RAPIDLY AND SUSTAINABLY INCREASING ENERGY ACCESS

POWERING MALAWI’S GROWTH
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MACROECONOMIC DEVELOPMENTS
Malawi’s current economic crisis is acute, severe, and widespread.

While external shocks have contributed, the main drivers have been sustained macroeconomic imbalances.

The cost of inaction is rising quickly. To avoid further hardship, a comprehensive package of reforms is urgently needed.
Malawi’s slow growth is caused by macroeconomic imbalances that are themselves worsened by slow growth.
ALSO IN THIS EDITION OF THE MEM ... 

- Impact of the **global developments** on Malawi’s economy
- Analysis of **agricultural sector** performance
- International perspectives on developing **Mega Farms**
- Lessons from Malawi’s recent **cholera outbreak**
- Malawi’s slow **tourism sector recovery**
- New insights into Malawi’s **labour market**
- The impact of **school closures on learning**
- The potential of the **mining sector**
- An overview of **SOE performance**
- Analysis of **financial sector and commercial lending**
- The evolution of **household borrowing dynamics**
SECTION 1

MALAWI’S CURRENT ECONOMIC SITUATION
ECONOMIC GROWTH IS TOO SLOW TO LIFT INCOMES

- Malawi is likely to experience a fourth and fifth consecutive year of stagnant or falling per capita GDP.

- Slow growth makes the 2063 targets of the Malawi 2063 increasingly difficult to attain. Meeting these targets would require annual growth exceeding 7 percent.

Not the post-COVID recovery Malawians had hoped for

Real GDP growth by sector

Source: World Bank Macro Poverty Outlook
As reserves decline, the spreads between TT and bureau MWK – US$ exchange rates continue to widen

Official gross reserves, months import cover and RBM telegraphic transfer (TT) rates, MWK/US$ and forex bureau (FXB) cash rates MWK/US$ through June 28 2023

Source: World Bank staff calculations based on RBM data.
Malawi’s current economic situation

Foreign currency shortages lead to shortages of imported goods

- Official real imports for May 2022 to April 2023 are approximately 65 percent below their 5-year average.
- While fuel and fertiliser are largely protected, companies do not have access to imported investment inputs, constraining growth.
- Malawians do not have access to essential imports such as medical and pharmaceutical supplies at any price.

Without foreign exchange, imports have dwindled

Seasonally adjusted merchandise imports, exports, and trade balance in 01/2022 MWK

TRADE POLICY IS NOT CONTRIBUTING TO INCREASED SELF-RELIANCE

A good tobacco harvest and stable prices for Malawi’s exports have the potential to help Malawi rely less on international financial institutions (IFIs) for foreign exchange access.

In the year to June 2022, IFIs disbursed USD 548 million, compared to tobacco proceeds of USD 363 million and total exports of USD 936 million.

Current trade and industrial policy addresses symptoms rather than causes:

- MRA warehousing mandates make exporting more burdensome
- Malawi’s financial system is further isolated through restrictive exchange control regulations
- Mandatory conversion of export proceeds into Malawi Kwacha at the official rate disincentivises official exports
Inflation is rising because new Malawi Kwacha are being made available more quickly than new goods and services – this is further exacerbated by weak harvests.

Inflation stands at 29 percent year-on-year as of May 2023 with food inflation at 39 percent.

This contributes to increased poverty – currently estimated to stand at almost 72 percent of Malawians at the international poverty line of US$2.15 per day (PPP).

Source: World Bank with data from RBM and NSO.
The RBM has taken the important step to increase the policy rate from 18 to 22 percent. The current real policy rate continues to be negative.

Interest rates across the economy are increasing.

Banks are nevertheless highly profitable – supported by high Government demand for credit.

Source: World Bank staff calculations based on RBM data.
Higher interest rates mean that a quarter of the current budget needs to be spent on interest expenses alone. This leaves less money for essential services and investments in Malawi’s future.
The government has approved large and increasing deficits in recent years

- On account of increasing grants, revenue as a share of GDP has increased by 13 percent last FY
- However, the government spent 69 percent more than it raised last year
- Much of this was unplanned for in the approved budget – making it hard to realise the fiscal turn-around agreed to with the IMF

Malawi’s current economic situation

Recent fiscal decisions could create further vulnerabilities and risks

Under-provision for statutory expenditure already committed during the FY23 mid-year budget, such as debt interest and wages, resulted in a negative FY22/23 budget outturn.

The approval of the Lilongwe-Salima water project raises transparency and debt sustainability concerns.

Barter trade arrangements can create public liabilities while not alleviating the core constraint: that Malawi exports too little to support its imports.
CLIMATE-RELATED SHOCKS CONTINUE TO WEAKEN

THE ECONOMY AND EXACERBATE MACRO IMBALANCES

Cyclones are becoming more frequent and destructive

Loss and Damage (in constant 2023 US$ millions, left axis), deaths in number of deceased directly attributable to the weather event (people affected, right axis)

- Cyclone Freddy was the most deadly and destructive in a series of increasingly frequent disasters
- The cyclone is estimated to have led to a GDP loss of 0.5 percent
- Climate change-related losses are estimated at 3 to 9 percent of GDP by the end of the decade, but increased investments in resilience can help avoid this

Source: World Bank staff calculations based on PDNA (Government of Malawi 2023).
Note: * Range of estimates based on Global Rapid Damage Estimation (World Bank 2022d).
Malawi has a youthful and increasingly educated population. The World Bank’s Human Capital Index rose to 41 from 36 just 10 years ago, positioning Malawi among middle-income countries like Botswana.

If managed well, Malawi’s mining sector can play a key role in driving growth.

International experience shows that with a conducive operating environment and private sector leadership, mega farms can become a success.
SECTION 2

OUTLOOK AND POLICY PRIORITIES
“BUSINESS AS USUAL” IS NOT A Viable Option

OUTLOOK AND POLICY PRIORITIES

Downside risks could impact the outlook
- Prolonged FX shortages
- Setbacks in debt negotiations
- Intensified climate change impacts
- Health risks, including a renewed cholera outbreak

A narrow but feasible path exists to exceed current expectations

A more accelerated and more determined reform program is needed. This includes:
- Achieving fiscal targets
- A resilient financial sector
- Decelerated money growth
- A decline in BOP pressures from lower international commodity prices
To return to rising incomes, Malawian authorities should implement an integrated set of reforms that bolster one another.

These can help cushion necessary yet costly adjustments.
Three broad priority areas emerge from the 17th edition of the Malawi Economic Monitor.

- **Restoring macroeconomic stability**
- **Increasing production and exports**
- **Building resilience and protecting the poor**
OUTLOOK AND POLICY PRIORITIES

OPTIONS FOR REFORM

Restoring macroeconomic stability

- Building foreign reserves
- Balancing the budget
- Improving fiscal management
- Achieving debt sustainability

Using auctions to determine a market-based exchange rate
Implementing fiscal consolidation in FY23/24
Adhering to quarterly ceilings in IFMIS
Restructuring external debt and containing domestic borrowing
OPTIONS FOR REFORM

OUTLOOK AND POLICY PRIORITIES

Increasing production and exports

- Simplifying trade: Review new legislation and regulations to ensure they incentivize investment
- Increasing electricity generation: ESCOM financial sustainability, increasing generation capacity, and accelerating connection roll-out
- Stimulating agricultural growth: Implementing AIP reforms and AGCOM 2.0
OUTLOOK AND POLICY PRIORITIES

OPTIONS FOR REFORM

Building resilience and protecting the poor

- Finalising UBR reforms
- Preparing for the next disaster
- Responding to health threats

Improving delivery of social services
Implementing DRM bill and PDNA lessons
Strengthening disease surveillance, response, and water/sanitation
OUTLOOK AND POLICY PRIORITIES

OPTIONS FOR REFORM

Restoring macroeconomic stability

Increasing production and exports

Building resilience and protecting the poor

Fiscal Reform

Turning a Cycle of Crises into a Cycle of Opportunities

Economic Growth

Debt Sustainability

External Balancing

Monetary Stability
MALAWI’S GROWTH

POWERING UP

HOW MALAWI CAN RAPIDLY INCREASE ELECTRICITY ACCESS
Countries in East Africa, including Malawi’s neighbors Mozambique and Tanzania, significantly increased their access rates, having started from below 10 percent electricity access rate in 2000 to over 30 percent access.

Malawi still lags behind with 19 percent (including 7 percent from off-grid solar solutions), the fourth lowest in the world.

The success of other countries has been attributed to political commitment, the enabling environment, a long-term electrification strategy, least-cost planning, and adopting adaptive approaches that fine-tune implementation.

**Progress in electrification in Malawi and other East African Countries from 2000–2020 and annual growth rates**

- **Kenya**: 7.7% pa.
- **Tanzania**: 7.4% pa.
- **Rwanda**: 10.1% pa.
- **Mozambique**: 8.0% pa.
- **Malawi**: 5.5% pa.

ESCOM connected over half a million residential, commercial, and industrial customers to the grid since 2012, increasing its customer base by over 8 percent on an annualized basis. This translates to an average of over 34,000 new connections every year.

However, the national electrification rate has remained stagnant since 2016 because of the country's rapidly growing population, which is increasing at a rate of 2.8 percent annually.

As a result, the grid connection rate has been effectively flat since 2016, highlighting the need for further action to accelerate electrification efforts and bring sustainable and reliable power.
Off-grid electrification, dominated by solar home systems (SHS), has grown rapidly since 2020 and is playing a significant role in the GoM’s electrification plans.

About 400,000 SHS have been sold in Malawi as of 2022. About two thirds of these (260,000) are estimated to be actively serving off-grid households, contributing about 6 percent of electrification rate.

SHS was implemented as an interim solution for achieving final electrification, specifically catering to households’ primary electricity needs such as lighting and charging mobile devices.

Malawi dynamic off-grid market connections trajectory from 2016-2022

Source: GOGLA sales data, own analysis based on interviews with market players.
Under the BAU scenario, Malawi is expected to achieve a 30 percent electrification rate by 2030, primarily through off-grid solar installations.

The country will continue to rely on ESCOM to connect additional customers to the grid. Without reforms, ESCOM will struggle to install connections much faster than population growth.

A 2019 World Bank survey suggests that affordability may not be a major barrier until the 30 percent target is reached. Nevertheless, every additional connection thereafter will pose a challenge.
LESSONS LEARNED
LESSONS LEARNED
FROM PAST ELECTRIFICATION PROGRAMS

- Increasing energy access requires political support and government ownership.
- MAREP needs governance reform and increased transparency.
- Solving energy access deficits requires a value chain approach.
- Improving ESCOM’s operational efficiency is key to the success of the electrification program.
- New technology and business models can attract private sector capital and expertise.
VISION FOR 2063
ESCOM needs to triple its annual connection rate from the current average of 35,000 households to at least 100,000 households, prioritizing grid densification to achieve both speed and efficiency.

The off-grid market needs to continue its growth at 25 percent annual growth, which requires new financing mechanisms and business model innovation.

Overall, under this scenario, both ESCOM and off-grid solar companies have equal responsibility to each connect about a quarter of the population.
RAISING THE BAR:

WHAT ABOUT UNIVERSAL ACCESS BY 2030?

Universal access by 2030 would require an annual connection target of close to 500,000 per annum, over 15 times faster than the current speed. This would require a complete overhaul of the implementation model of ESCOM and MAREP.

STRIVING FOR UNIVERSAL ACCESS BY 2030

Universal access also requires significant investment in generation and transmission network, estimated to cost over $2–3 billion by SE4all.

Aggressive scale-up SHS and mini-grid solutions are likely to be required.
Malawi’s pathway to achieve 50 percent electricity access rate by 2030

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<th>LEADERSHIP</th>
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<td>MoE to take a stronger coordination role to balance on-grid and off-grid</td>
<td>MoE to update NEP 2018</td>
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<td>GoM to formalize connection fees policy and guidance</td>
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<td>GoM to improve ESCOM governance</td>
<td>ESCOM to improve its procurement efficiency</td>
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<td>ESCOM to achieve financial sustainability</td>
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<td>GoM to continue supportive policies incl. VAT and duty exemption</td>
<td>GoM to facilitate more local currency financing</td>
<td>GoM to introduce targeted end user subsidies</td>
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The GoM should establish institutional arrangements and regularly update the generation and transmission master plans to ensure adequate supply and transmission capacity.

The MoE can take a stronger coordination role in balancing the roll-out plans for on-grid and off-grid connections.

The MoE is encouraged to update the NEP 2018 to ensure it aligns with current challenges.

The government should formally adopt the draft Guidelines for Implementation of the National Electrification Program.
The GoM, through governance reforms, needs to foster a culture of accountability and continuous improvement within ESCOM.

ESCOM should focus on improving its procurement processes to tackle a major bottleneck of electrification.

ESCOM needs to fully operationalize its Management Information System (MIS).

GoM needs to work with ESCOM to achieve its financial sustainability.
The GoM is encouraged to continue supportive policies, such as VAT and duty exemptions, to stimulate additional private sector investment.

The GoM is encouraged to facilitate more local currency financing for off-grid companies.

Targeted end-user subsidies can be introduced to further reduce the price of off-grid solar products for those who need them most.

The GoM is encouraged, in consultation with off-grid solar companies, to set market standards for mini-grid and SHS to ensure quality products and services.