Malawian Parliamentary Oversight on Economy could be the sustainable solution to the acute forex shortage in the country thereby guarantee success of MIP 1 of Vision 2063

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Abstract

Malawi has been battling with inflationary factors attributed to traders quoting their goods and services in USD albeit with little success. Furthermore, the significant trade imbalances is not verified stoking fear this is more to do with illegal externalisation of forex in the absence of pre-shipment inspection services in Malawi. This study has also confirmed that petroleum products and inorganic fertilisers are not the biggest users of forex in Malawi but that printed materials and industrial machinery had significant chunk as well. It is recommended that Malawian Parliament should enhance its oversight role to protect country's forex and curb cost-push inflation.

Type of Paper: Conceptual Paper

Key words: Parliament; Malawi; Oversight; Policy; Forex

1.0 Introduction

Malawi is a predominantly importing nation so that the foreign currency exchange rate movement of the United States Dollar (USD) has direct impact on the local prices of goods and services as service providers peg their cost of sales in USD. That said tendency goes against the statutory provisions as goods and services in Malawi must be quoted in the Malawian currency. Section 2 of the Exchange Control Act 1989 stipulates that Malawi currency means any currency that is, or is payable or expressed in currency that is, legal tender in Malawi. It is however section 48 of Reserve Bank of Malawi Act 2019 which states that the unit of currency of Malawi shall be the Kwacha which shall be divided into one hundred tambala. There however appears to be no penalties for the perpetrators as noted by Mtonga (2018):

[The Reserve Bank of Malawi (RBM) and the government have been issuing a warning to companies and individuals not to quote prices in US dollars and tourist operators not to illegally deal in forex for more than 20 years. There is nothing new that RBM and government are saying in their latest press release. This disease to quote in foreign currency started in 1996 when the value of the kwacha started to depreciate rapidly against other currencies.

Former RBM governor … issued a press statement in March 1998 abhorring the practice and urging the public to report such business persons or companies to RBM. His successors, … and …. also spoke against quoting in foreign currency. At one point CAMA president … made a scathing attack at RBM for the failure to arrest the situation. Today, government and RBM are still talking about the same issues. Are they serious about solving the issues?

I have also written several articles on the same issues. For example, On 4 September 2000 (almost 18 years ago) I wrote in *The Nation* that quoting prices in dollars or demanding payment in forex for goods and services consumed locally is illegal. I also wrote a similar article in *Malawi News* 4-10 March 2006 in which I called upon the central bank to act on people and institutions that quote in foreign currency. Why is RBM and government going in circles and coy to take action against culprits even today? Malawi does not use dollars as legal tender. So it does not make sense for individuals (including consultants) and companies to be quoting in forex.

Quoting in forex also fuels inflation as any slight movement in the exchange rate drives price upwards. This partly explains why prices of goods and services sometimes increase unexpectedly. If companies want to hedge against the risk of currency fluctuation, then they should try currency option contract.].

What is very obvious about concerns raised by Mtonga (2018) above is that majority of traders in Malawi prefer to accumulate their wealth in USD and this principally represents two things; firstly, there is very little indigenous representation in the major economic decisions of Malawi since the dawn of multiparty democratic political governance in 1994. Secondly, there are no long term economic decisions made by the business community. This was evidenced by lack of private sector participation in the Vision 2020 as observed by Kampanje (2017:31):

[Meanwhile, upon Government of Malawi launching Malawi Poverty Reduction Strategy Paper in April 2002, many stakeholders including the private sector observed that policies to fulfill strategic objectives were insufficient to achieve a sustained annual economic growth rate of at least 6 per cent required to reduce poverty by half by the year 2015, primarily because they did not encompass all the sectors of the economy and to close this gap, Cabinet directed that Ministry of Economic Planning and Development should coordinate the formulation of the Malawi Economy Growth Strategy – Malawi Economy Growth Strategy (2004:iv). This initiative was fused with a parallel private sector recovery initiative spearheaded by National Action Group (NAG) – high level forum for chief executives of leading businesses, representatives of businesses and government economic ministers and donors that support the private sector - Malawi Economy Growth Strategy (2004:iv).].

There is no documentary evidence of any business entity which made its decisions based on the Vision 2020 including its medium term strategies such as the Malawi Growth and Development Strategies I, II and III or National Export Strategies I and II. If at all, they ended up duping Government of Malawi like in the case of high default rates and criminality at the Export Development Fund. Simply put, the majority of the private sector has had little confidence in the Malawi's long-term strategies and such is the case now.

2.0 Critical analysis of Malawi' trade imbalances

Malawi's major export destinations are Eurozone (particularly Belgium) and SADC (denominated by Republic of South Africa) - Trade Statistics Brief Release (2020). United Kingdom was the second export destination after Belgium. All the three major export destinations do not use the USD as functional currency and therefore importers in those countries have to convert their currencies into USD and be exposed to foreign currency exchange rate risk. This can be one of the major disincentives to trade with Malawi. Malawian exporters to South Africa can receive export proceeds in South Africa Rand or Euro or British Pound Sterling without incurring any losses. This cannot affect Malawi's import cover as the conversions would be done using the spot exchange rates.

The monthly import cover was revised from USD209 million to USD250 million in July 2021 signifying prevailing excess demand for imported goods and services – Mzale (2021). Two questions come to play. Firstly, which imports are so critical to Malawi that we cannot live without? Secondly, where do those imports come from? The problem of answering the questions above stem out from the fact that there is inconsistent data because data from National Statistics Office (NSO) regarding imports is usually half-yearly as far as Trade Statistics Brief Release Reports are concerned vis-à-vis January to

June and another one, July to December. This exacerbated by the fact that figures are in local currency while data sourced from reputable websites is USD. This presents comparability problems. NSO website does not have data for 2021 but the Annual Economic Report (2022) provides Malawian data for exports and imports whose source is NSO. The believability of such information is seriously compromised.

2.1 Inconsistent imports data

A critical analysis of Annual Economic Report (2022:136) indicates that Republic of South Africa was Malawi's biggest importer representing 20.4 percent of the total imports followed by China at 16.1 percent for 2020 and this is collaborated by TrendEconomy (2021). This is however contrasted by tradingeconomics.com (2022a) which stipulates that Malawi's imports from China in 2020 were USD441.26 million while those from Republic of South Africa were USD395.63 million - tradingeconomics.com (2022b) making China the biggest Malawi's importer.

There is material differences from the two sources and that would affect the decision processes for those charged with fiscal and monetary governance of Malawi.

2.2 Major imports for Malawi

Annual Economic Report (2021:103) annotated:

[On import products, fuel had been Malawi's main import product with the latest available data showing that, as of June 2020, the product claimed about 32 percent of 2020 total imports, down from 40 percent recorded in 2019.].

Annual Economic Report (2022:134) postulated:

[On import products, fuel and fertilizer remained Malawi's main import product with the latest available data showing that, as of October 2021, the two products claimed about 26 percent of 2021 total imports, up from 23 percent recorded in 2020. The growth in imports was partly on account of increases of 60.6 percent in fuel imports to US$34.6 million and 20.3 percent in fertilizer imports to US$24.3 million.].

The percentage of fuel import in the Annual Economic Report (2021) appears to have been materially misstated as it should have included inorganic fertilisers as well. The percentages for both 2020 and 2021 for petroleum products and inorganic fertilizers would still have been much lower than the reported figures in the budget documents based on data from international organisations below.

Table 1: Malawi's Top Ten Imports for 2019 and 2020

Malawi's Top Ten Imports by product

2020

No	Code	Product	Value USD	%
1	49	Printed Material	254,000,000	9.34
2	31	Fertilizers	235,000,000	8.62
3	27	Oil & Mineral Fuels	216,000,000	7.95
4	84	Industrial Machinery	211,000,000	7.77
5	87	Motor Vehicles & Part	191,000,000	7.02
6	30	Pharmaceuticals	163,000,000	5.98
7	85	Electrical Machinery	136,000,000	4.98
8	39	Plastics	115,000,000	4.23
9	24	Tobacco & Manufactu	105,000,000	3.87
10	63	Textile, worn clothing	93,000,000	3.41

Source: TrendEconomy (2021)

2019

No	Code	Product	Value USD	%
1	84	Industrial Machinery	293,737,894	9.99
2	49	Printed Material	282,298,613	9.60
3	85	Electrical Machinery	237,307,625	8.07
4	27	Oil & Mineral Fuels	231,989,812	7.89
5	31	Fertilizers	214,876,823	7.31
6	87	Motor Vehicles & Pa	214,750,597	7.30
7	30	Pharmaceuticals	176,266,486	5.99
8	73	Iron & Steel Articles	130,503,957	4.44
9	39	Plastics	115,682,043	3.93
10	72	Iron and Steel	74,568,016	2.54

Source: Adapted from globaledge (2022)

There is a general belief that petroleum products and fuel takes significant chunk of foreign currency exchange rate reserves but table 1 above does not suggest so. It is therefore surprising to learn that forex allocation is prioritised for fuel, fertiliser and pharmaceuticals imports when the combined total of those strategic commodities does not surpass a quarter of the total import bill.

Printed materials and industrial machinery for 2019 and 2020 were in excess of USD1.000 billion but information regarding such huge appetite is not readily available. The quality of such goods including inorganic fertilizers, petroleum products and pharmaceuticals are not subjected to pre-shipment inspection as noted by Kampanje (2012):

[Absence of independent Pre-Shipment Inspection Companies in Malawi could motivate importers in Malawi to inflate import prices as means of externalising funds illegally without authority to do so. MRA Website stipulates that [Pre-Shipment

Inspection Function was phased out on 1st July 2007 without loss of revenue or disruption of Custom and Excise Department]. While MRA might feel confident that it is able to track the appropriate prices for imported goods in Malawi and therefore collect appropriate taxes, it does very little to check the circumstances where importers deliberately overvalue the import prices in collusion with foreign suppliers to externalise forex illegally out of Malawi.

Malawi Revenue Authority in liaison with Reserve Bank of Malawi should consider reintroduction of Pre-Shipment Inspection Services to curb illegal externalisation of funds.].

The pre-shipment inspection services were not popular Malawi as noted by Nyasatimes (2012):

[SGS was until June 2003 providing PSI services to the Malawi Revenue Authority (MRA) before the services were taken over by Intertek Testing Services(ITS).

… MRA phased-out pre-shipment inspections on July 1 2007. To reduce the risk of losing revenue, the move was anchored by two complementary initiatives—introduction of risk management and post clearance audit. …

… PSI services came under increased pressure from various commentators, including the Society of Accountants in Malawi (Socam) in mid 2000 who described the system as unfair to importers.].

While the importers might have been inconvenienced in one way or another, the country was able to save forex by rejecting substandard products or inadequate quantities thereby reduce possibility of externalising more forex in collusion fashion with the foreign based supplier. malawitradeportal.com (2022) stipulates that Malawi Bureau of Standards (MBS) is now undertaking some quality assessment in form of pre-shipment sample registration and processing. It will take some years before MBS can successfully and competently master the quality tests but again issues of fair pricing is a dimension on the imported goods which is beyond its mandate and therefore possible forex leakage through collusion with suppliers through over pricing of import bills will continue.

Parliament must seriously evaluate the price tag of imported printed materials as per the table 1 above. Are there possible alternatives to reduce the import bill without significant consequences? Again, the import for plastic is way too high. It was about USD221 million in two years for 2019 and 2020. Plastic pollutes the environment and Malawi is taking strides to clean up water sources of the plastic pollution. There is need to establish the authenticity of such import bills and check whether there is compliance with current environmental laws in order to find alternative materials while reducing the forex leakage.

2.3 Source of major imports for Malawi

Annual Economic Report (2021:105) stated:

[On the sourcing markets for Malawi imports: China, South Africa, India, United Arab Emirates, Mozambique, Malaysia, Indonesia, Zambia, Kenya and Hong Kong were the main sources and collectively accounted for nearly 80 percent of Malawi's imports …].

Annual Economic Report (2022:135) stipulated:

[On the sourcing markets for Malawi imports, China, South Africa, India, United Arab Emirates, Mozambique, Zambia, USA, UK, Korea Republic, German and Kuwait were the main sources and collectively accounted for nearly 74.4 percent of Malawi's imports, down from 75.1 percent recorded in 2020 …].

A critical analysis of imports from China more than doubled between 2016 and 2020 according to tradingeconomics.com (2022a). It would be ideal to explain the justification for such increase. There is a need to look at the reciprocity in the international trade. Malawi should evaluate on whether it is practical to import more goods and services from countries which it exports more goods and possibly increase the mutual benefit.

3.0 Parliamentary oversight role in forex business

Traders cannot be left alone to decide what to import and where to import. It is high time the National Assembly must critically evaluate what is imported into Malawi and at what price. Would there be possibility of import substitutions? This can only be possible through increase in indigenisation of the trade and commerce which has failed so far despite substantial resources pumped into the economy through programmes such as Youth Enterprise Development Fund (YEDF), Malawi Enterprise Development Fund (MEDF) and now National Economic Empowerment Fund (NEEF).

Malawi continue to experience substantial trade imbalance as long as there is little indigenous citizens participation in the local economy because local goods and services will be linked to USD and the actual value of imports into Malawi will continue to be questionable as there is huge possibility of collusion between the importers and foreign suppliers to illegally externalise the forex at the expense of the economy.

The National Assembly has enormous power to sanitise the forex business which has been one of the major inflationary factors in Malawian economy sending millions of Malawians into abject poverty. Malawi's dreams engraved in Vision 2063 along with its medium strategy known as MIP 1 will not come to its fruition unless Parliament's oversight function in the forex can be well established to do the following:

a) Supervise the effectiveness of the monetary authority in curbing the traders' malpractice of quoting goods and services in USD. It appears there is mere rhetoric than concrete actions taken to redress that perennial problem. Meanwhile, the inflationary pressures through cost-push inflation severely hurt the poor citizens leading to widening gap between the rich and the poor.

b) Explore ways of using the tax code to discourage importation of goods and services to boost local industry or protect the environment. While the country has put in place some sound environmental laws regarding use of thin plastic, plastic pollution is likely to increase due to fizzy drinks and mineral water sectors and therefore appropriate tax measures must be considered to encourage recycling of the plastic bottles in Malawi by among others things introduce excise duty on plastic importation beyond certain threshold so that importation becomes more expensive than recycling of plastic.

c) Amend the Taxation Act so that Pre-Shipment Inspection should be mandatory as a genuine way to save forex from unscrupulous traders illegally externalising forex in Malawi.

d) Revise the Exchange Control Act to be in line with modern technology so that the banks can deal directly with suppliers to get more information on import bills before funds can be wired.

e) Members of Parliament must pay particular attention to information presented in the Annual Economic Reports which are budget documents on information regarding imports and exports as there appear to be gaps with information from other sources. Figures in USD should also be presented along those in local currency for comparability purposes.

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