Malawi

Conclusion and policy recommendations

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Conclusion and policy recommendations

Chart 56: Selected recommendations

The starting point is to improve governance transparency and effectiveness
- Improve the public financial management system, domestic revenue mobilisation and increase investigative journalism

Agriculture productivity is improving but much more needs to be done
- Invest in productivity enhancing technologies, improve agricultural subsidy programme and improve the rural transport network

Expand economic diversification and industrialisation for inclusive wealth creation
- Improve the quality of business regulation, encourage a entrepreneurial mindset and invest in human capital and skills development

In sum, a dedicated implementation of these policies centred around the three pillars of MW2063 could help Malawi achieve its development objectives

The aim of the study is to undertake foresight modelling to ensure that interventions towards realising the MW2063 and the MIP-1 medium-term goals are guided by a careful analysis of the development terrain to optimise expected outcomes. The Current Path analysis assessed whether Malawi is on track to meet key goals of MW2063 on its current development trajectory. The Current Path analysis revealed that Malawi has made progress in recent years but still faces significant development challenges. Poor governance, rapid population growth, infrastructure and human capital bottlenecks, and limited economic diversification are some of the key factors impeding Malawian development progress. Malawi is forecast to improve its economic and human development outcomes but it will miss most of its critical targets.

The scenario section simulated ambitious but realistic policy interventions across different sectors under the MIP-1 and MW2063 pillars and enablers that could help Malawi materialise its goals. Three development scenarios were modelled. The first scenario (Agriculture and Rural Development) focuses mainly on agriculture development and resilience building of those in vulnerable situations to reduce their exposure and vulnerability to climate-related extremes and other economic, social and environmental shocks and disasters. The second scenario (Human Capital Push) improves human capital formation and advances the demographic transition. The third scenario (Business First) pushes for economic diversification and industrialisation. The findings show that not one of these scenarios is a panacea to achieve MW2063.

As these scenarios have significant synergy and complementarity, a Combined scenario assumes an integrated development push across sectors. This is a scenario where Malawi's authorities make a coordinated push across the MW2063 pillars, and the country achieves middle-income status by 2032 and upper middle-income status in 2058. Progress on each pillar will depend on the quality of governance and institutions. Weak governance leads to public financial mismanagement, macroeconomic instability and poor policy implementation.

The starting point is to improve governance transparency and effectiveness. Corruption impacts a country's ability to deliver relevant services, economic growth and sustainable economic development. Malawi authorities should continue their efforts to tackle corruption by:

- Initiating awareness campaigns, digitising exchanges between government, citizens and business, as well as bringing to justice and punishing those who engage in corrupt practices. Rwanda has moved from a high level of corruption to one of the lowest in sub-Saharan Africa through strong political will, a shift of cultural views on the morality of corrupt practices, prevention and sanction.[1]

- Capitalising on the power of new technologies to improve the public financial management system that reduces opportunities for theft of public resources and increases the risk of detection.

- Including independent investigative journalism in their anti-corruption tool kit. Investigative journalists can mitigate corruption by reporting on financing, procurement and project execution.

- Improving domestic revenue mobilisation to sustain public investment and to improve macroeconomic stability. Digitisation can help boost domestic revenue mobilisation by enhancing tax efficiency. The introduction of e-filing in Kenya and e-invoicing in São Tomé and Príncipe, for instance, have allowed authorities to expand the tax base to the informal sector and boosted revenue collection efficiency.[2]

Malawi has made progress in improving agriculture productivity but much more needs to be done. With the exceptions of countries heavily endowed with minerals, no economy in history has successfully transitioned from being 'poor and agricultural' to 'non-poor and industrial' by exclusively promoting industrial sector growth while paying little or no attention to agriculture.[3]

To boost agricultural productivity and commercialisation, Malawi authorities should:

- Invest in productivity enhancing technologies and facilitate access to high-yield, disease- and drought-resistant seedlings, fertiliser and credit guarantees for farmers and support R&D activities in building resilience and agricultural productivity.

- Improve the efficiency of the agricultural subsidy programme. A recent analysis of the Integrated Household Surveys (IHS) shows that the current programme instead of benefiting the poor disproportionately benefits richer agricultural households.[4] A poorly targeted agriculture subsidy programme not only increases inequality but also weighs on national budgets.

- Use subsidies for seeds and conduct awareness campaigns to incentivise crop diversification away from maize.

- Protect agricultural production and commercialisation from weather events by investing in climate-resilient infrastructure. For instance, solar power that facilitates irrigation and temperature control for food storage could be adopted. In Ghana, for instance, solar-powered cold storage run by a private firm is used to help smallholder farmers preserve their perishable crops from five to 21 days and there is a mobile application that connects farmers to food aggregators to help reduce post-harvest losses. In return, farmers pay a daily fee of US$0.3 per 20 kg crate stored or pay weekly.[5] This kind of green cold storage can be adopted in Malawi and will drive private investment to the sector.

- Adopt an ecosystem-based approach that focuses on ecosystem restoration and protection (for example, forest protection, wetland restoration, catchment and soil rehabilitation) to protect rural communities against floods and other negative impacts of climate change and land degradation. Nature-based solutions such as catchment rehabilitation have proven effective in preventing flood damage by minimising run-off in periods of excessive rainfall.

- Improve rural transport network with reliable and all-weather rural road access to facilitate agricultural commercialisation. According to a study by Dorward et al in 2009, poor road connectivity to markets in Malawi motivates farmers to continually produce solely for their households' consumption as they are unsure whether they can sell the crop in the market.[6] Given Malawi's large rural population, investing in rural access roads will promote positive economic impacts such as improved rural incomes, increased agricultural productivity and increased participation in the economy. Additional mobility and connectivity for rural population groups will also promote positive social impacts such as reducing poverty, reducing the exceptionally high maternal mortality rate and improving paediatric health.

- Provide agricultural extension services to train farmers on profitable crop production, crop rotation, irrigation techniques and marketing.

- Avoid the recurrent ad hoc imposition of export bans to encourage domestic and foreign investment in the agriculture sector. Clearing uncertainties on the imposition or lifting of export bans will encourage private capital flows to the sector.

In addition to increasing agricultural productivity, Malawi needs to expand economic diversification and industrialisation for inclusive wealth creation. To foster economic diversification and industrialisation, Malawi authorities should:

- Undertake reforms in the business environment aimed at reducing business costs and risks by improving the quality of business regulation. Simplifying administrative procedures and formalities makes it easier for firms, specifically small- and medium-sized enterprises (SMEs) to do business, to test new ideas and to grow. Malawi can learn from Rwanda to create a business enabling environment that will support structural transformation and increase productivity. With intensive efforts to improve its regulatory quality to create incentives for doing business, Rwanda has become the second-best place to do business in sub-Saharan Africa.[7] Today, Rwanda, is one of the few countries in which the costs and time for starting a business (four days) is negligible.[8]

- Encourage citizens to build an entrepreneurial mindset to shift labour from the large informal sector to businesses in the formal economy.

- Empower the Malawi Investment and Trade Centre to actively work to attract manufacturing FDI for value creation and encourage FDI-local firms' linkages for technology diffusion. In Ethiopia, FDI quadrupled from 2011 to 2017, with about 80% going into the manufacturing sector.[9] The zero-tariff privilege with the US under the African Growth and Opportunity Act (AGOA) could be used to lure foreign investors to invest in Malawi to export to the US. This will help Malawi to diversify and sophisticate its exports.

- Address infrastructure deficits which undermine private sector development in the country. A reliable electricity supply can be provided through mini-grid and off-grid solutions using renewable energy and improving the performance of Electricity Supply Corporation of Malawi (ESCOM). Further, improve the transport system by implementing the Malawi National Transport Master Plan; improve broadband connectivity by expanding the provision of LTE infrastructure (wireless broadband communication for mobile devices) in poorer areas; accelerate electricity access and reduce high Internet prices; and lower tax on smartphones to reduce their costs. Affordable and reliable broadband connectivity can also lead to the expansion of mobile banking services and increase access to finance, which is cited as one of the top constraints to business in the country.

- Invest in human capital and skills development. Availability of skilled labour at a reasonable cost and in abundant supply should be one of the key drivers for FDI attraction and industrialisation in Malawi in the foreseeable future. To this end, the quality of education, health, and water and sanitation services needs to be improved. The education curriculum needs to be reviewed in collaboration with the private sector and industrialists to match it with the needs of the labour market. Untrained teachers in primary and secondary schools should be properly trained or removed from the education system. Particular attention should be given to TVET and STEM courses to address the skills gap in the economy.

- Continue the roll-out of modern contraceptives by focusing on the underserved, younger, more rural population groups where contraceptives awareness raising campaigns and uptake remains low.

- Increase urbanisation sustainably to accelerate economic growth and structural change. Rapid, unplanned urbanisation can lead to the mushrooming of informal settlements and place enormous pressure on bulk services. The implementation of the MSCP should therefore be accompanied by meticulous land use planning and a detailed land use management system.

In sum, a dedicated implementation of these policies centred around the three pillars of MW2063 could help Malawi achieve its development objectives.

Endnotes

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