



Government of Malawi
Ministry of Labour



International Labour Office

REPORT ON THE NATIONAL HIGH LEVEL DIALOGUE POLICY WORKSHOP

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1.0 Introduction and Background

This is a report on the National High level Dialogue Policy Workshop that was held in Lilongwe at Cross Roads Hotel on 22-23 October 2012. It was organised by government and its social partners with support from the International Labour Organization (ILO) with the aim of promoting the creation of productive employment and decent work through inclusive and job-rich growth policies and strategies.

The objectives of the high-level national policy dialogue were two-fold:

- a. To continue to raise awareness of the importance of the centrality of productive employment and decent work in national development policies, especially within the current context of economic stabilization policies;
- b. To provide a visible backdrop to the finalization and submission of the National Employment and Labour Policy to Cabinet for consideration.

The organization of the national policy dialogue also gave effect to Malawi's commitment to achieving target 1B of the Millennium Development Goals (MDGs) of creating "productive employment and decent work for all, including women and youth"; as well as the 2008 ILO Declaration on Social Justice for a Fair Globalization which reaffirmed the centrality of productive employment and decent work in social and economic policies, especially in dealing with job losses as a result of the Great Recession. The policy dialogue is also Malawi's national tripartite effort involving MCTU and ECAM led by the Ministry of Labour to facilitate national discussion on policy choices to promote full and productive employment and decent work within the context of the finalization of the first National Employment Policy for Malawi. The policy priority areas, strategies, and actions defined in the draft National Employment and Labor Policy have been mainstreamed with the Malawi Growth and Development Strategy II (MGDS II).

The policy dialogue was also timed to make a contribution to the current process of economic reforms and restructuring undertaken by the current administration to promote high levels of growth and job creation.

2.0 What was achieved?

- a. Promotion of the centrality of the creation of productive employment and decent work to the success of any economic recovery programme for Malawi was done;
- b. Key policy choices and strategies to promote and create productive employment and decent work for all Malawians within the context of the MGDS II and any economic recovery programme were identified;
- c. Support to the finalization of the first National Employment and Labour Policy (NELP) for Malawi was given.

3.0 Structure of Policy Dialogue

The high-level policy dialogue was opened with a key note address delivered by the Vice President of the Republic of Malawi the **Right Honourable Khumbo Kachali** on the current economic challenges and policy prescriptions undertaken to redress the situation. This was followed by two technical sessions firstly, a presentation on a macro policy paper co-authored and updated by Professor Ben Kaluwa. The paper provided a review of the current stabilization policies and impact on job creation and recommended policy choices to support job creation. Secondly a discussion led by a high level Panel Discussion of key policy makers comprising high level officials from the Reserve Bank of Malawi, a Malawian Economist, president of the Employers Consultative Association of Malawi, and the Secretary General for Malawi Congress of Trade Union.

In an attempt to garner support for the adoption of the Draft NELP, the policy was also presented followed by a brief presentation of the Decent Country Work Programme which is also an important tool in the creation of jobs. The technical sessions were followed by Question and Answer sessions as well as open discussions that brought out key issues for policy consideration.

4.0. Promotion of the centrality of the creation of productive employment and decent work to the success of any economic recovery programme for Malawi

From the speeches and presentations made, it was evident that government and other players in the economy have a stake in the importance of creation of productive employment and decent work for economic recovery. Below are the major issues from the speeches made during the opening session in that line:

Speech delivered by MCTU President: Mr Muwake:

- Focused on rural poverty.
- Emphasized on how effective employment policies should increase access to jobs by looking at both labor demand and labor supply
- Also highlighted on how the public sector is not enough with respect to job creation.
- Highlighted the important role played by the private sector in job creation and how it should be given a suitable environment to increase job growth.
- Highlighted the lack of available data as Labour Force Surveys have not been conducted for a long time and as such existing employment figures rely on data from household surveys which are not meaningful and adequate for the interpretation of the employment quality of economic growth.
- Highlighted the need for Labour Force Surveys to be conducted.

**Speech by Employers' Consultative Association of Malawi (ECAM): Executive Director:
Mr Buxton Kayuni**

- ECAM president made reference to the Economic recovery plan with its emphasis on job creation as a national strategy revolving around the business community.
- His speech also highlighted on how ECAM is contributing to the achievement of Malawi Decent Country Work Programme.
- Alluded to the problems of defining unemployment and employment using international definitions by ILO which peg Malawi's unemployment at 1% and highlighted the

importance of defining unemployment in a way that takes into account the Malawian context.

- The speech also alluded to the high costs with which the business community operate and which are then passed on to the consumer as aftermaths of devaluation which is part of the economic recovery plan for Malawi.

Speech by ILO Representative: Mr. Mohamed Gassama

- Highlighted on the economic growth that has been taking place in Malawi with no corresponding creation of jobs.
- Highlighted that Malawi has adopted stabilization policies which will impact on the poor the hardest as such there is need for the creation of jobs so as to mitigate the negative impact of the policies
- As such the adoption of the DRAFT National Employment and Labor Policy is critical in addressing some of the problems to come with the stabilization policies.

Speech by Minister of Labour: Hon Eunice Makangala, MP.

- Also emphasized on the importance of the NELP to promote employment, hence its adoption and approval is critical
- She further alluded to the fact that the current government has keen interest in labor issues by making specific reference to the launch of the International Conference on Child Labor by Her Excellency the president Mrs. Joyce Banda, the previous month, September, 2012.

Speech by the Vice President: Right Hon. Khumbo Kachali

- Highlighted the fact that people are losing jobs due to the economic challenges that Malawi is currently facing.

- He also highlighted the fact that the current government inherited the enormous economic challenges as such the president of the republic welcomes suggestions on how to move the country forward
- He also pointed out that the president of the republic of Malawi Mrs. Joyce Banda launched the Malawi Growth and Development Strategy II, the previous month, September 2012 which recognizes the role of employment and job creation as a key pillar.
- He also highlighted on devaluation of the kwacha currency as a key to solving the economic challenges that Malawi is currently facing.

5.0 Policy recommendations for the promotion and creation of productive employment and decent work.

From the presentation made by Prof Ben Kaluwa, there are a number of policy prescriptions made and their basis. It is imperative to highlight that these policy recommendations attracted a lot of debate. The policy recommendations fall in three categories: **Monetary, Fiscal and External Sector Recommendation.**

5.1 Monetary Policies

a. Channel commercial bank excess liquidity into priority areas

- It was pointed out that there is an oligopolistic commercial banking sector which is highly profitable from lending to government, encouraging lending-conservatism. High interest rate spreads between high lending rates and very low deposit rates have contributed to very high excess liquidity levels. This results in crowding-out of private sector borrowing and activity especially in the productive sectors (agriculture and manufacturing) and SMEs, and low rural penetration and banked population. It was therefore recommended that:
 - The Reserve Bank of Malawi to link commercial bank reserve requirements to lending for priority sectors, which include sectors with high employment generating potential. This entails allowing a proportion of lending to these sectors

to qualify as banks' eligible reserves. This involves a strategic direction of credit by the state by using the 'carrot' of the reserve ratio as a policy instrument. It was further suggested that there is need to look at a two tiers of interest rate structure, one for government and one for the private sector borrowers.

- Interest can be charged as 'excess liquidity tax' and used as a 'stick' to discourage commercial banks from inefficient hoarding of cash. Thus the commercial banks should be charged for the excess cash they are keeping. Commercial use discretion in charging for their products. The proposed instrument is price-based and non-coercive.

b. A greater developmental role for the Reserve Bank of Malawi

Present developed economies and the newly developing ones like China had central banks with a strong developmental role. The Reserve Bank of Malawi can play a similar role in mobilising resources for micro-finance institutions (MFIs), small and medium enterprises (SMEs) and priority sectors that have a high potential for generating growth and creating new jobs. The Export Development Fund Instruments is one such facility and the liquidity reserve ratio can be used for this.

c. Adjusting interest rates to take account of seasonality in agriculture.

Present provisions do not allow interest rates to be going down when inflation is going up. In a uni-modal rain-fed agriculture setting food prices, which influence the inflation, would be going up the further away from harvest and the closer to planting season. This means that interest rates cannot be going down when they should give incentive to producers. A wide band of interest rates can be used strategically to incentivise seasonal operation farm decisions and to promote long-term crop diversification. This can boost agricultural productivity as well as increase employment and incomes in the rural sector.

5.2 Fiscal Policy recommendation

a. Target Fiscal Policy to Boosting Priority Sectors

Expenditure on priority economic sectors that enable structural change and diversification should increase if Malawi is to embark on a path of job-rich growth. Such sectors include export-oriented and vertically integrated sectors as cotton and textiles should be developed in Malawi.

b. Facilitate increased private investment through fiscal incentives and by complementary public investments that ‘crowd in’ private investment.

State investment in priority sectors should aim at facilitating increased private sector participation. There are some areas of economic infrastructure provision into which the private sector can be encouraged to enter, for instance private-public partnerships could be considered in electricity generation. The government needs to provide fiscal incentives for this and to regulate the private sector (in particular through competition policy) so that the objective of easing this infrastructure constraint is met. Strong fiscal investment incentives can also be used for this.

c. Increase government expenditure on skill and capability creation

Skill development should be undertaken through government expenditure. This is an area where private sector involvement is likely to be unsuitable for meeting national objectives. In particular, the ‘missing middle’ of skills in Malawi should be targeted. Skill development should be closely integrated into overall policy for structural change and diversification. Hence expenditure should focus on skills needed by priority sectors. It was further recommended that there is need to look at the education systems’ output in terms of the graduates being produced and the skills they come out with. Current budget and economic recovery plan has nothing on skills development. More importantly, the zero based budget regressed so many allowances concerned with investments. This affected Foreign Direct Investment.

d. Design an exit strategy from the Maize Subsidy and increase public investment in Irrigation

It was pointed out that Maize has a profile in budget that is too prominent and does not represent efficient resource use for rest of the economy. Currently, maize subsidy amounts to subsidizing consumption. It was therefore recommended that there is need for an exit strategy from expenditure on maize like gradual reduction of the subsidy for maize and an

increase in support for other cash crops. This recommendation does not have the objective of deficit reduction but part of an overall strategy to improve diversification within agriculture so that the sector grows in a way that generates a significant increase in decent jobs and in incomes. Other views were that the subsidy targets wrong people who end up not using the inputs (by selling them), and wait for distribution of free food from government at a later stage. This therefore means that the same people have made government incur costs twice. This is different from a situation where the growing of maize is commercialized and a few farmers in this case are subsidized and produce maize for everybody alongside exportation. There is thus need to increase competitiveness of the export sector by directing resources to the desired areas.

It was however further pointed out that land tenure system in Malawi is problematic and incentives in Malawi for investing are unpredictable.

e. - Increase the Efficiency of Public Expenditure

Boosting employment-rich growth also requires improving the efficiency of public expenditure. The 2006 Public Expenditure Review notes that the efficiency of education expenditure is low. Efficiency gains are crucial if Malawi is to reach the goal of universal primary education by 2015. Reaching this goal requires a 40 per cent increase in recurrent expenditure in education.

f. Improve efforts at revenue mobilization.

While gains have been made in revenue mobilization in recent years, increased efforts are necessary to expand the tax base and to improve tax collection. The informal sector as well as formal sector enterprises that often operate in informal sector can be targeted.

5.3	External	Sector	Recommendation
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a. Devaluation of the Malawi Kwacha

In the context of serious currency overvaluation, devaluation is necessary to ease serious foreign exchange shortage which disrupts supplies of imported inputs including fuel and stalls

production and also raises import costs due to interest charges by foreign suppliers. This foreign exchange rate measure needs to be part of a macroeconomic policy package aimed at creating employment-rich growth as well as eliminating implicit subsidies to the import consuming non-poor which also increase income inequality. Thus devaluation and inflation moderation in this context are key as long as the money is going in the right areas.

b. - Increase competitiveness of the export sector

Malawi's exports are very limited in scope and the degree of export diversification is very low. Increasing the labour absorption capacity of the Malawian economy calls for growth and structural change in the export sector. The creation of a diversified and competitive export sector that generates decent jobs must be targeted using exchange rate and supply side policy instruments. Macroeconomic policies alone are insufficient for this.

c. Malawi should continue to maintain controls on short term capital inflows

Malawi's FDI capital flows have been into "foot loose" and very high-return areas such as the financial sector rather than "Greenfield". This orientation tends to be pro-cyclical with excess inflows during booms and capital flight at the hint of instability, deepening economic downturns. Moreover capital inflows by appreciating a country's real exchange rate hurt structural change and growth. Sudden and sustained outflows (through dividends) during downturns can worsen the reserve situation. In this context capital controls can counter short-term and volatile flows and stabilising real exchange rates. Controls can give policy makers additional instruments for effective and less costly macroeconomic stabilisation measures, while promoting efficiency and growth. Thus investors should not leave and come in anyhow. Malawi therefore should continue to maintain controls on short-term capital inflows.

d. Attract foreign direct investment into strategic economic sectors which have potential for export growth, productivity growth and labour absorption

Malawi attracts low inflows of foreign direct investment due to several reasons including its landlocked position, poor infrastructure, high import costs as well as an ineffective regulatory framework. Foreign investment can generate employment-enhancing growth in specific sectors by filling in existing capital and skills gaps, by transferring new technologies and by enhancing

export competitiveness. There are a range of incentives in place to attract foreign investment into Malawi. Further policy efforts to attract foreign investment should explicitly target sectors with employment creation potential – the integrated textile and cotton sector being an obvious candidate for this. **The profile of the Malawi Investment and Trade Centre needs to be enhanced in this in terms of an enhanced profile and empowerment with resources and mandates.**

PANEL DISCUSSION: ISSUES

Members: MCTU Secretary General; Mr Kalichero, University of Malawi Economist; Dr Grace Kumchulesi; Reserve Bank of Malawi Representative; Mr Sato and ECAM Executive Director; Mr Buxton Kayuni.

A number of issues were identified from the panel discussion with reference to job creation as follows:

- There is no adequate data available on the labour market.
- Need to deal with both macro and micro economic policies to deal with employment matters
- Need to charge low interest rates although this may increase inflation. Some level of inflation encourages investment and hence job creation and employment.
- An issue of whether it is any job that matters or decent jobs for new entrants was also highlighted with the focus being that a decent job matters at a later point and not the first job for new entrants.
- It was also highlighted that the business community is not able to consume the 300,000 new entrants into the job market.

- Highlighted some sticky issues in the Pension Act.
- It was also highlighted that Agriculture has all this while been used to feed but not job create as such there is need for focused attention on using Agriculture to create jobs.
- Inconsistency between policy and what has to be achieved, e.g. policy aim at encouraging exports unfortunately end up encouraging imports as in the situation of exchange rate overvaluation.
- An issue on how to increase productivity was also debated at length. The development of the National Productivity Centre was then discussed as it is envisaged to lead to economic growth which the leads to job creation.
- It was pointed out that there is need to review the National Export Strategy so that Malawi can gain comparative advantage within the region.

After the panel discussion, the Presentation on the Draft National Employment and Labour Policy was then done by the Deputy Labour Commissioner, Mr Wafwile Musukwa followed by questions and comments. Issues that dominated the discussion were the hosting of National Productivity Centre and internship arrangements for new graduates who are searching for employment and would want to gain experience before they secure a job. This was then followed by a presentation on the Decent Country Work Programme by Mrs Joyce Maganga.