.3 billion Coronavirus Preparedness and Response Supplemental Appropriations Act, and US\$192 billion Families First Coronavirus Response Act. And in order to support macro-financial stability, the US Federal Reserve in March lowered the Federal funds rate by 150 basis points to 0-0.25 basis points and introduced facilities to support the flow of credit.



In sub-Saharan Africa, countries like South Africa, Nigeria and Angola have adopted several accommodative monetary policies and fiscal stimulus packages to respond to the Covid-19. In the case of South Africa, the fiscal measures taken include assisting companies and workers in distress through the Unemployment Insurance Fund (UIF). In addition, special programs from the Industrial Development Corporation offering four-months tax subsidies to low income workers, temporarily increasing social grant amounts for most vulnerable families for six months, creating a new 6-month Covid-19 grant to cover unemployed workers that do not receive grants, and making available funds to assist SMEs under stress. Regarding monetary policy response, the South African Reserve Bank reduced the policy rate by 100 basis points to 5.25 percent in March 2020 followed by another 100 basis points to 4.25 percent in April 2020. A unified initiative was also introduced that enabled banks to provide debt relief to borrowers, provided temporary relief on bank capital requirements, and reduced the liquidity coverage ratio from 100 to 80 percent.

### **3.2. Impact of the Covid-19 on the Malawi economy.**

#### **3.2.1. Impact on the overall economy**

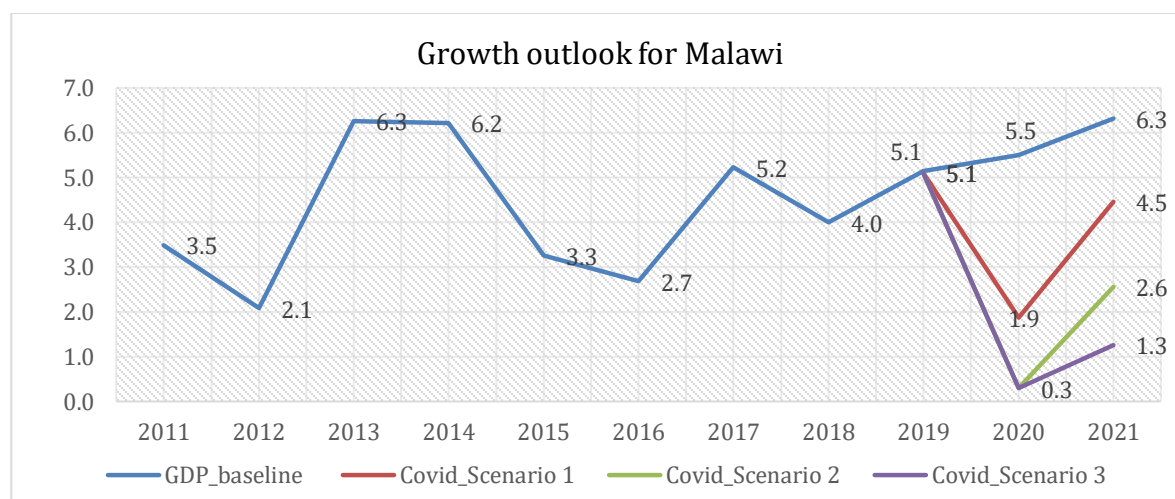
**Malawi's economy was on a high growth path before the COVID-19 crisis and most of the sectors were expected to maintain good performances.** As reported in the 2019 annual economic report, the economy was projected to grow by 5.5 percent in 2020 and this growth would be driven by agriculture, manufacturing, mining and quarrying, electricity and water supply, information and communication, and financial and insurance services. The projected growth appeared stout given that agriculture, which is the biggest driver of the economy, was set for a good harvest following favourable weather conditions in the 2019/2020 agriculture season.

Aside from the sizable growth in real output, **the overall macroeconomic environment was also expected to remain stable in both 2020 and 2021.** In this regard, the government was projecting a 6.1 percent annual average inflation in 2020, which would be in line with the central bank's inflation target of  $5 \pm 2$  percent. Furthermore, the Malawi Kwacha was also expected to continue on a stable path, mainly on account of a stable balance of payments (BoP) position and sufficient

foreign reserves. These macroeconomic conditions would create favourable conditions for growth inducing investment and job creation.

**With the COVID-19 crisis, the Malawi economy is set for a significant slowdown in both 2020 and 2021.** Economic growth is expected to trend downwards in all our scenarios regarding the trajectory of the pandemic. It is estimated that in 2020 the economy will grow by 1.9 percent, down from the baseline projection of 5.5 if the pandemic persists throughout 2020Q3. However, if the crisis lasts till 2020Q4, our projections show that the growth should slow down to about 0.3 percent. The main drivers of this slowdown will be the sectors hardest hit by the Covid-19 crisis including accommodation and food services, wholesale and retail trade, transport, manufacturing, health, education, and financial & insurance services (see section 3.2.2 for more details). The growth estimates for 2021 are 4.5 percent, 2.6 percent, and 1.3 percent for scenarios 1, 2 and 3 respectively.

*Figure 6: Growth projections for Malawi under different scenarios*



Source: Malawi Government & Authors' own projections

**The Covid-19 crisis will cost the country a minimum of MK124 billion (US\$164.71 million) in output (MK1.018 trillion in nominal terms).** However, this is the best-case scenario where the pandemic is contained by 2020Q3 and economic activity comes to normalcy. In that case real GDP in 2020 would decline from MK1.58 trillion to MK1.53 trillion while in 2021 real GDP would decline from MK 1.68 trillion to MK1.6

trillion. If the crisis persists throughout 2020, we estimate that this will cause real GDP to decline to MK1.51 trillion and MK1.55 trillion for 2020 and 2021, respectively. This would translate into a total output loss of about MK200 billion (US\$292.69 million), which is MK1.24 trillion in nominal terms. Finally, if the pandemic persists into the first quarter of 2021, our projections show that approximately MK224 billion (US\$318.63 million) which is equivalent to MK1.38 trillion in nominal terms would be lost.

Figure 7: Real GDP under various Scenarios

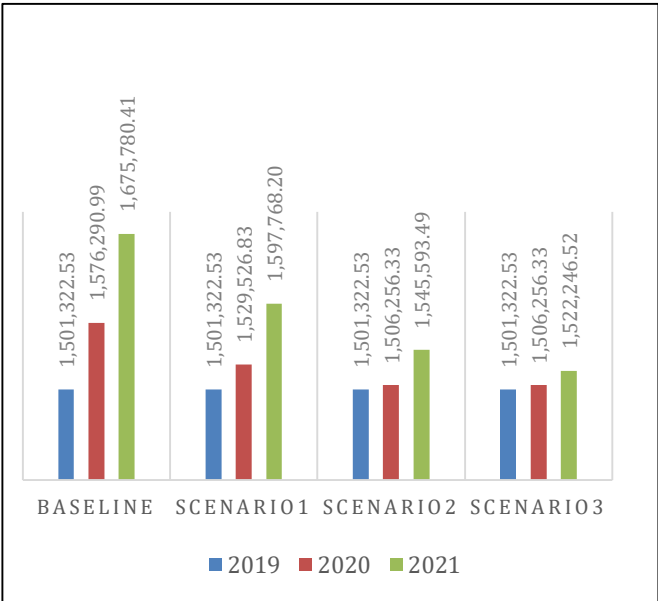


Figure 8: Loss of output due to Covid-19



Source: Authors' own projections based on Malawi Government estimates

**3.2.2. Sectoral analysis of the effects of Covid-19**

Covid-19 has not only reduced the county's overall economic activity, but it has also diminished the growth prospects of various sectors in the country though with varying magnitudes. Preliminary estimates show that some sectors are likely to be more affected by the Covid-19 than others due to the direct linkages of their business operations to the pandemic. Nevertheless, all sectors are expected to be affected to some extent. Table 1 shows the changes in sectoral growth prospects caused by the Covid-19 crisis and the analysis for each of the sectors follows thereafter.

Table 1: Growth outlook by Sector

	2020 growth (%)				2021 growth (%)			
	Scenario				Scenario			
	Baseline	1	2	3	Baseline	1	2	3
Agriculture	5.2	1.0	-3.3	-3.3	5.3	3.1	1.0	-0.1
Wholesale and retail trade	4.9	0.7	-3.4	-3.4	5.1	6.3	4.0	3.5
Manufacturing	5.6	1.9	-1.8	-3.8	5.8	3.3	0.8	-0.7
Construction	5.6	3.7	2.7	2.7	5.9	4.2	3.3	2.4
Education	6.1	3.3	1.9	1.9	6.5	5.0	4.3	3.6
Health	6.9	3.5	1.8	1.8	6.7	4.6	3.5	2.5
Transport and storage	4.4	0.9	-0.8	-0.8	4.9	3.8	2.7	1.6
Accommodation and food services	2.0	-9.9	-15.8	-15.0	1.9	6.6	8.9	10.1
Others	3.6	0.5	-1.6	-1.6	6.3	1.4	-2.6	-3.8
<b>Aggregate</b>	<b>5.5</b>	<b>1.9</b>	<b>0.3</b>	<b>0.3</b>	<b>6.3</b>	<b>4.5</b>	<b>2.6</b>	<b>1.1</b>

## Accommodation and Food Services

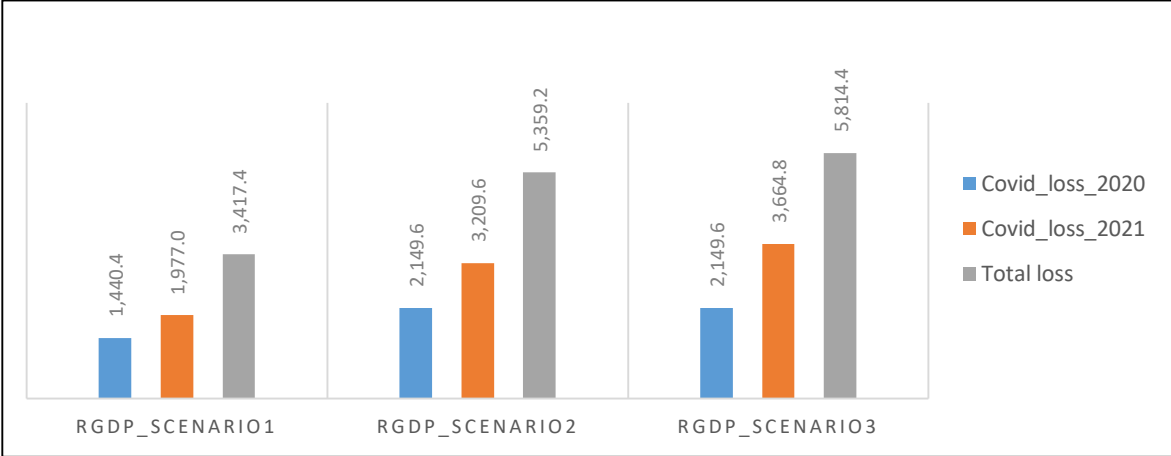
### Transport and Storage

**The transport and storage sector is expected to slow down significantly in 2020, potentially contracting if the pandemic persists until the end of the year.** Projections prior to the pandemic had showed the sector growing by 4.4 percent and 4.9 percent in 2020 and 2021 respectively. However, the sector is now projected to slow down to a 0.9 percent growth in 2020 and 3.8 percent in 2021 if the virus is contained by 2020Q3. Key factors for the sector's reduced growth include restrictions on international travel, social distancing measures put in place by the government which has affected carrying capacity for buses, general change in perception by the public toward using public transport, and lockdowns in trading partner countries.

Our projections also reveal that if the pandemic is prolonged until 2020Q4 (scenario 2), the sector will enter a mild recession with a -0.8 percent growth in 2020 and a modest recovery of 2.7 percent in 2021. But if the virus is only contained by March 2021 (scenario 3), our projections reveal that the transport and storage sector will

further slowdown and grow by 1.6 percent in 2021. Given the forgoing, **Covid-19 will cause a minimum loss of MK 3.4 billion (US\$4.56 million) of the sector’s real output.**

*Figure 10: Transport sector real GDP loss due to Covid-19 (K'million)*

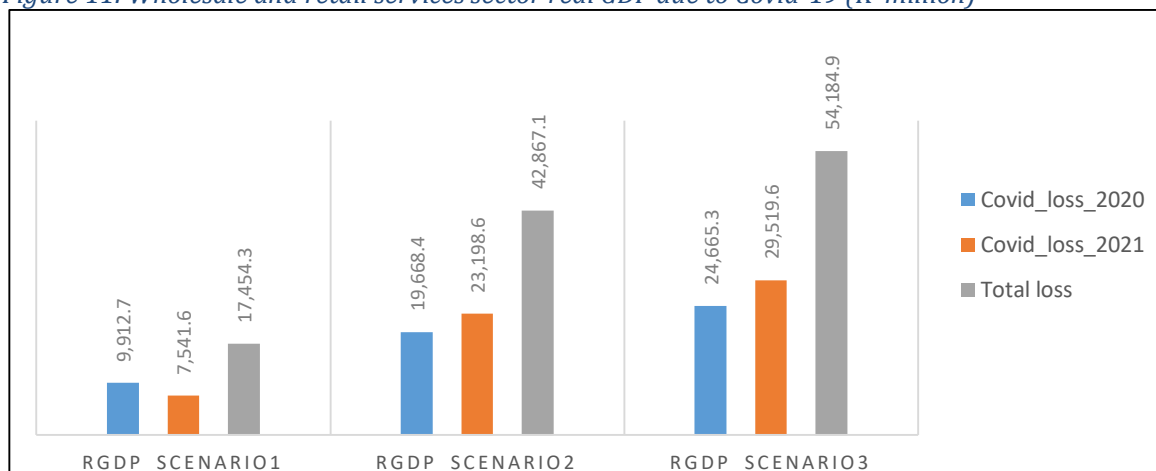


Source: Authors' own projections based on Malawi Government figures.

**Wholesale and Retail**

**The wholesale and retail sector, one of the key drivers of the country’s GDP and one of the hardest hit sectors is expected to significantly slow down to a growth of 0.7 percent in 2020 and rebound with a 6.3 growth percent in 2021.** This is against initial projections of 4.9 percent and 5.1 percent for 2020 and 2021, respectively. This outturn is on account of expected decline in sales following the disruption of supply chains caused by lockdowns in other countries, international travel bans, and other restrictions. This will be exacerbated by expected decline in disposable income as the general economic activity slows down leading to reduced demand. Our projections show that growth prospects for the sector will turn out worse if the virus persists to end 2020. In that scenario the sector would contract by 3.4 percent in 2020 and rebound by 4.0 percent in 2021. However, if the virus can only be contained by 2021Q1 (scenario 3), then the sector will further slowdown and grow by 3.5 percent only in 2021. **In total, the crisis will cause a loss of at least MK 17.5billion (US\$23.30 million) of the sector’s real output (MK83.0 billion in nominal terms).**

Figure 11: Wholesale and retail services sector real GDP due to Covid-19 (K 'million)



Source: Authors' own projections based on Malawi Government figure

## Manufacturing

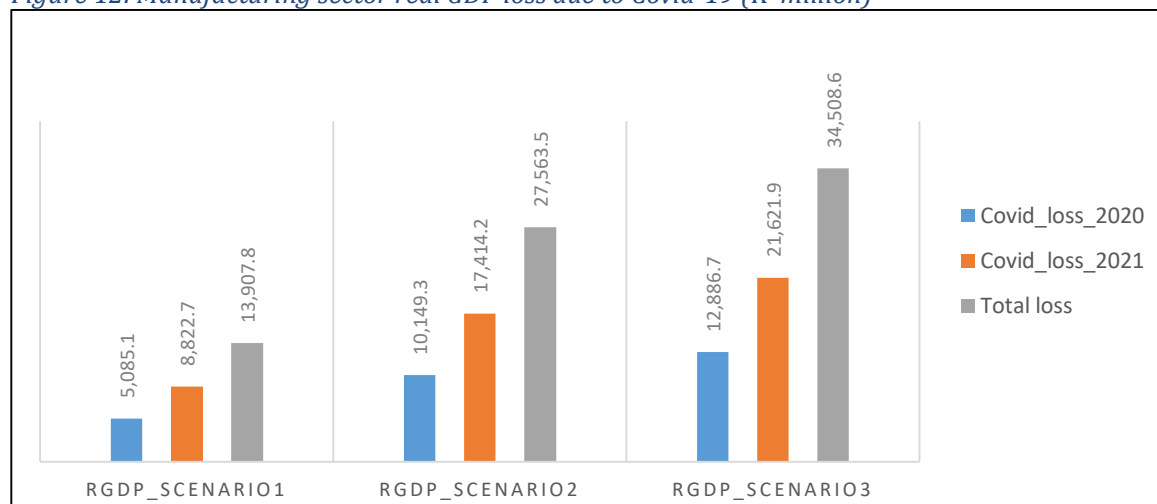
**Growth for the manufacturing sector is projected to decline significantly following the Covid-19 outbreak and the ensuing disruption of supply chain of goods services.**

Prior to the pandemic, the sector was projected to grow by 5.6 percent in 2020 and 5.8 percent in 2021. However, revised government estimates show that real GDP growth for the sector is expected to decline sharply to 1.9 percent and 3.3 percent in 2020 and 2021 respectively, on the assumption that the virus is contained by the third quarter of 2020. Our projections show that growth prospects for the sector will further worsen if COVID-19 persists till end of 2020. In that case the sector will attain a -0.8 percent growth in 2020 and marginally rebound by 0.8 percent in 2021. Meanwhile, if the virus is only contained 2021Q3 (scenario 3), the sector would record a 0.7 percent contraction in 2021.

**The Covid-19 effects are projected to cost the manufacturing sector, which is the third largest contributor to the country's GDP, between MK13.9 billion (US\$18.54 million) and MK34.5 billion (US\$46.01 million) of its real GDP.** Specifically, Covid-19 is expected to erode about MK13.9 billion (US\$18.5 million), MK27.6 billion (US\$36.75 million) and K34.5 billion (US\$45.94 million) of the sector's GDP if the pandemic is contained in 2020Q3, 2020Q4 and 2021Q1 respectively. Logistical challenges arising from lockdowns in trading partner countries which are affecting importation of raw materials and capital stock as well as exportation of final goods are the main

challenges facing the manufacturing sector. Subdued aggregate demand following the general economic slowdown is also weighing negatively on the sector.

Figure 12: Manufacturing sector real GDP loss due to Covid-19 (K' million)



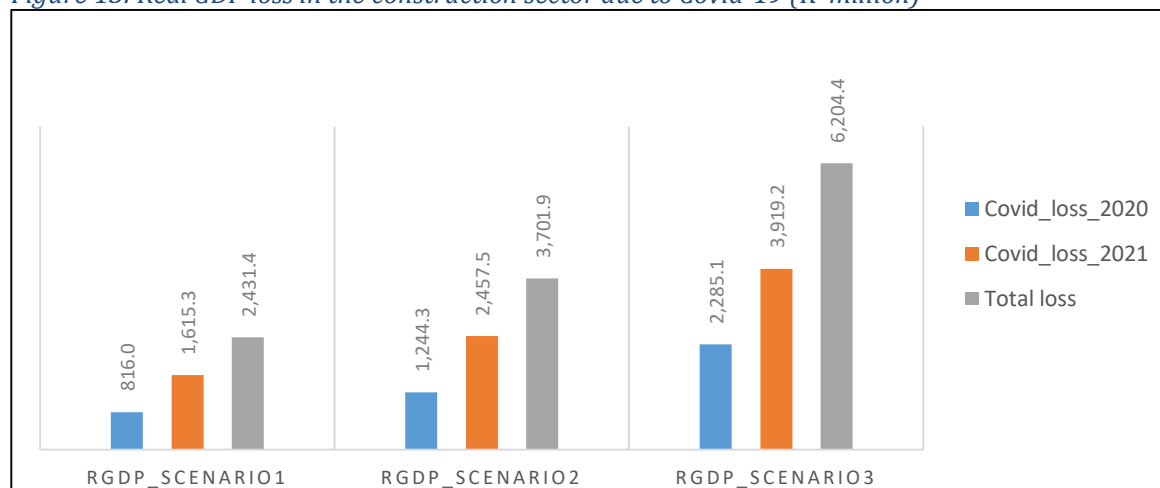
Source: Authors' own projections based on Malawi Government figures

## Construction

**Growth in construction is expected to fall by at least 1.9 percentage points from the initial estimates.** The government marked down the pre-Covid-19 growth projections for the sector to 3.7 percent and 4.2 percent for 2020 and 2021, respectively. We project that if the crisis continues to the fourth quarter of 2020, the construction sector will further slowdown and grow by 2.7 percent for 2020 and 3.3 percent for 2021. The growth prospects will be gloomier if the pandemic reaches March 2021. In that scenario, the sector would slow down as most constructions projects both public and private are expected to be halted due to disruption of supply of imported materials mainly on account of the lockdowns in trading partner countries.

**Consequently, the construction sector is set to lose at least MK2.4 billion (US\$3.2 million) it's real GDP and up to MK6.2 billion (US\$8.30 million) in the worst-case scenario.** Specifically, the crisis is expected to erase about MK2.4 billion (US\$2.9 million), MK3.7 billion (US\$4.9 million) and MK6.2 billion (US\$8.3 million) of the sector's real GDP if the pandemic is contained in 2020Q3, 2020Q4 and 2021Q1, respectively.

Figure 13: Real GDP loss in the construction sector due to Covid-19 (K' million)



Source: Authors' own projections based on Malawi Government figures

## Agriculture

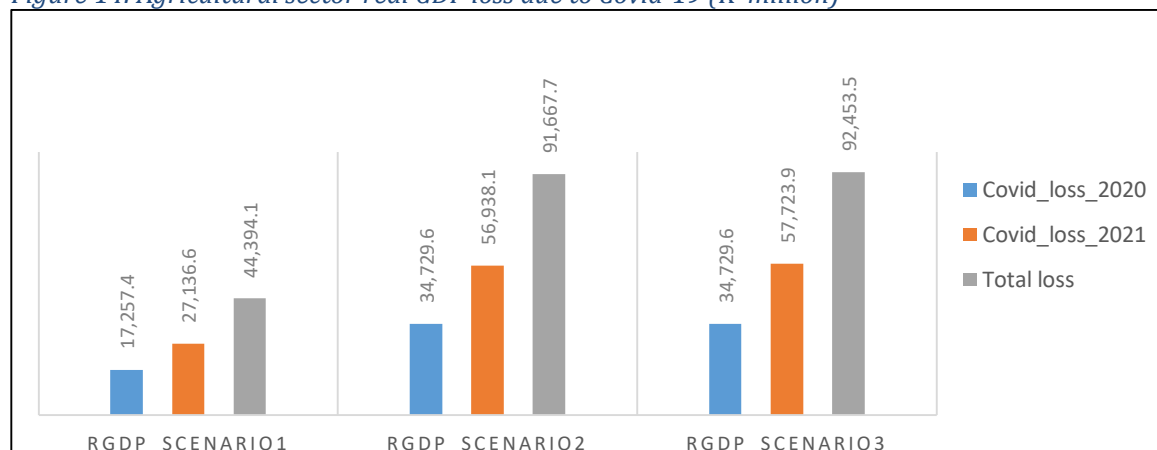
**Agriculture, the country's single largest economic sector, is will also expected to fall significantly due to the Covid-19.** Prior to the outbreak, the sector was projected to grow by 5.2 percent and 5.3 percent for 2020 and 2021, respectively. However, the government revised its projections downwards to 1.1 percent and 3.1 percent for 2020 and 2021 respectively assuming the crisis is subdued in 2020Q3.

If the crisis remains untamed by 2020Q4 however, the sector would further slow down to a 0.5 percent growth for 2020 and 1.0 percent for 2021. This outturn would mainly be due the disruption of the supply chain as this would affect timely importation of agricultural inputs. Our estimations further show that the agricultural sector would enter into a mild recession of -0.1 percent in 2021 should Covid-19 persist to 2021Q1.

**Consequently, the crisis is expected to cost the agriculture a minimum of MK 44.4 billion (US\$59.2 million) in real GDP.** However, this is the best-case scenario where the pandemic is contained in 2020Q3. In event that the pandemic is only contained at the of 2020, the sector is projected to lose MK91.7 billion (US\$122.20 million). If Covid-19 reaches March 2021, the sector will lose MK92.5 billion (US\$123.30 million).



Figure 14: Agricultural sector real GDP loss due to Covid-19 (K 'million)



Source: Authors' own projections based on Malawi government figures

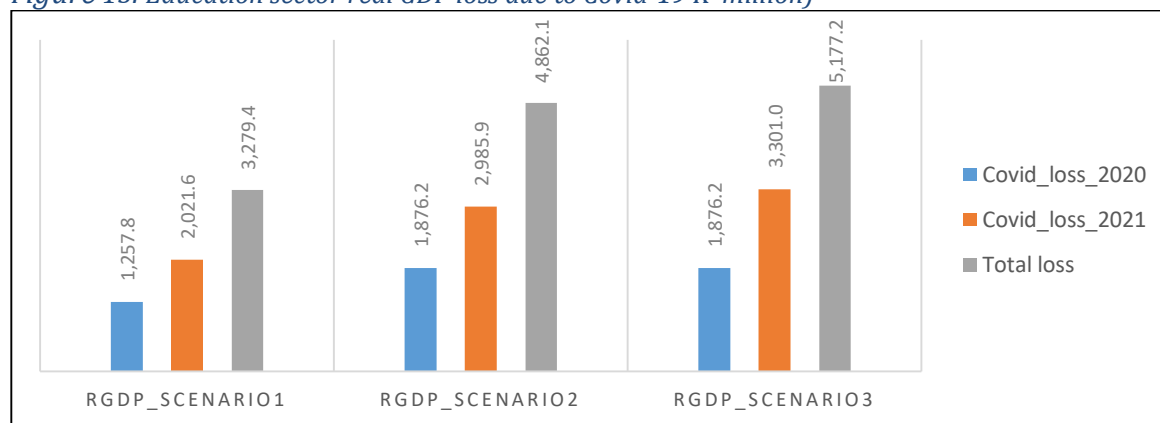
## Education

**Education is one of the sectors expected to be greatly affected by the Covid-19 crisis due to abrupt closure of schools.** Before the outbreak, government projected the education sector to grow by 6.1 percent in 2020 and 6.4 percent in 2021. However due to the Covid-19 crisis, these projections have been revised downwards to 3.3 percent and 5.0 percent for 2020 and 2021 respectively

Our projections show that the sector will slide further down to a 1.9 percent growth in 2020 and 4.3 percent growth in 2021, should the pandemic persist to the end of 2020. The growth prospects will be even weaker if the pandemic is not controlled by March 2021. In this case, the sector would grow by 3.6 percent in 2021. Education has been directly affected by the Covid-19 containment measures one of which has been the government's directive to close all learning institutions. In the short to medium term, the main victims have been private schools that rely on school fees as their major source of income. As a result, some schools have resorted into staff retrenchment as means of keeping their institutions afloat.

**Covid-19 is expected to cost the education sector a minimum of MK3.3 billion (US\$4.40 million).** However, if the virus prevails until end 2020, MK4.9 billion (US\$6.5 million) of the sector's output will be eroded. The loss in output rises to MK5.2 billion (US\$6.9 million) if the virus is only contained by the first quarter of 2021.

Figure 15: Education sector real GDP loss due to Covid-19 K' million)



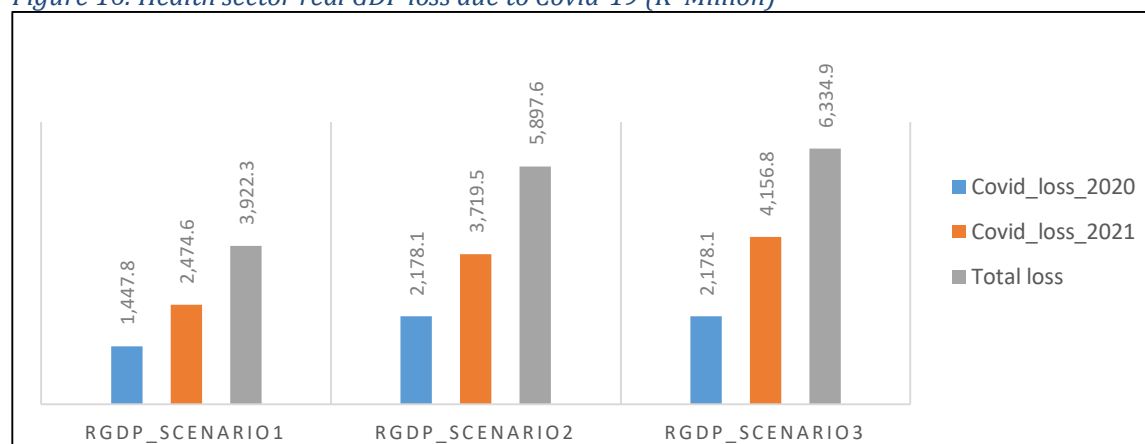
Source: Authors' own projections based on Malawi Government figures

## Health

**Assuming the Covid-19 is contained by September 2020, the sector's growth is projected to fall sharply to 3.5 percent in 2020 from 6.6 percent projected earlier on before the outbreak.** For 2021, the government projects the growth for the sector to decline to 4.6 percent representing a downward revision of 2.1 percentage points. If the crisis reaches the end of 2020, our projections show that the sector's growth would further slowdown to 1.8 percent in 2020 and 3.5 percent in 2021. Under our worst-case scenario, where the pandemic reaches March 2021, the health sector would grow by 2.5 percent in 2021. The sector is largely affected by weakened demand for health services following increased public fears of going to hospitals for fear of contracting the virus. This will cause hospitals to provide fewer services in 2020 and 2021 compared to what was initially projected.

**A minimum of MK 4.0 billion (US\$5.20 million) of the sector's output will be lost.** This is the best-case scenario assuming the virus is contained in the third quarter of 2020. However, if the crisis reaches the fourth quarter of 2020, around MK5.9 billion (US\$7.9 million) of the sector's GDP will be wiped out. And if the virus reaches March 2021, MK6.3 billion (US\$8.4 million) will be lost.

Figure 16: Health sector real GDP loss due to Covid-19 (K' Million)



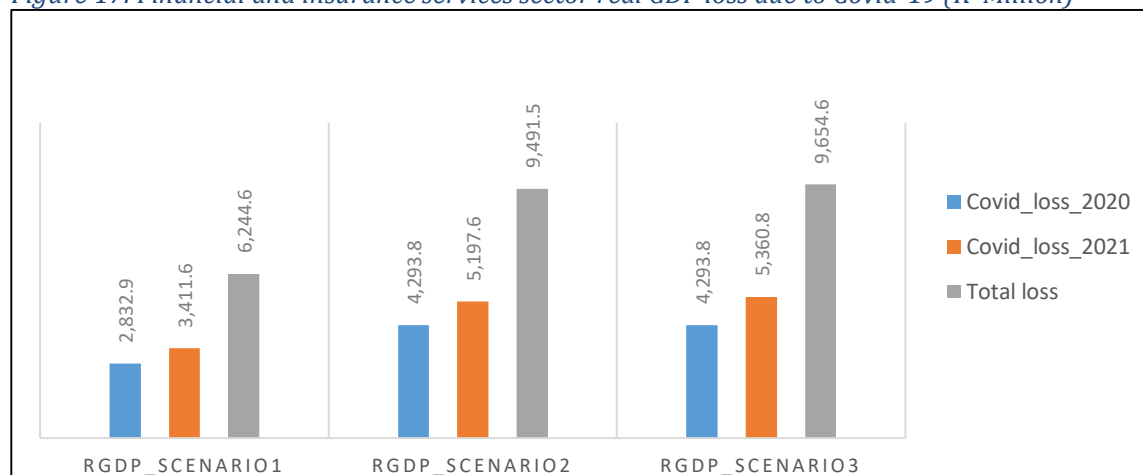
Source: Authors' own projections based on Malawi Government figures

### Financial and Insurance services

The financial and insurance services sector was initially projected to register a robust growth of 5.8 percent in 2020 and 6.0 percent in 2021. However, this was revised down to 2.3 percent and 5.0 percent for 2020 and 2021 respectively on assumption that Covid-19 fades away by the third quarter of 2020. Our projections show that if the pandemic goes beyond 2020Q3 and is only at the end of 2020, growth would be at 0.5 percent in 2020, rebounding to 5.2 percent in 2021. The prospects for 2021 weaken further to 5.0 percent if the pandemic reaches March 2021.

**Between 2020 and 2021, the sector is projected to lose MK6.2 billion (US\$8.30 million), MK9.4 billion (US\$12.7 million) and MK9.7 billion (US\$12.9 million) under the scenarios 1,2, and 3 respectively.** This loss will result into deterioration of the financial sector soundness as asset quality, profitability, liquidity and capital will be greatly eroded. Diminished economic activity, worsening private sector balance sheets, and reduced disposable income for households will all negatively affect demand for financial products and affect servicing of the existing facilities. This will increase credit risk which in turn affects capital and profitability for the sector.

Figure 17: Financial and insurance services sector real GDP loss due to Covid-19 (K' Million)



Source: Authors' own projections based on Malawi Government data

### 3.3. An analysis of the impact of the crisis on employment in Malawi

Although the rate of Covid-19 infections in Malawi has been quite low, the economic fallout caused by it has significantly affected the labour market. With many businesses facing substantial revenue slumps, employers are having to make tough decisions involving employee retention and wages. Our analysis shows that as a result of the crisis, a substantial amount of jobs will be lost and labour incomes will decrease significantly. The reduction in labour income will be primarily due to the job losses although wage cuts will also play a role.

#### 3.3.1. Impact on employment

**The Covid-19 crisis will cost the Malawi labour market between 273,712 and 680,496 current and future jobs.** This translates into a 3-7 percent loss of jobs that would have been available had the crisis not befallen. In terms of the absolute numbers, most of the job losses will take place in the agricultural sector as it is the largest sector in the economy and employs more than 60 percent of the total workforce. As Table 1 below shows, the sector is expected to lose about 151,188 jobs if the crisis ends by 2020Q3, 251,344 if it reaches 2020Q4, and 274,084 jobs if the crisis reaches 2021Q1.

**Accommodation and food services will have the highest percentage of jobs lost to Covid-19 amongst all the sectors, potentially losing up to 14 percent.** As Table 1 shows, this sector will lose 4 percent of its jobs if the crisis ends by September 2020,

12 percent if it persists to December 2020 and up to 14 percent if the situation does not normalize by March 2021. These numbers are not surprising given that for Malawi this sector has been the most affected by the pandemics. However, it is worth noting that if the pandemic is contained by September 2020, the share of jobs lost will be much more modest compared to the other scenarios. This is because in that case the sector is expected to rebound strongly in 2021 as it will have had enough time to recover before beginning the year.

**Manufacturing and wholesale and retail trade are the other two major sources of job losses in terms of both absolute numbers and percentages.** In the worst-case scenario, the wholesale and retail trade sector is projected to lose up to 134,000 (10 percent) of its jobs while manufacturing is set to lose up to 42,500 jobs (13 percent of its jobs). This makes the two the highest job losing sectors outside of agriculture. It should be noted that in the case of wholesale and retail trade, the jobs situation becomes much better than the other sectors the sooner the crisis ends. The sector only loses 1 percent of its jobs if the pandemic is contained by September 2020. The reason for this is that most businesses in the sector had over performed in the first months of the crisis due to customers engaging in panic buying and as such are able to sustain the same level of operations for much longer.

*Table 1: Job losses due to Covid-19*

	<b>Job losses</b>					
	Scenario 1		Scenario 2		Scenario 3	
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>
<i>Agriculture</i>	151,188	3%	251,344	5%	274,084	6%
<i>Wholesale &amp; retail</i>	18,909	1%	100,969	7%	134,097	10%
<i>Manufacturing</i>	14,387	4%	33,317	10%	42,588	13%
<i>Construction</i>	4,184	2%	8,112	4%	14,930	7%
<i>Education</i>	5,374	3%	9,447	5%	10,777	5%
<i>Health</i>	4,662	4%	7,999	6%	9,170	7%
<i>Transport &amp; storage</i>	4,905	3%	9,585	6%	11,313	7%
<i>Accommodation and food services</i>	2,229	4%	6,911	12%	7,993	14%
<i>Others</i>	67,873	3%	150,121	7%	175,542	8%
<b>Aggregate</b>	<b>273,712</b>	<b>3%</b>	<b>577,804</b>	<b>6%</b>	<b>680,496</b>	<b>7%</b>

Source: Authors' computations

### 3.3.2. Impact on labour income

To appreciate how Covid-19 has affected the welfare of workers, we analyse its impact on the average and median monthly real labour incomes. Due to the limited data on wages, we estimate the current monthly earnings using 2013 wage data (from the 2013 labour force survey) and assume that real wages have remained constant since then. Figure 19 below shows our estimates of monthly earnings for the baseline scenario. The projections show that if it were not for the Covid-19 crisis, on average the aggregate monthly labour income in 2020 would be in the region of MK941.2 billion (US\$1.25 billion) and that would rise to about MK1,092.66 billion (US\$1.46 billion) in 2021.

However, the job losses shown in Table 1 above coupled with wage cuts undertaken by some enterprises are bound to affect incomes generated through employment. Figure 20 shows the total labour income losses given the projected worker layoffs and wage cuts. It is shown that **the Covid-19 crisis will cost workers a minimum of MK84.6 billion (US\$112.8 million) in monthly earnings**. This amount increases to MK117.95 billion (US\$157.27 million) if the crisis reaches December 2020, and MK129.21 billion (US\$172.28 million) if it reaches March 2021

Figure 18: Monthly labour income Pre-Covid (K' million)

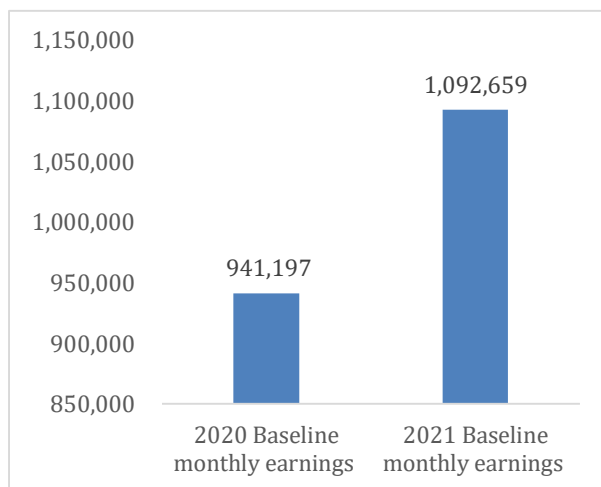
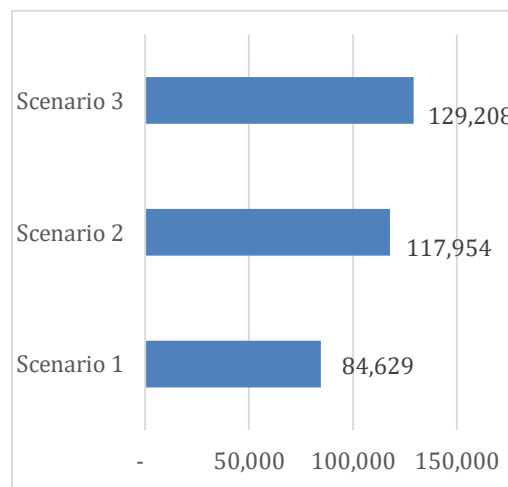


Figure 19: Earning losses (K'million)

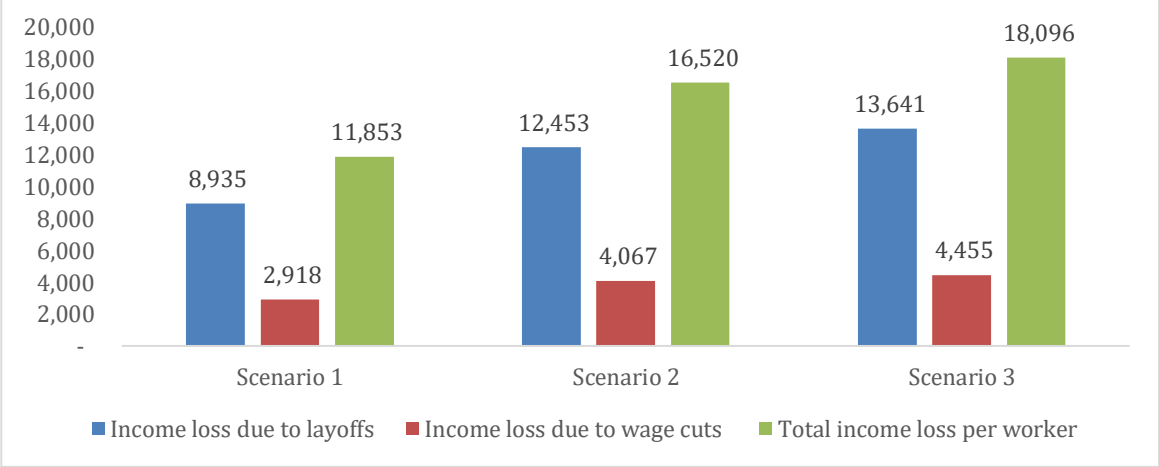


Source: Authors' computations

**In per worker terms, our projections show that the average worker will lose between MK11,853 (US\$16.07) and MK18,096 (US\$24.54) of labour income per month.** This is

against a baseline monthly income of MK104,870 (US\$142.2) that would be earned had there been no Covid-19. This implies that given scenario 1, workers would lose 11 percent of their monthly earnings, 16 percent if scenario 2 materializes, and 17 percent if scenario 3 comes to pass. These income losses are mainly on account of the employee layoffs as these contribute to more than 75 percent of the total losses.

Figure 20: Monthly per worker average monthly earning losses (K' million)



**3.3.3. Informal employment**

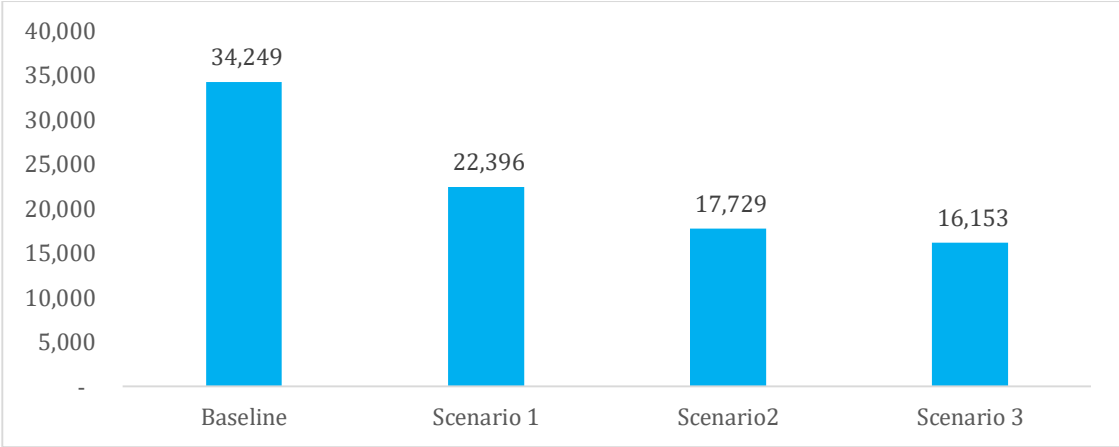
One very pertinent question regarding the economic impact of Covid-19 in Malawi is how the pandemic is going to affect informal employment. This is so given that informal employment constitutes more than 88 percent of the total labour force in the country (Labour Force Survey, 2013). As such an analysis of the market dynamics in this sector provides us with a much better picture regarding how the typical worker is fairing during the crisis.

Like in most low-income countries, informal employment in Malawi is characterized by poor working conditions including having lower earnings. Furthermore, as noted in the third ILO Monitor, many of the informal workers have no possibility to work remotely from home as staying home means losing their jobs. Therefore, the economic risks posed by Covid-19 on informal workers cannot be overstated.

For the analysis of the impact of the crisis on the informal sector earnings, without data on the earnings distribution for the sector one must rely on inferences from

those of the whole labour market. In our case we utilize the overall median earnings by recognizing that these are bound to be higher than the median earnings for informal workers given the size and characteristics of the sector. As such we can infer a conservative estimate for informal workers' earnings by setting the overall median as the upper bound. Figure 22 shows a comparison of the overall median earnings for the baseline scenario and the other three scenarios of the Covid-19 outbreak. The figure shows that the median earnings will go down significantly the longer the crisis goes on. We can thus infer that **the typical worker in the informal sector will see their earnings go down to below MK22,396 (US\$30.37). But if the crisis lasts all of 2020 or till March 2021, the earnings will go below MK17,729 (US\$24.07) and MK16,152 (US\$21.9) respectively both of which are below the US\$1 a day line.**

Figure 21: Impact of COVID-19 on median monthly incomes (K' million)



Source: Authors' own computation

**3.3.4. Assessment of current investment priorities in relation to worst hit sectors**

With the Covid-19 crisis affecting different sectors in varying degrees, opportunities arise for both the private sector and the government to explore in order to achieve quicker and more robust recovery. For businesses, the crisis has exposed untapped and under-tapped markets that should be exploited. For government, this crisis provides the opportunity to build back better by identifying gaps in public investments and addressing them thus boosting economic activity and creating jobs in the process.



**Infrastructure upgrade:** In Malawi, one important area that continues to lag is public infrastructure. With the persistent underfunding of the Public Sector Investment Programme (PSIP), the infrastructure gap in the country continues to widen as evidenced by the deterioration and congestion of roads, and dilapidation of public health and school infrastructure. As the government seeks to boost economic activity and create jobs during the crisis, construction and upgrading of public infrastructure provides a win-win situation to be exploited. Not only does this leave the country better off in terms of economic and social infrastructure, it also provides financial relief to local construction firms and job seekers thereby increasing disposable incomes and boosting private spending in other sectors of the economy.

**Manufacturing sector growth:** The Covid-19 crisis has highlighted the need for local production of goods and demonstrated local capacity for it. Local entrepreneurs, albeit in small numbers, have demonstrated skills and desire to create low tech products such as face masks and hand washing stands while some universities managed to produce medical equipment including ventilators. Therefore, this crisis provides an opportunity for government to support and encourage such manufacturing initiatives in order to enhance the spirit of innovation and secure local production of manufactured goods that the country can produce on its own.

**Information and Communication Technology:** The ICT sector has been one of the few beneficiaries of the Covid-19 virus. This is so given the increased need for remote and virtual working as organizations observe social distancing. Although things are bound to normalize in the future, there is potential for a cultural shift within organizations towards maintaining some level of virtual or tele-working in order to maintain efficiency in the workplace. As such both the Government and the private sector must take advantage of this situation and invest in the ICT sector as this could prove to be increasingly beneficial for both, and it will also help transform the country towards the technological age.

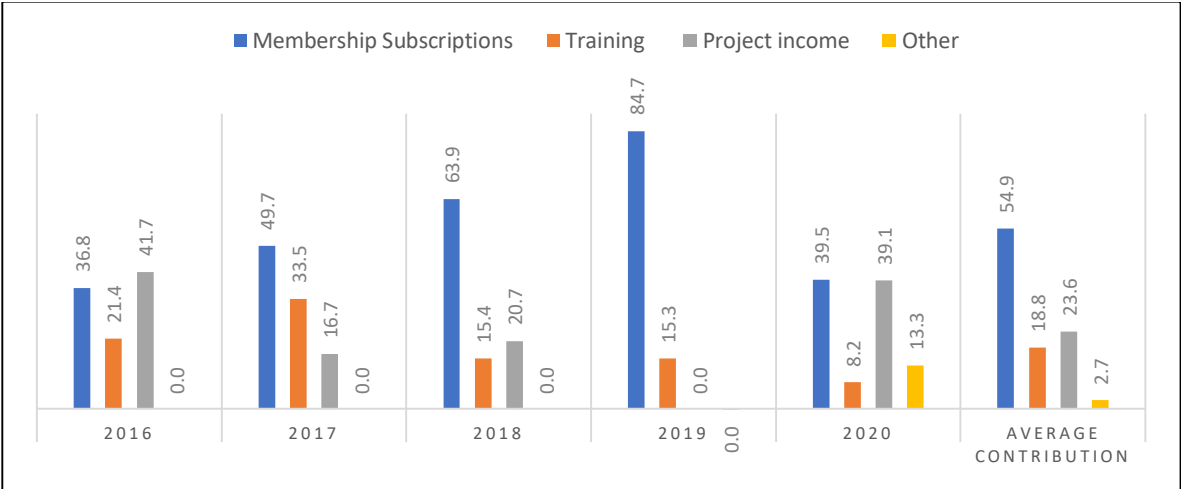
**Agriculture:** Agriculture is the largest sector in the country and one in which we have comparative advantage due to the massive availability of labour in the sector and good climate. It is the most important key priority area of the Malawi growth and

Development Strategy (MGDS) as it commands the lion's share of the national budget. The Covid-19 crisis has demonstrated the need for a resilient agriculture sector as the substantial drop in the sector's output has heavily affected growth projections for the national GDP. As such the private sector can use this opportunity to lobby government to intensify its agriculture diversification efforts by among other things quickly moving to operationalize the growing and exporting of *Cannabis Sativa* as one way to diversify the sector and better cushion the country against these kinds of shocks.

**3.3.5. Effects of the Covid-19 on ECAM membership base**

As is the case with many other institutions, ECAM is expected to be negatively affected by the Covid-19 particularly with regards to its revenues and core operations. As a member-based organization, ECAM's main source of income is membership subscriptions. Despite the association's establishment being backed by the country's Labour Relations Act (1996), its membership and subscription is voluntary and members are at liberty to leave and unsubscribe anytime. As Figure 23 shows, on average membership subscriptions constitute over half of ECAM's revenues. The other revenues come from projects (24.0 percent), training (19.0 percent) and others (3.0 percent). From Figure 23, it is evident that the association's revenue base is narrow and significantly volatile.

*Figure 22: Contributions by source of revenue (Percent)*



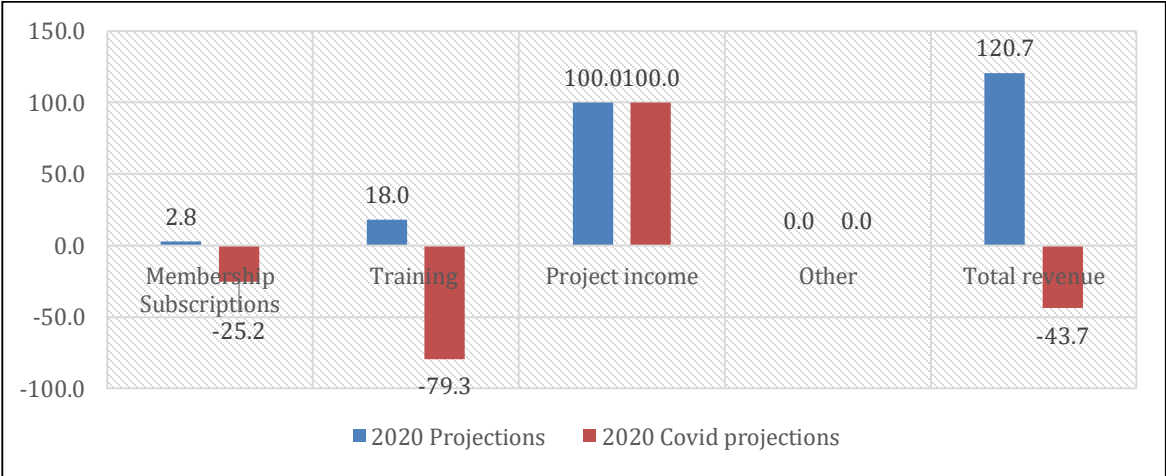
Source: ECAM Figures, April 2020

**With the Covid-19 outbreak, prospects for growth of the association’s membership have fallen sharply such that ECAM’s revenue is expected to decline by 43.7 percent in 2020 compared to pre-Covid-19 projections (Figure 24).** Prior to the Covid-19 outbreak, ECAM projected its revenue to grow by 120.7 percent (Figure 24) in 2020 on assumption of improved political stability in the second half of 2020 which would boost businesses. In 2019, ECAM's revenue had shrunk due to political instability which was affecting business for the association's members thus making them less likely to pay subscriptions.

The projected decline in ECAM's revenues comes as some of the association's members operate in the sectors that have been worst hit by the pandemic such as manufacturing, wholesale and retail as well as transport and storage services sectors. It is expected that these members will reprioritize their expenditures to focus on their core business activities and statutory obligations including tax.

Nevertheless, this pandemic still presents ECAM with the opportunity to grow their membership and subscriptions. **The crisis creates the need for representation and joint lobbying for businesses in order to effectively to push for robust policies that would support recovery of their institutions.** It also reinforces the need for working together between ECAM and other stakeholders in the world of work in order to better prepare for external shocks like this one.

Figure 23: Revenue estimates for 2020 (Percent)



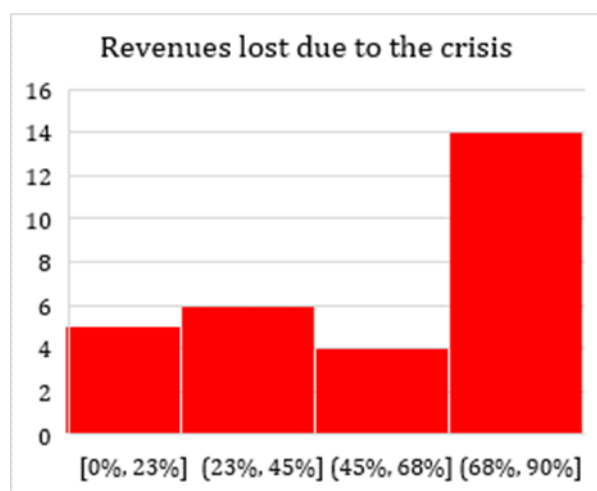
Source: Employers Consultative of Malawi Revenue Projections, April 2020

### 3.3.6. Stakeholders' perception of the Covid-19 impact

The Covid-19 pandemic has affected businesses in the country in ways never seen before. Restrictions on social and economic activities coupled with the travel bans imposed in South Africa and other countries has led to a decline in both demand and supply of products and services. Figure 25 below shows the impact of the crisis on the revenues of 30 surveyed companies. The survey results also show that almost all the companies have lost some of their revenues due to the crisis and about half of them have lost more than 60 percent. As expected, the survey also revealed that most affected companies are in the hospitality industry where all respondents reported revenue losses of more than 90 percent.

In order to minimize costs during the crisis, some enterprises have opted to cut labour costs by retrenching some of their workforce and/or implementing wage cuts. Of the 30 enterprises in our survey, 10 (one third) indicated that they had implemented these labour decisions. As Table 2 shows, on average businesses were retrenching about 6 percent of the workforce and implementing wage cuts of about 5 percent. A more detailed analysis of the impact of Covid-19 on the Malawi labour market is provided in section 3.2.4.

Figure 24: Revenue losses for businesses



Source: Survey by the Authors

Table 2: Retrenchments and wage cuts

	Job cuts	Wage cuts
Mean	6%	5%
Standard Error	2%	2%
Range	50%	30%
Minimum	0%	0%
Maximum	50%	30%
Count	30	28

Source: Survey by the Authors

### **3.4. Assessment of national response strategy to the COVID-19**

**On 20 March 2020, the Malawi government declared the Covid-19 situation a state disaster.** This was despite the country registering any confirmed cases at the time. As a precaution, schools and all learning institutions were ordered to close, and public gatherings of more than 100 people were prohibited initially for 30 days effective 23rd March 2020 (see presidential Address on Covid-19, 20<sup>th</sup> March 2020). These restrictions remained operational despite poor enforcement of the latter. Additionally, all international travels were suspended effective 1st April 2020.

**Just like many other countries globally, Malawi has also put in place strategies and policies to respond to the economic impacts arising from the pandemic and cushion businesses from the risks of falling under.** On 20<sup>th</sup> March 2020, upon the declaration of national emergency, the following measures were also put in place:

#### **3.4.1. Health measures (Protecting workers in the workplace)**

1. More Personal Protective Equipment (PPE) for healthcare workers were acquired.
2. Decongestion of workplaces by encouraging public and private organizations to allow employees to work remotely from home or in shifts.
3. All workplaces were required to provide hygiene products and equipment such as hand sanitizers, hand washing stations and face masks.
4. Government introduced a policy to quarantine and monitor people arriving from foreign countries to contain the spread of the virus.

#### **3.4.2. Social protection measures (Supporting employment and incomes)**

5. The government increased loans under the Malawi Enterprise Development Fund (MEDF) in order to reach out to more people across the country.
6. An Emergency Cash Transfer Program, Covid-19 Urban Cash Intervention (CUCI), was introduced to cushion the peri-urban poor operating in the informal sector in Blantyre, Lilongwe, Mzuzu, Zomba and others. This is an extended cash transfer facility to support Malawians who depend on a daily wage for survival.

7. Covid-19 cash top-up to existing Mtukula Pakhomo Program beneficiaries in all the 28 districts.
8. Government owned Agricultural Development and Market Corporation (ADMARC) was directed to buy farmers' produce at good prices to avoid merchants from taking advantage of poor farmers during the pandemic;

### **3.4.3. Macro-financial measures (Stimulating the economy and labour demand)**

9. The tobacco market remained open despite the social distancing measures;
10. Government introduced tax grace and various tax measures;
11. The Liquidity Reserve Requirements on domestic currency deposits was reduced from 5 percent to 3.75 percent;
12. The Lombard rate was reduced from 13.9 percent to 13.7 percent;
13. The Emergency Lending Assistance was activated to be accessed by banks on case by case basis;
14. Government would approve the recapitalization plan under the Prompt Corrective Action (PCA) directive beyond 90 days shall any a bank breach the Prudential Capital Requirement Directive due to COVID-19;
15. Granting of relief to banks on the provisioning of restructured loans and loans on moratorium impacted by COVID-19;
16. Banks were to restructure, refinance or renegotiate loans to SMEs, corporates and other borrowers on a case by case basis;
17. Banks were to moderate payments of discretionary expenses such as bonuses, dividends and Management fees;
18. Banks were to reduce fees and charges on all electronic money transfer;
19. Banks were to offer a 3-month moratorium on interest and principal repayments to borrowers on their loans on a case by case basis.

**The measures put in place by the Malawi government are well aligned to the international best practices as they conform to the “three key pillars of fighting Covid-19 based on International Labour Standards.** These pillars include protecting workers in the workplace, supporting employment and incomes, and stimulating the economy and labour demand. Like most countries across the globe, the authorities

in Malawi have put in place accommodative monetary, active fiscal policy and sound social policies to contain the virus and mitigate its effects. These notwithstanding, a lot of areas are still lacking and could compromise the fight against the virus and its impact. These include:

1. Lack of proper enforcement of the containment measures including testing and quarantines.
2. Overwhelmed and underprepared healthcare system characterized by shortage of infrastructure, equipment and requisite drugs for fighting the virus.
3. Public distrust of official information regarding the spread of the virus as top politicians and government officials blatantly disregard the measures.
4. Coverage of protection programs remain inadequate. Preliminary assessments show that the bulk of resources earmarked for Covid-19 are going towards administrative arrangements rather than the actual needs for fighting the virus.

#### **4. CONCLUSION AND POLICY RECOMMENDATIONS**

Growth prospects that had been very positive before the crisis have been severely dampened hence negatively affecting businesses and the labour market in Malawi. Prior to the pandemic, the Malawi economy was on a high-growth trajectory and most economic sectors were expected to register good performance in 2020 and 2021. This outturn was expected to be supported by favourable macroeconomic environment in both 2020 and 2021. However, with the Covid-19 crisis, the Malawi economy is set for a significant slowdown in both 2020 and 2021.

Specifically, the crisis is projected to cost the Malawi economy around MK124.0 billion (US\$164.71), MK200 billion (US\$292.69 million), and MK224 billion (US\$318.63 million) under scenario 1, scenario 2 and scenario 3 respectively. Similarly, the pandemic is also expected to have a significant impact on the country's labour market with an expected 273,712 to 680,496 loss of current and future jobs and MK84.6 billion (US\$112.8 million) to MK129.21 billion (US\$172.28 million) loss of monthly earnings. At the sector level, accommodation and food services, transport and storage, manufacturing and wholesale and retail trade are expected to be worst hit sectors in terms of both output and job losses.

In order to limit the negative effects of the crisis and to ensure that employers and employees are effectively cushioned, the government and other relevant stakeholders should consider focusing on the following policies and interventions in addition to the existing ones:

#### **4.1. Proposed actions for the government**

**1) Entrenched prudent fiscal and accommodative monetary policies:**

Government must maintain prudent fiscal policy and accommodative monetary policy in order to limit the effects Covid-19 on investors' confidence. To that end, authorities must monitor fiscal and financial sector developments with the aim of minimizing the fiscal deficits that are inevitable during the crisis, keeping public debt under control, and maintaining liquidity and low interest rates in the credit markets.

**2) Direct support for businesses:** Immediate support is needed for enterprises whose financial health has been severely compromised by the crisis. Special attention should be on businesses in the most affected sectors including accommodation and food services, wholesale and retail, transport services, and manufacturing. The following measures should be undertaken.

- i. Provision of financial bailouts and/or tax relief to struggling enterprises that are crucial to their respective sectors and employ many people.
- ii. Settle arrears owed to the private sector as those funds will help businesses better navigate the crisis. This is an opportunity for the government to clear some of its debts while simultaneously providing support to businesses during the crisis.

**3) Support for workers and businesses in the informal economy:** Government should provide cash bailouts and cheap loans to workers and businesses that are operating in the informal sector. This should be done by expanding on existing schemes such as the Malawi Social Cash Transfer program and the Malawi Enterprise Development Fund (MEDEF), as well as by introducing new well targeted schemes. Government should ensure that these schemes have a wide coverage and only benefit the targeted people and enterprises.



**4) Labour market reforms:** The government should review its labour laws and implement reforms in order to remove frictions in the labour market that make it difficult for employers and employees to adjust accordingly during crises like these. Specifically, the government should consider the following reforms.

- i. Review the Employment act to include all necessary provisions for retrenchments and declaration of redundancy. The Employment Act in its current form does not provide for the procedure for terminating employment due to operational requirements. This includes operational requirements that may occur due to extraordinary circumstances such as global or national crises.
- ii. Review the Pensions Act to ensure that the laws clearly spell out procedures for mutually agreed early retirement. Under the current setup, employers can only pay retirement packages at the age of retirement and not when it is mutually convenient for them and employees. This removes downsizing options for companies when dealing with crises.
- iii. Review employment act to put provisions for prolonged unpaid leave. Under the current laws there is no provision for prolonged unpaid leave and as such employers and employees have no legal backing if they agree that unpaid leave is in their mutual interest.
- iv. Implement reforms to prevent the simultaneous handling of labour disputes by the industrial relations court and the civil courts as this brings unfair lawsuits not only under crises but also in general.
- v. Government should consider upskilling the labour force as the country's skills base remains inadequate and narrow. This would help in increasing the labour market resilience to shocks.

#### **4.2. Proposed actions for the private sector**

**1) Protect the health of workers:** Private enterprises should complement government efforts by ensuring that all necessary measures are undertaken to prevent workers contracting the virus.

- 2) **Develop and execute business continuity plans:** These plans should include strategies for minimizing employee layoffs. To that effect businesses should engage the government and other relevant stakeholders for help.
- 3) **Produce and supply essential products required in the fight against Covid-19:** Businesses should take advantage of the crisis and share responsibilities in fighting it by locally producing and supplying essential products such as face masks, hand sanitizers, and other health products.
- 4) **Provide financial support in the fight against Covid-19:** Businesses should consider making financial contributions to the national Covid-19 response not only as part of social corporate responsibilities, but also as beneficiaries of containing the virus.

#### 4.3. Proposed actions for ECAM

- 1) **Conduct feasibility study on possible establishment of an unemployment insurance fund”:** With the unemployed and uninsured taking the brunt of the pandemic, it is time for Malawi to consider establishing an Unemployment Insurance Fund (UIF) like the one South Africa has. ECAM should lead these efforts by first conducting a study to establish the workability of such a fund in Malawi and the best form it would take. This study should be used engage government with regards to the idea of establishing such a fund.
- 2) **Conduct further research on informal employment:** Although more than 80 percent of Malawian workers are in the informal sector, not much is known about the labour dynamics in the sector. This is due to the limited research that has been conducted on different labour issues in the sector. ECAM should consider facilitating a more in-depth research aimed at establishing the needs of employers and employees in the informal economy. Focus should also be put on how these needs vary by the gender and economic sectors, among other factors.
- 3) **Collect periodic data on employment and wages for ease of assessment of the labour market whenever the need arises:** Like many countries in the region, Malawi suffers from a severe lack of labour market data such as number of employed people, number of jobs created, and wage inflation.

ECAM should consider periodically collecting such data from its members in order to be more up to date with what is happening in the labour market.

- 4) Coordinate dissemination of Covid-19 workplace related information among employers in Malawi.** This should include documentation and dissemination of best practices in the workplace for replication by other businesses in the country.
- 5) Help members when engaging with their labour unions:** One of the issues raised in our key informant interviews was the lack of joint efforts by ECAM and employers when the latter engage with their labour unions during the crisis. This makes it difficult for employers to effectively negotiate with their union workers on how best to navigate the crisis. As such ECAM should make sure that it works together with its members when they engage their labour unions on various issues particularly during the crisis.

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### **Technical annex 1: Estimating changes in GDP**

Changes in GDP for each scenario were based on the projections by the Malawi government (Ministry of Finance, Economic Planning and Development) and the IMF. The government has compiled sectoral and aggregate GDP growth projections for 2020 and 2021 based on two scenarios namely: "no Covid-19" and Covid-19 ends in September 2020. The IMF on the other hand has made their own projections assuming no Covid-19 and another scenario where the pandemic fades by the first half of 2020.

We used the Malawi government projections for the baseline GDP and our scenario 1. For scenario 2 and 3, we extrapolated from the government growth figures and

used the IMF projections as a check. From these GDP growth rates, we were able to estimate the losses of GDP under each scenario for each sector and the country.

### **Technical annex 2: Estimating changes in employment and labour income**

Estimating employment numbers for Malawi pose several challenges due to the lack of up to date data. Currently, no labour statistics are compiled annually or at any higher frequency. As such our estimations were largely based on data from the 2013 labour force survey, which is complemented by our own survey of businesses.

For the calculations of employment numbers for the different scenarios, we relied on the output per worker parameter that we estimate using 2013 real GDP and the employment numbers from the 2013 labour force survey. This parameter is assumed to be constant between 2013 and 2021 but variable in the very short run. Using this parameter and the GDP projections for the various scenarios being studied, we derived the estimates for the number of people employed for each of the sectors. For robustness checking, our estimates were compared to the findings from our survey of businesses. We found that the percentage jobs losses reported in the survey is similar to that derived using our model.

In order to calculate the losses of labour income, we utilized the information on wage cuts reported by the businesses that we surveyed, our estimates of job losses, and the average and median monthly wage rates that we derived based on the 2013 real wage rates. Due to the lack of up to date earnings data, we assumed that real wage has been constant since 2013, other words, we used 2013 as base year.