



## Republic of Malawi



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# Economic reforms and policies to boost job creation and optimise Malawi's opportunity to harness the demographic dividend and accelerate socio-economic development

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## Introduction

Malawi aspires to turn the country into a technologically driven middle-income nation that provides opportunities for improving the well being of all its citizens.<sup>1</sup> The country has experienced steady economic growth in the past decade, averaging about 6.5 percent. Malawi is categorised as a low-income country with an estimated per capita national income of USD 397 in 2014.<sup>2</sup> Despite the steady economic growth, more than 50.7 percent of the population still live in poverty and income inequality is very high with the richest 10 percent of the population having an average per capita income that is nine times higher than income of the poorest 10 percent.<sup>3</sup> Malawi's economic growth has not been inclusive partly because it is driven by an underdeveloped agricultural sector, and it does not create enough decent jobs for the rapidly growing number of people joining the labour market. These challenges are worsened by the country's high fertility rate and child dependency burden whereby 46 percent of the total population is aged below 15 years.<sup>4</sup>

Malawi can potentially accelerate its socio-economic economic transformation agenda outlined in Vision 2020 by optimising its economic opportunities and unleashing the power of its youthful population into an asset for development through the *demographic dividend* (DD). The DD is the economic benefit that arises from a significant increase in the ratio of working-age adults relative to young dependents that results from rapid decline in fertility and mortality. The level of the DD that counties can earn can be augmented through strategic investments in education, skills development, health, job creation and governance.

This policy brief highlights key policy and programme opportunities for enhancing economic productivity and job creation as a bedrock for harnessing the DD in Malawi. The brief is derived from a study commissioned by the Ministry of Finance, Economic Planning and Development to assess Malawi's potential for harnessing the DD.<sup>5</sup>

For Malawi to achieve inclusive development and maximise its demographic dividend, the government and private sector should focus on economic reforms that create adequate decent jobs to keep pace with the rapidly rising youthful working-age population. This should include:

- Creating an enabling environment to attract foreign direct investment and foster growth of the private sector as the engine for job creation
- Promoting small and medium scale enterprises (SMEs) by enhancing their management capacities and access to financial services
- Improving key economic infrastructure to ensure reliable energy, transportation, and communications services
- Diversifying economic activities beyond agricultural and foster growth of the service sector, tourism, and mineral extraction
- Enhance agricultural productivity and make it attractive to youth by modernisation of the sector, reducing dependency on rain-fed agriculture and promoting agri-business



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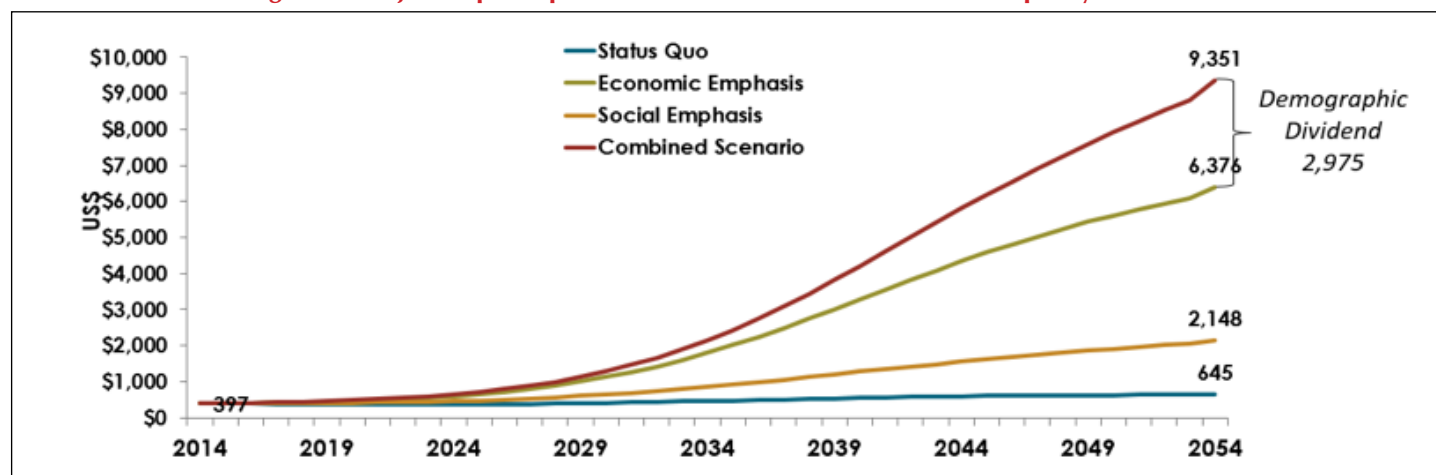
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## Malawi's potential demographic dividend

Modelling of the potential impact of the demographic dividend in Malawi shows that the country can harness a substantial DD in the next four decades if it follows the right policies. Under the Status Quo scenario, where the prevailing weak performance in both the economic and demographic environments is projected to continue, Malawi's age structure would remain the same, with high child dependency burden

and per capita GDP would increase from USD 397 in 2014 to USD 645 in 2054 (Figure 1). However, if Malawi follows the best-case Combined Policy scenario where the country simultaneously prioritises investments in economic reforms, family planning, education, health, and governance, the per capita national income will increase to USD 9,351. This will earn the country a DD of USD 2,975 beyond what it would earn if it only focuses on economic reforms under the Economic Emphasis scenario.

**Figure 1: Projected per capita national income under the different policy scenarios**

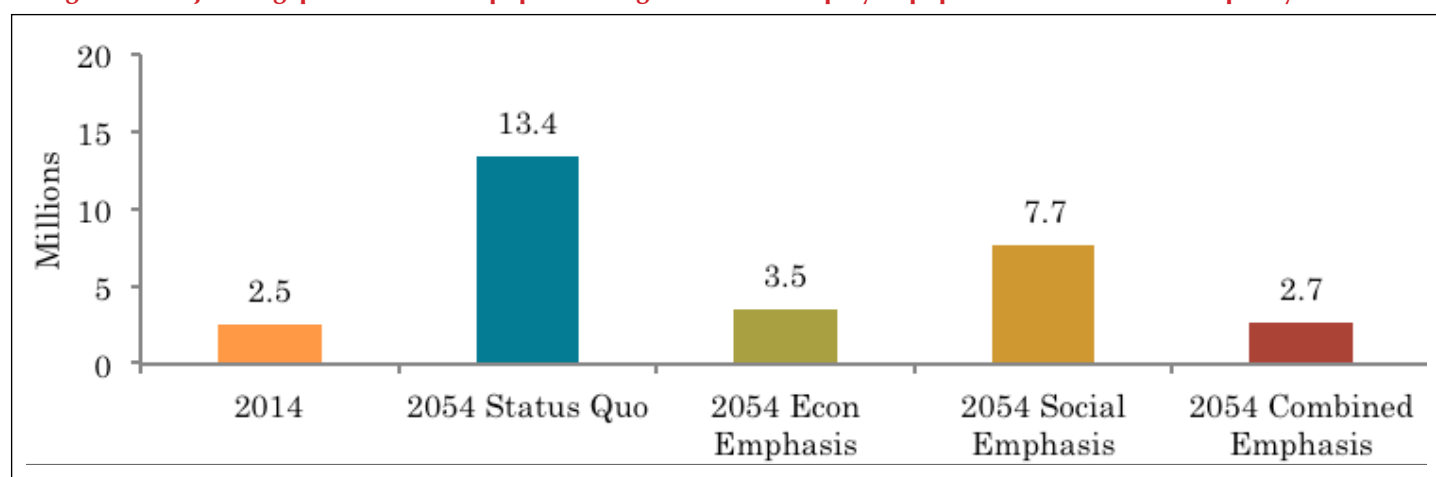


Source: Ministry of Finance, Economic planning and Development, UNFPA & AFIDEP. (2016)

The model results also show that Malawi will face huge challenges in creating ample decent jobs for the working-age population. In 2014, the gap between the potentially employable and the employed population (15 years and above) stood at 2.5 million. This number will increase significantly by 2054 to 13.4 million under the Status Quo

scenario, but will be more manageable at 3.5 million under the Economic Emphasis scenario and 2.7 million under the Combined scenario (Figure 2). The country will, therefore, need to step up its job creation agenda by accelerating inclusive economic growth.

**Figure 2: Projected gap between total population aged 15+ and employed population under different policy scenarios**



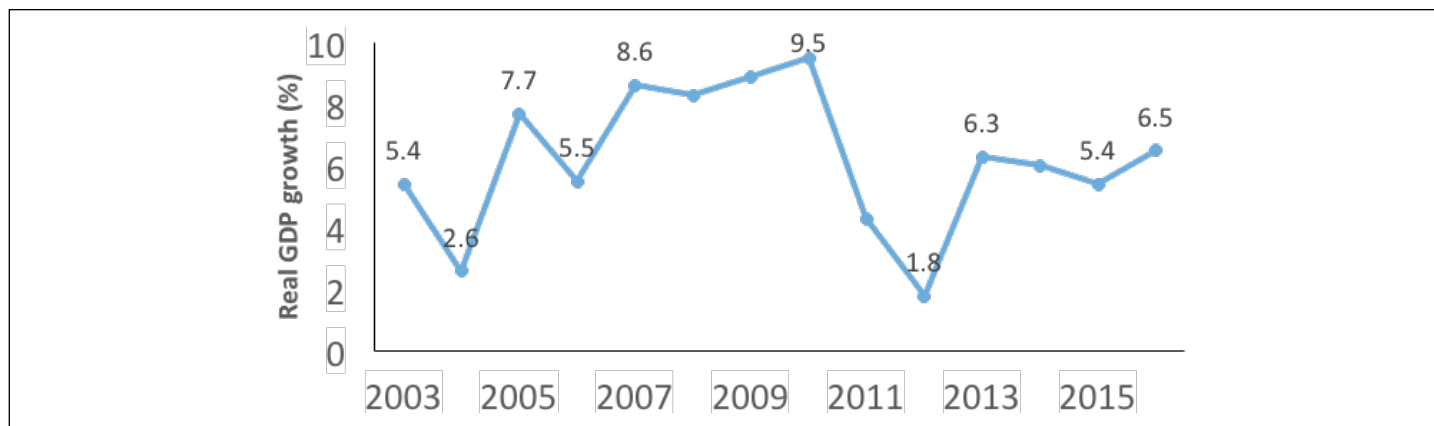
Source: Ministry of Finance, Economic planning and Development, UNFPA & AFIDEP. (2016)

## Erratic performance of the Malawi economy

Malawi has experienced erratic economic growth, averaging 6.5 percent per year between 2003 and 2013. The erratic growth is a reflection of various macroeconomic constraints that the country faces, including: (1) persistently high inflation rates which increase the cost of doing business; (2) excessively high interest rates<sup>6</sup> that stifle development of Small and Medium sized Enterprises (SMEs); (3) low savings and investment ratio as a percentage of GDP, reflecting an

inefficient domestic resource mobilisation that constrains domestic investment; (4) deteriorating fiscal conditions, characterised by wide budget deficits and high government expenditure;<sup>7</sup> (5) depreciation of the country's currency against the US dollar and other major international currencies which slows down economic activities; and (6) a significant infrastructure deficits, particularly in the energy, transport and communication sectors, which increase production inefficiencies.

**Figure 3: Trends in annual real GDP growth rates, 2003-2015**



Source: Ministry of Finance estimates

Malawi is over-dependent on foreign aid, which accounted for close to 40 percent of the national budget during most of the past decade. Due to the unstable growth of the Malawi economy the country has not experienced significant improvements in living conditions for the majority of the people. In particular, the weak economic fundamentals have resulted in sluggish job creation, which is not being commensurate with the rapidly increasing working-age population. Consequently, high levels of unemployment, underemployment and informal employment beset Malawi. About 20 percent of the country's labour force is unemployed, 27 percent of those in employment are underemployed, and 89 percent are informally employed. The unemployment rates are highest among youth aged 15-29 years, with about 30 percent unemployed.<sup>8</sup> This shows that the economy is struggling to create adequate economic opportunities for new entrants in the labour market.

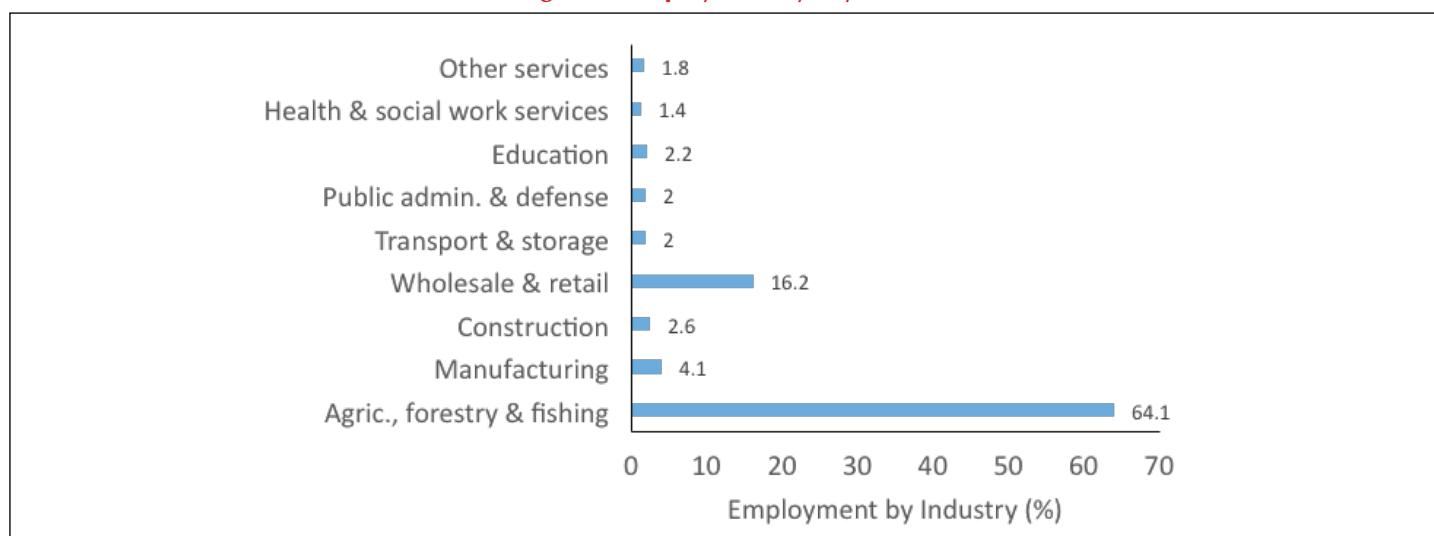
## The agricultural sector and economic diversification

The Malawi economy is dominated by the agricultural sector, which is largely informal and dominated by smallholder farmers, is highly dependent of rain, has low levels of

technology utilisation, has low capital investments, and has low earnings. The sector supports livelihoods for 80 percent of Malawians' households<sup>9</sup> and it employs 64 percent (about 5.6 million people) of the people in the employed labour force (Figure 4). However, the majority (about 95 percent) of the people in the agriculture sector are informally employed, get meagre returns for their labour and do not benefit from social protection. These factors make agriculture unattractive for many young people who would otherwise be the dynamic force revamping the sector. The sector has also mainly focused on maize and tobacco farming despite the potential to diversify the crop range. The pricing systems for these key crops are not benefiting farmers and the price levels are highly prone to fluctuating international market prices.

The sector's dependency on rainwater is a major problem; currently, only 27 percent of potential land is irrigated, making agricultural production and the whole economy highly vulnerable to the increasingly erratic rainfall. Malawi faces perpetual food insecurity due to effects of climate change. If effectively implemented the Green Belt Initiative launched by the government in 2009 could improve the situation and agricultural production, turning the agricultural sector into a source of all-year round employment as well as alleviating the chronic food shortages.

**Figure 4: Employment by key sector**



Source: NSO 2013

Little benefit is derived from value addition to agricultural produce as Malawi continues to export raw materials. Promoting the manufacturing/agro-processing sector holds the key to job creation. Another potential strategy for job creation is to invest in the service industry. For instance, the tourism sector has great potential to create jobs and bring in foreign exchange earnings, yet has suffered from under-investment. SMEs also have great potential for job creation. Studies by the World Bank<sup>10</sup> point out that small enterprises can create more jobs than big corporations. For this to happen, they need to be supported by access to credit, product markets, availability of technology and affordable equipment. Having a facilitative policy and economic environment would go along way in enabling Malawi to harness the potential of this sector. Malawi could learn from initiatives from countries like South Africa<sup>11</sup> and create supporting institutions to promote and support entrepreneurship and skills development for SMEs. Policy actions for sustained economic growth and employment creation

For Malawi to achieve inclusive development and maximise its demographic dividend, job creation should be central to economic strategies towards achieving its development goals. In particular, the country should:

1. Create an enabling environment for the growth of the private sector as the engine for job creation, including the promotion of SMEs by enhancing their management capacities and access to financial services; improving key economic infrastructure to ensure reliable energy, transportation, and communications services.
2. Provide incentives to attract foreign direct investment. This could include tax holidays for new and existing companies that pledge to generate defined levels of jobs for youth.
3. Reform the agricultural sector to enhance its productivity and profitability. Key reforms could include diversifying and modernising agricultural activities; promoting value addition and agro-industries; reforming produce marketing systems and pricing policies, and building resilient agricultural systems to minimise climate change effects.
4. Expand investments in other potential areas of comparative advantage such as tourism, fish production, mining, and ICT-based service industry.

## Acknowledgements

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