FINAL DRAFT
PART I

MALAWI ECONOMIC GROWTH STRATEGY

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Foreword

This Economic Growth Strategy for Malawi reflects a joint realisation by Government and the private sector that the economy has been registering negative growth and that something had to be done in order to reverse the trend. The rationale for growth and diversification for Malawi is compelling because rapid broad-based growth is necessary to reduce poverty. Rapid broad-based growth will expand the sectoral sources of growth, deepen and sustain the gains that would be made from smallholder agriculture in leading growth and poverty reduction, and make the economy less susceptible to external shocks like weather, changes in terms of trade, political developments in the region, and the fluctuations in external aid flows. However, existence of low per capita income and high inequality implies that high future economic growth should be complemented by equity policies.

In April 2002, Malawi launched the Malawi Poverty Reduction Strategy Paper (MPRSP) that aims at meaningfully reducing poverty by empowering the poor. The MPRSP is built around four strategic pillars of which the first one emphasises the promotion of sustainable pro-poor growth. However, many stakeholders including the private sector have observed that policies to fulfil this strategic objective is insufficient to achieve a sustained annual economic growth of at least 6 per cent required to reduce poverty by half by the year 2015.

In view of the foregoing, the Ministry of Economic Planning and Development (MEPD) set up a Taskforce to formulate a Malawi Economic Growth Strategy in close co-operation with the private sector. Political will and leadership are critical to the success of this Strategy because it will ensure that the right macroeconomic conditions and legal and regulatory environment exist within which economic growth, investment and trade can take place. Government has a central role in setting policies and channelling resources to ensure conducive microenvironment.

The Economic Growth Strategy has been based on a realistic assessment of the resources available and focuses on strategies and actions that do not require substantial additional spending by Government, but can be achieved through refocusing of existing resources and by developing a more conducive set of policies that will stimulate the private sector investment and trade in the immediate future. However, in the medium term, donor organisations will have a key role to play in creating the conducive environment for economic growth by supporting policy reforms and providing resources to support government during the transitional period.

Dr. Bingu Wa Mutharika
MINISTER OF ECONOMIC PLANNING AND DEVELOPMENT

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I acknowledge the considerable work of Taskforce members in providing information and drafting key sections of this document. The Taskforce members comprised:

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Dr. M. Kutengule
PRINCIPAL SECRETARY FOR ECONOMIC

GLOSSARY

ADMARC	Agricultural Development and Marketing Corporation
AGOA	African Growth Opportunities Act
BRP	Business Residence Permit
CEM	Country Economic Memorandum
COMESA	Common Market for Eastern and Southern Africa
DANIDA	Danish International Development Agency
DEMATT	Development of Malawian Enterprises Trust
DFID	Department for International Development
DTI	Diagnostic Trade Integration (Study)
DWS	David Whitehead and Sons
EBA	Everything But Arms
EC	European Commission
ECAMA	Economics Association of Malawi
EIB	European Investment Bank
EPZ	Export Processing Zones
ESCOM	Electricity Supply Company of Malawi
EU	European Union
FAO	Food and Agriculture Organisation
FOB	Free on Board
FTA	Free Trade Area
GDP	Gross Domestic Product
GoM	Government of Malawi
GRAMIL	Grain and Milling Co.
GTMA	Garments and Textile Association of Malawi
IMF	International Monetary Fund
ITC	Information, Technology and Communication
JICA	Japan International Co-operation Agency
LDC	Least Developed Country
MASAF	Malawi Social Action Fund
MASIP	Malawi Social Investment Programme
MBCAH	Malawi Business Coalition against HIV/AIDS
MBS	Malawi Bureau of Standards
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MDC	Malawi Development Corporation
MEDI	Malawi Entrepreneurship Development Institution
MEPC	Malawi Export Promotion Council
MEPD	Ministry of Economic Planning and Development
MFI	Micro-finance Institutions
MIPA	Malawi Investment Promotion Agency
MIRTDC	Malawi Industrial Research Technology Development Centre
MMTZ	Malawi Mozambique Tanzania Zambia
MoAI	Ministry of Agriculture, Irrigation and Food Security
MoCI	Ministry of Commerce and Industry
MoF	Ministry of Finance
MPRSP	Malawi Poverty Reduction Strategy Paper
MRA	Malawi Revenue Authority

MRFC	Malawi Rural Finance Company
MSE	Micro and Small Enterprises
MTL	Malawi Telecommunications Ltd
MTPW	Ministry of Tourism, Parks and Wildlife
NAC	National Aids Commission
NAG	National Action Group
NASFAM	National Smallholder Farmers Association of Malawi
NGO	Non-Governmental Organisations
NRA	National Road Authority
NSO	National Statistical Office
ODA	Overseas Development Assistance
PAYE	Pay As You Earn
PSIP	Public Sector Investment Programme
RBM	Reserve Bank of Malawi
SACU	Southern African Customs Union
SADC	Southern African Development Community
SEDOM	Small-scale Enterprise Development Organisation of Malawi
SFFRFM	Smallholder Farmer Fertilizer Revolving Fund of Malawi
SHIMPA	Shire Highlands Milk Producers Association
STA	Smallholder Tea Authority
STABEX	Stabilisation System for Export Earnings
STC	Smallholder Tea Company
SUCOMA	Sugar Corporation of Malawi
TAM	Tea Association of Malawi
TAMA	Tobacco Association of Malawi
TCC	Tobacco Control Commission
TEP	Temporary Employment Permit
TEVETA	Technical Entrepreneurial and Vocational Education Training Authority
UNDP	United Nation Development Programme
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development
WTO	World Trade Organisation

Transitional Period	Refers to the period from the time this Economic Growth Strategy will be implemented until sufficient economic growth is realised (probably up to 4 years)
Macroenvironment	Refers to crosscutting issues like infrastructure, macroeconomic and social situation including HIV/AIDS pandemic and general policy framework.

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1.0 INTRODUCTION

This Economic Growth Strategy[1] is in three parts. Part 1 of this document covers overview of the economy, framework for growth, crosscutting constraints and strategies for priority sectors. Part 2 contains the detailed analysis of the economic growth framework outlined in this strategy, the macroeconomic situation, trade strategy, proposed investment incentives, the current performance of the core and priority sub-sectors and details on the implementation plan.

The distortions resulting from the food insecurity have been damaging to economic growth in recent years. Related measures to improve food security will provide an enabling environment for growth. The food Security Policy will provide a necessary link to the growth strategy.

1.1 The Need for The Malawi Economic Growth Strategy

Whilst the legal and regulatory frameworks have improved, the macroeconomic environment has deteriorated as characterised by low or negative GDP growth rates, high inflation and interest rates and the volatile exchange rate. In addition, infrastructure and some support services have likewise deteriorated. The impact of these developments has resulted in the low economic growth and the general living standards of the people have worsened. After real GDP grew from 1.9 percent between 1980-89 to 3.0 percent between 1990-99, it declined to –0.7 percent between 2000-02. Similarly, the manufacturing sector increased from 2.9 percent to 3.2 percent and then deteriorated to –7.1 percent over the same period. In addition, a number of companies have closed down.

In response to the widespread and deepening poverty, Government launched the Malawi Poverty Reduction Strategy Paper (MPRSP) in April 2002 that aims at reducing poverty by empowering the poor. The MPRSP is built around four strategic pillars of which the first one emphasises on the promotion of sustainable pro-poor growth. However, many stakeholders have observed that policies to fulfil this strategic objective are insufficient to achieve the required and sustainable level of 6 percent annual economic growth rate necessary to reduce poverty by half by the year 2015. To meet this objective, the Ministry of Economic Planning and Development (MEPD)[2] coordinated the development of the Malawi Economic Growth Strategy. This initiative was fussed with a parallel private sector recovery initiative spearheaded by National Action Group (NAG)[3].

The Economic Growth Strategy draws on several policy initiatives including the vision 2020. The vision 2020 is the overall policy framework for the long-term economic and social development of the country up to the year 2020. To implement this policy framework, Government launched the MPRSP to operationalise the vision. The Malawi Economic Growth Strategy attempts to operationalise pillar one of the MPRSP. The Economic Growth

[1] The words Growth Strategy or Economic Growth Strategy are used interchangeably to refer to the Malawi Economic Growth Strategy.
[2] Successor to the National Economic Council, under which this initiative was begun.
[3] A high level forum for Chief Executives of leading businesses and Representatives of businesses, Government 'Economic' Ministers and Donors that support the Private Sector

Strategy recognises that the private sector shall take a leading role in investment in prioritised high economic growth potential sub-sectors. The prioritised high economic growth potential sub-sectors are: mining; tourism; agro-processing (cassava, maize, rice, macadamia e.t.c.); and cotton/textiles/garments.

1.2 Resource Considerations

The Economic Growth Strategy recognises that GoM resources are limited. It, therefore, seeks to deliver higher growth rates by stimulating investment in high growth sub-sectors. Generally improved business climate would result in increased revenue base for government with which it can meet the additional expenditure requirement. Due to current fiscal gaps, Malawi requires budgetary support by development cooperating partners to finance a larger portion of the development programmes.

The Economic Growth Strategy also relies on mobilising the resources within the private sector at micro, small, medium and large-scale levels. The Economic Growth Strategy will seek, as a central theme, to improve the business climate in Malawi so as to unlock and attract new investment and trade.

1.3 Economic Growth and Economic Empowerment

According to the analysis in the poverty profile, 65.3 per cent of the Malawians live below the poverty line and about 30 per cent are extremely poor. In terms of income distribution, other sources have indicated gini-coefficient[4] of 0.62 but the recent analysis by MEPD, using the expenditure-based techniques, established gini-coefficient of 0.45. It is against this background that government plans to pursue growth and equity objectives; the Ministry of Economic Planning and Development will develop an Economic Empowerment Programme to complement the economic growth strategy.

1.4 Methodology for Developing the Growth Strategy

The Economic Growth Strategy has been developed through a consultative process involving both the public and private sectors under the leadership of MEPD. The Taskforce met for an intensive period to highlight the main constraints on growth, trade and investment and to identify high and core growth sub-sectors. This was followed in January and February 2003 by a series of consultative meetings to identify the existing and potential areas of investment as well as the constraints and possible strategies for overcoming them. There were also consultations with Principal Secretaries and heads of Departments to get their input into the Strategy.

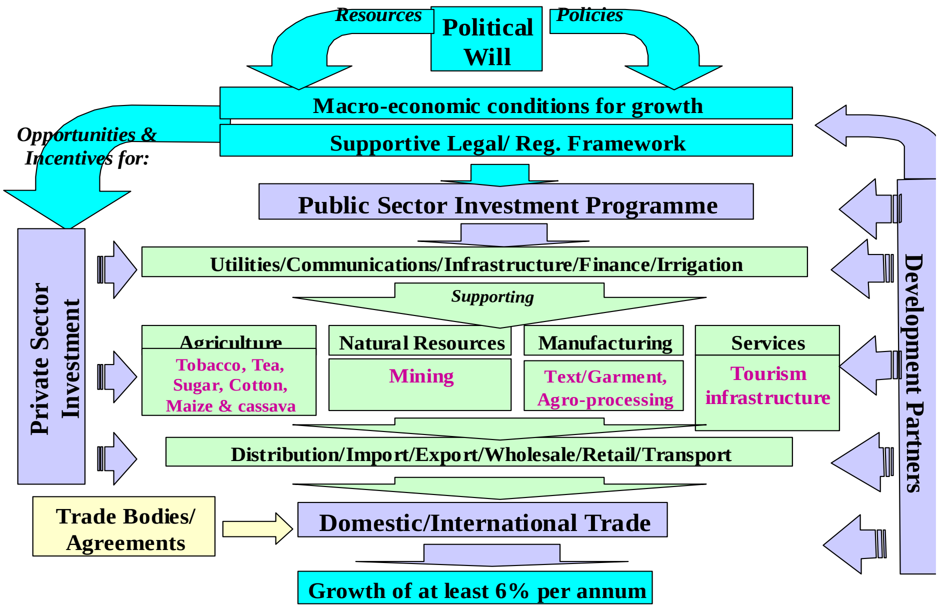
[4] A measure of income inequality. The closer the Gini-Coeficient is to 1.0, the higher the income inequality.

2.0 MALAWI ECONOMIC GROWTH STRATEGY FRAMEWORK

2.1 Economic Growth Strategy Objective & Focus

The objective of the Malawi Economic Growth Strategy is to create an overall macroeconomic environment conducive to broad based GDP growth of at least 6 percent per annum that is sustained over a long term. This objective will be achieved through stimulation of investment in the five high growth sub-sectors while concentrating on the three core sub-sectors coupled with a focus on facilitating domestic and international trade. The framework underpinning the Economic Growth Strategy is depicted in figure 1 below.

Figure 1: Economic Growth Strategy Framework



Source: MEPD/Taskforce

The focus is on the ten sub-sectors, which fall under the four broad sectors of agriculture, natural resources, manufacturing and services. Revamping productive activities in the macro environment and in the selected sub-sectors will require government to address crosscutting constraints. In addition, the focus of the private sector, Government and development partners will be on the selected sub-sectors.

2.2 Criteria for Selection of Sectors

Based on analysis by MEPD[5], five high growth potential sub-sectors that can quickly generate some impact on the overall growth rate of the economy have been identified. These are agro-processing, tourism, mining, cotton and textiles/garments. In addition to the cross-cutting strategies, specific strategies to deliver growth in each of these sub-sectors are set out in part 2,

[5] Interviews With the various sectors done in the document on the Engines for Growth. No detailed Economic appraisal was done.

including specific incentives. The list of growth potential sub-sectors is dynamic and dependent on the delivery of the expected outcomes. There shall also be a phasing mechanism so that the priority sub-sectors for the short to medium term are distinguished from those of medium to long term.

In addition to the five high growth sub-sectors, there are the three core sub-sectors that currently contribute significantly to the economy in terms of revenue, job creation, foreign exchange earnings and GDP growth. These are tobacco, sugar and tea. These sub-sectors will not grow at the same rates as the high potential growth sub-sectors identified in this strategy, but because of their scale and current importance to the economy, it is necessary to ensure that their overall performance is maximised in the short to medium term, whilst the growth sub-sectors and potential core sub-sectors of the future are being developed.

The choice of the focal sub-sectors took into account several factors:

- Which sub-sectors can quickly generate wider economic impacts if they grow?
- Which sub-sectors/industries are the core sub-sectors of the economy now and in the medium term?
- Which sub-sectors/industries have potential to contribute high growth?
- Which sub-sectors/industries have serious investors already investing or ready to invest?

2.2.1 Prioritisation of the Core and High Growth Sub-sectors

In accordance with the selection criteria outlined above, the core sub-sectors have been selected to include tobacco, sugar, cotton, tea, maize and cassava. The high growth sub-sectors have been prioritised and grouped into clusters as follows:

Cluster 1: Cotton/Textile/garments
Cluster 2: Agro-Processing
Cluster 3: Mining
Cluster 4: Tourism

2.3 Supportive Conditions for Growth

2.3.1 Need for Political Will

The existence of political will is essential to ensure that GoM policies and resources support the development of a conducive macroeconomic environment and a supportive legal/regulatory framework for private sector investment, trade and growth. Political will is demonstrated through actual implementation. Without real political will, translated into real changes in policies and resource allocation and implementation, this Economic Growth Strategy will have only a limited impact on the growth prospects for Malawi[6].

A secure lower-cost competitive base is provided by an environment in which the enforcement mechanisms to contain *corruption and crime* are effective. A meaningful *public sector/private sector consultative partnership* reduces the scope of wrong and harmful policies and enhances capacity to respond to problems and crises.

[6] Good Intentions count for little if they are not implemented.

2.3.2 Role of the Government

Government plays the central role in providing macroeconomic conditions that create *opportunities* for businesses to invest and trade. Moderate inflation, low interest rates and predictable exchange rates create *opportunities* and enhance *confidence* for businesses to invest, produce and trade. In addition, developing an enabling legal, regulatory and institutional framework that gives businesses sufficient *incentives* and *confidence* to invest. These reduce uncertainty and transaction costs for investment and trade.

2.3.3 Investment for Growth

The private sector's role in the economy is *to invest, create value, innovate and trade* domestically and internationally. Domestic and foreign direct investment is central to growth because it creates and enhances the means to add value throughout the value-chain. Businesses need to make profits to survive and sufficient profits to re-invest and grow. Profits reward private sector stakeholders including owners/investors, employees and customers[7] and also generate revenues for Government through corporate tax, duties, surtax, payroll and other taxes and levies/charges. On the other hand, there is need for good corporate governance within the private sector to enhance its performance. This implies having skilled managers/staff in place and developing private/private sector dialogue and having common approach to development within the private sector. Stimulating investment, trade and profitability of businesses is therefore of key interest to both Government and private sector even if this means foregoing current revenue streams for future revenue streams.

Public sector investment also plays an important role in providing the supporting infrastructure for doing business in the economy, such as roads, rail, ports and air facilities. There is a mixture of public and private in the production and provision of services such as roads, power, water, communications and finance. It can also open up new economic activities for the private sector to invest in areas like tourism and new mines. Public spending should reflect the priorities of this Economic Growth Strategy. There is, therefore, the need to move away from consumption spending to investment spending.

2.3.4 Role of Trade

The framework for economic growth highlights the need to also focus on domestic and international trade and private investment as the key drivers of economic growth. Government further plays a key role in generating a conducive environment for trade, investment and business operations; negotiating and implementing *international trade agreements* and protocols that enable better market access for Malawi's exports; and ensuring that *domestic markets* are operating competitively.

2.3.5 Role of Development Partners

Development partners[8] assist in many ways. First of all direct intervention in support of the productive sectors and sub-sectors as well as support for economic infrastructure. Secondly in the form of official development assistance to Government directed towards economic management and regulatory reforms. Finally, through working at community level or with individual businesses.

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7 Customer's benefit through improved performance and product/service innovation.

8 Development Partners include Multilateral and Bilateral partners, International and Local NGOs and Civil Society organisations, operating at different levels from the Macro through to the Micro level.

3.0 OVERVIEW OF THE MALAWI ECONOMY

3.1 Structure of the Economy

The Malawi economy remains agro-based with the agriculture sector accounting for over 38.6 per cent of GDP, employs about 84.5 per cent of the labour force and accounting for 82.5 per cent of foreign exchange earnings (see Tables 3.1 to 3.3). Agriculture is characterised by a dual structure consisting of commercial estates and a large smallholder sub-sector, which is mainly engaged in mixed subsistence and cash crop agriculture. The main agricultural export crop is tobacco, followed by tea, sugar and coffee.

Table 3.1: Sectoral share of GDP, 1998-2002 (percent)

	1998	1999	2000	2001	2002*
Agriculture	35.7	38.0	39.7	38.2	38.4
Mining and quarrying	1.3	1.3	1.4	1.6	1.4
Manufacturing	13.7	13.4	12.9	11.6	10.9
Construction	2.1	2.2	2.2	2.2	2.4
Electricity and Water	1.4	1.3	1.4	1.4	1.5
Distribution	22.6	21.2	21.0	22.1	22.5
Services	24.0	23.0	21.9	22.9	23.0
Transport and Communication	4.5	4.4	4.2	4.3	4.6
Financial and Prof. Services	8.2	7.9	8.0	8.0	8.5
Private Community Services	2.1	2.0	2.1	2.2	2.2
Government Services	9.8	9.7	9.2	9.7	9.4
Other**	-1.3	-1.5	-1.5	-0.7	-1.8
GDP at 1994 factor cost	100.0	100.0	100.0	100.0	100

Source: Ministry of Economic Planning and Development (MEPD), *Economic Reports*

* *Revised estimates*

** Includes unallocated financial charges and ownership of dwellings

The manufacturing category includes tobacco, tea, sugar and other agro-processing. The share of the manufacturing to GDP declined from 17.0 per cent in 1994 to 10.9 per cent in 2002. The decline was attributed to macroeconomic instability as well as the influx of cheaper and better quality imported products.

3.2 Composition of Export Earnings

As shown in Table 2.2 below, agriculture commodities accounted for 76.3 per cent of total exports in 2002, which represented a drop from 86.5 per cent in 1998. The drop in the share of agricultural export was attributable to the fall in tobacco exports from 61.6 per cent in 1998 to 58.2 per cent in 2002 as well as tea and sugar exports which decreased to 7.8 per cent respectively. As such, the Strategy addresses the need to diversify the economy away from heavy reliance on tobacco whilst maximising its value adding in the short- to medium-term. Textiles and garments exports rose to 8.1 per cent of total exports in 2002 but slowed down because of the failure to observe the rules of origin under the bilateral agreement with South Africa, which resulted in the closure of many garment companies.[9]

[9] See Textile and Garment Sub-sector Strategy for more detail in Part 2.

Table 3.2: Composition of exports by commodity, 1997-2002

	1998	1999	2000	2001	2002
Agricultural:	86.5	86.4	82.7	82.7	76.3
Tobacco	61.6	61.4	61.4	60.4	58.2
Tea	7.5	8.8	9.2	9.1	7.9
Sugar	9.3	5.2	9.8	9.0	7.7
Coffee	2.0	2.0	1.3	1.0	0.6
Pulses	0.8	1.4	0.6	0.2	0.4
Cotton	0.9	1.2	1.8	1.2	1.3
Rice	0.4	0.6	0.4	0.3	0.2
Textiles and clothing	4.1	3.8	3.3	6.7	8.1
Other	9.9	9.4	11.8	15.1	17.7
Total Exports	100	100	100	100	100

Source: Ministry of Economic Planning and Development, 2002 Economic Report and National Statistical Office

3.3 Contribution to Employment

Table 2.3 shows employment data by sector from the 1998 population census. Agriculture continues to account for a large share of 84.5 per cent of employment. This is followed by services including public sector, which employs 9.5 per cent and distribution with 5.8 per cent of the total economically active population. Generally, data on employment by sector is not available.

Table 3.3. Number and proportion of Economically Active Population Employed by Sector, 1998

	000's	% share
Mining and quarrying	2.5	0.1
Agriculture	3,765.8	84.5
Manufacturing	118.5	2.7
Services*	426.9	9.5
Utilities	7.3	0.2
Distribution	257.4	5.8
Other**	82.3	1.8
Total sectors	4,458.9	100.0

Source: 1998 Population Census Results

* Includes Transport and Communication, Finance and Insurance, Public Administration, and Community and Social Service.

** Includes Construction, Real Estate and Other Business Activities

3.4 Recent Economic Developments

Since December 2000, Malawi has been implementing an economic programme with support from the IMF under the Poverty Reduction Growth Facility (PRGF) aimed at restoring macroeconomic stability, which is a prerequisite for sustainable poverty reduction. However, the programme went off track in November 2001 due to fiscal slippages that prompted donors to withhold budgetary support. This led Government to rely on domestic resources to finance the budget deficit.

The economic performance in 2001 was weak. Real GDP growth contracted by 4.1 percent in 2001 mainly due to the drop in maize production caused by the drought. Inflation and interest rates remained high at 27.2 per cent and over 40 per cent, respectively, and the fiscal deficit including grants widened to 7.7 percent of GDP in the 2001/02 fiscal year in contrast to 2.0 per cent in 2000/01. In the external sector, while the current account deficit excluding official transfers remained stable at 10.4 per cent of GDP, gross official reserves declined to the equivalent of 3.7 months of imports of goods and non-factor services, reflecting the impact of suspension of balance of payments support by donors.

Against this background, Government formulated the economic programme for the 2002/03 fiscal year focused on the need to continue pursuing the country's medium-term development strategy which seeks to reduce poverty through increased access to basic social services, accelerating growth, improving productivity in agriculture and the manufacturing sectors, enhanced internal security and ensuring existence of a stable macroeconomic environment. Consistent with these objectives, the programme aimed at achieving real GDP growth of around 2.0 per cent in 2002 and 4.5 per cent in 2003; an average inflation of 9.4 per cent in 2002 and 5.0 per cent in 2003.

However, the implementation of the economic programme for the 2002/03 fiscal year proved difficult mainly because of expenditure overruns due to maize imports and lack of budget support resulting from the withholding of budget support by donors. This development contributed significantly to the huge accumulation of domestic debt.

The economic effects of these developments are summarized in Table 2.4 below. As the table shows, fiscal policy remained expansionary, with the fiscal deficit including grants rising further to 12.8 percent of GDP in the 2002/03 fiscal year. Domestic debt stock rose to K50 billion, which is unsustainable, and domestic interest payments are expected to go up to K6.4 billion by the end of the 2002/03 fiscal year, which will accounts for 14.4 per cent of the revised total Government expenditure.

Table 3.4: Selected Economic and Financial Indicators, 1998-2003

	1998	1999	2000	2001	2002	2003 Proj
	(Annual percentage changes, unless otherwise indicated)					
GDP and Prices						
Real GDP	2.2	3.6	2.0	-4.1	1.8	3.4
Per capita GDP (in US dollars)	193.8	195.2	187.3	183.8	207.5	195.3
Consumer prices (period average)	29.7	44.8	29.6	27.2	14.8	10.0
GDP deflator	25.4	41.2	27.8	19.0	17.0	8.1
GNDI						
Domestic Demand						
Monetary Aggregates 1/						
Net foreign assets	55.5	33.6	42.4	32.1	25.2	-6.0
Net domestic assets	105.1	14.1	46.8	-8.4	-37.5	-11.1

Credit to the Government	-49.6	19.5	-4.4	40.5	62.7	5.1
Credit to the rest of the economy	18.5	20.6	12.4	1.5	3.7	0.3
OIN						

Table 3.4: Selected Economic and Financial Indicators, 1998-2003 Cont'd

	1998	1999	2000	2001	2002	2003 Proj
	(As a percentage share of GDP, unless otherwise indicated)					
Central Government						
Revenue	16.1	15.9	18.7	14.9	16.0	
Expenditure	24.3	25.2	32.8	28.5	32.4	
Current	16.4	15.2	22.6	21.3	26.4	
Development	7.9	10.1	10.3	7.2	6.0	
Overall deficit excluding grants	-8.2	-9.3	-14.1	-13.5	-16.3	
Overall deficit including grants	-2.2	-1.8	-2.0	-7.4	-12.8	
Net domestic financing	-4.8	-1.5	-1.3	6.8	9.8	
Net foreign financing	6.4	3.3	3.3	0.9	0.2	
Savings and investment						
Domestic savings	7.9	-0.6	3.4	4.8	-3.5	-0.4
National savings	11.1	4.7	9.7	10.9	2.8	7.5
Foreign savings	2.2	9.6	3.9	3.0	7.7	2.4
Gross investment	13.4	14.4	13.6	13.9	10.5	9.9
External sector						
Exports f.o.b.	30.5	24.7	23.1	25.0	21.9	23.7
Imports c.i.f.	37.8	42.5	35.4	36.8	38.5	36.6
Current account balance	-8.5	-16.0	-10.9	-10.4	-15.0	-10.9
External debt	129.4	129.4	197.6	191.4	92.3	135.4
Debt-service ratio to exports	18.2	17.7	20.8	20.1	16.7	24.0
Terms of trade index (1994=100)	140.3	126.6	130.1	107.5	107.5	97.2
Kwacha per U.S. dollar (period average)	31.1	44.1	59.5	72.2	76.7	100.0
Real effective exchange rate index 2/	93.3	87.5	88.4	84.1	..	..
Gross official reserves						
End-period stock (in U.S. dollars)	259.8	246.0	278.3	203.1	162.0	115.4
In months of imports of goods and non-factor	5.4	5.0	4.7	3.5	2.6	1.8

1/ Change as percentage share of money and quasi money at the beginning of the period
2/ Increase means depreciation
Source: Ministry of Economic Planning and Development, National Statistical Office, Treasury and Reserve Bank of Malawi

3.5 Balance of Payments

This section discusses the visible trade balance, services balance, the current account balance and capital account.

3.5.1 Visible Trade Balance

Over the 1998-2002 period, commodity terms of trade deteriorated cumulatively by 15.6 per cent. The main source of the decline in terms of trade came from export prices of agricultural commodities that account for 90 per cent of total exports for this country. In dollar terms, export prices for agricultural export commodities decreased by 23 per cent over the same period, representing an annual decrease of 2.2 per cent. This, combined with high and rising cost of production and limited credit facilities, led to decline of 3.2 per cent in total volume of exports.

As a result of the above developments, export earnings, in dollar terms, declined by 27.7 per cent over the period 1998-2002. In Kwacha terms, however, total value of exports more than doubled from K14.8 billion in 1998 to K30.3 billion in 2002 mainly on account of the depreciation of the Kwacha by twofold, which improved export prices although they fell in dollar terms. Of the total export earnings; domestic exports rose by 1.3 per cent from K29.9 billion in 2001 to K30.3 billion in 2002 while re-exports grew impressively at 17.4 per cent in 2002.

The visible trade deficit doubled from K9.2 billion in 2001 to K19.4 billion in 2002 largely as a result of the increase in imports value caused by maize imports to avert the food insecurity that prevailed in the country from end of 2001 to early 2002. Because of maize imports, the volume of total imports went up by 17.4 per cent in 2002. This, combined with the increase in import prices of 6.9 per cent, led to the 29.3 per cent increase in total value of imports (c.i.f.) from K40.0 billion in 2001 to K51.7 billion in 2002. This raised the share of imports of GDP from 27.6 per cent in 2001 to 29.7 per cent in 2002.

3.5.2 Services and Transfers

The deficit on services account, which comprises factor and non-factor services, widened further by 14.9 per cent in 2002 compared to a drop of 25.5 per cent in 2001. The deficit on factor services worsened by 21.5 per cent after doubling in 2001 while that for non-factor services deteriorated further by 12.0 per cent. The main factors contributing to the worsening services balance were the increase in shipment and travel payments. Payments for shipment rose by 24.1 per cent from K4.8 billion in 2001 to K6.0 billion in 2002, reflecting high transportation payments for maize imports, while that for travel went up by 12.1 per cent from K2.9 billion to K3.3 billion over the same period due mainly to increased airfares. Private transfers nearly doubled to K3.0 billion in 2002. Most of the increase reflected increased donations of food relief items by NGOs and religious organizations to avert the food problems that faced the country in the last two years.

3.5.3 Current Account Balance

Because of the worsening of the visible trade balance and services, the current account deficit excluding grants nearly doubled from a deficit of K12.8 billion in 2001 to a deficit of K22.1 billion in 2002. As a percentage share of GDP, the current account deficit rose from 10.4 per cent in 2001 to 15.0 per cent in 2002.

3.5.4 Capital Account Balance

The capital account was greatly affected by the withholding of balance of payments support by donors. The capital account balance declined by 13.5 per cent from K20.2 billion in 2001 to K17.5 billion in 2002. This drop in capital inflows was caused mainly by the reduction in Government foreign borrowing by half from K9.8 billion in 2001 to K4.9 billion in 2002. Because Government's main foreign lenders are the multilateral institutions including the

IMF and World Bank, these institutions were not willing to lend Government any more money until Government restores its economic programme with the IMF.

As a result of this, the overall balance of payments after debt relief decreased from a surplus of K5.4 billion or 4.4 per cent of GDP in 2001 to a deficit of K8.1 billion or 5.5 per cent of GDP in 2002. The implication is that the deficit has been financed through recourse to the monetary authorities; monetising the deficit. In addition, the negative overall balance indicates that there are structural problems that are impinging the inflow of FDI and Portfolio investment; perhaps pertaining to capital account and current account convertibility. This led to the depreciation of the average exchange rate by 6.2 per cent from K72.2 to US$1 in 2001 to K76.7 to US$1 in 2002. The slow rate of depreciation of the currency was a result of the intervention in the domestic foreign exchange market by the Reserve Bank through sales of foreign exchange to Authorised Dealer Banks (ADBs).

3.6 Public Finance

Government revenue and expenditure as a percentage of GDP declined substantially over the period 1980-2002 (Table 2.4). Government revenue fell from 20.6 per cent to 15.0 per cent of GDP because of the decrease in international trade taxes resulting from tariff reforms and fall in corporate taxes following general decline in business activity. Government expenditure dropped from 32.5 per cent to 28.5 per cent of GDP over the same period of time. Revised estimated expenditure figures for 2002 indicate that expenditure would fall further to 23.1 per cent. Much of the drop in expenditure was contributed by the decrease in capital expenditure, which plunged to 3.7 per cent of GDP in 2002 from 9.7 per cent in 1980-89 (Table 2.4 above).

Despite the above developments, the budget deficit (including grants) as a ratio of GDP worsened to 7.4 per cent in 2001 from an average of 6.2 per cent during the 1980-89 – 1990-99 period (Table 1). Although it is projected that the deficit will improve to 3.1 per cent of GDP in 2002, this should be taken with caution in light of emerging expenditure pressures arising from the cost of maize imports and growing cost of servicing the high and unsustainable Government domestic debt. To resolve these problems, there is need for Government to design an optimal tax system, which ensures that government revenue needs is not achieved at the expense of the country's growth objectives.

3.7 Monetary Developments

In past three years, interest rates have been very high. The bank rate has remained above 40 per cent because the Reserve Bank of Malawi (RBM) aimed at bringing down inflation to low and stable levels. This was necessary because monetization of the Government deficit has increasingly become the main method of financing the deficit, especially with the withholding of budgetary support by donors. Despite the tight policy stance, RBM lending to Government increased from K1.6 billion at the end of 2000 to K15.7 billion at the end of 2002. Monetary expansion resulted from the monetization of the fiscal deficit would have caused high inflation and a significant deterioration of foreign exchange reserves had RBM not pursued tight monetary policy.

The economic consequences of this policy stance on the economy and the businesses community, in particular, has been that commercial interest rates peaked at over 64 per cent in early 2001 and then declined to around 45 per cent as at the start of 2003. With the deceleration in inflation, the real interest rates have risen sharply in excess of 30 per cent. At such high real interest rates, private investment has fallen to about 1.8 per cent of GDP in 2002 from an average 2.3 per cent of GDP over the 1998- 2001 period. Government, therefore, need to implement fiscal consolidation measures to bring down the fiscal deficit, reduce domestic borrowing and interest rates and release the available credit to the private sectors.

Besides domestic debt, external debt as a proportion of GDP has increased from 110.2 per cent over the period 1990-1999 to 191.4 percent in 2001, reflecting a high and increasing dependency on external financing. This further compounds the overall debt problem and reinforces the need for urgent action by GoM.

In order to resolve these problems, Government need to, among others, undertake the following measures:

i. Reduce the fiscal deficit to sustainable levels by cutting down expenditures;

ii. Ensure that the economic programme with the IMF gets back on track this year;

iii. Negotiate with donors to restore their budgetary support by mainly fulfilling (ii) above;

iv. Explore ways to resolve the current domestic debt problem through either restructuring it from short- to medium- and long-term debt or negotiate with donors to refinance the debt; and

v. Restructure parastatals to reduce their fiscal impact on the budget.

3.8 GROWTH PROSPECTS for 2003-2008 period

The projected growth rates above, there is need for expenditure, savings and investment to grow proportionately based on these assumptions:

i. Annual inflation of 6 per cent and projected annual increase in nominal Government consumption in line with inflation and 1.8 per cent in volume terms;

ii. Import prices expected to increase by an average 10 per cent while the volumes of imports by an average 2 per cent to ensure availability of raw materials and inputs to the manufacturing and agricultural sectors;
iii. Exports prices are expected to increase in line with the domestic inflation while volume of exports is projected to rise by an average 6.9 per cent in line with the increased production in agriculture and manufacturing sectors;
iv. Gross fixed capital formation to grow in line with domestic inflation and import prices of about 10 per cent; and
v. With increased production in the agriculture and manufacturing sectors changes in stocks are expected to increase by 7 per cent. The same applies to agriculture purchases by the private traders.

3.8.1 Projected Growth Rates, 2003-2008

Based on the above assumptions, real GDP growth is projected to increase from 4.3 per cent in 2004 to 7.6 percent in 2008 (Table 3.6). In line with the assumption that agriculture will remain the backbone of the economy during this period, the share of agriculture in GDP increases to 42.6 per cent by 2008 (Table 3.7). Most of this increase comes from the smallholder agriculture sub-sector, which anticipated to rise from 30.4 per cent of GDP in 2003 to 35.3 per cent in 2008.

Table 3.6: Gross Domestic Product at 1994 factor cost, 1994- 2008
(Annual percentage changes)

	Average 1994-2002	2002	2003	2004	2005	2006	2007	2008
Agriculture	2.0	2.3	3.9	7.5	11.0	10.0	9.1	7.5
Smallscale	2.0	-0.4	4.8	8.6	12.5	11.0	9.6	7.5
Seed Cotton	2.0	4.9	2.8	5.0	10.0	15.0	20.0	10.0
Other	2.0	-0.4	4.8	8.6	12.5	11.0	9.5	7.5
Largescale	1.7	13.4	0.7	3.2	5.1	5.5	6.9	7.4
Tobacco	1.8	14.0	1.1	3.0	5.5	6.0	7.5	8.0
Tea	1.2	6.6	2.1	2.5	2.3	2.5	2.5	3.0
Sugar	1.3	20.9	-4.5	0.1	1.8	1.8	1.8	1.8
Other	-1.8	7.4	-6.3	11.3	2.8	2.8	2.8	2.8
Mining and Quarying	2.3	-11.5	28.7	0.3	7.5	8.0	10.0	12.0
Manufacturing	-1.4	-4.2	0.4	2.3	4.2	5.3	6.2	5.6
Agro-processing	1.4	-30.9	3.1	2.3	10.0	9.0	8.1	6.5
Textiles and Garments	-1.5	33.4	5.6	2.3	10.0	15.0	20.0	10.0
Other	-1.5	8.2	-1.2	2.3	1.3	2.5	3.5	4.5
Electricity and Water	1.5	6.3	0.9	3.9	3.5	4.0	4.5	5.0
Construction	1.7	11.7	9.2	3.2	3.5	4.5	5.5	6.5
Distribution	1.4	3.5	3.1	2.0	4.5	6.6	7.6	9.7
Tourism	1.9	9.8	10.8	3.2	5.0	8.5	10.0	15.0
Wholesale and Retail	1.4	3.3	2.9	2.0	4.5	6.5	7.5	9.5
Transport and Communication	1.5	8.5	2.8	2.1	3.5	4.0	5.5	6.5
Financial and Professional Services	1.8	6.4	5.8	5.1	5.0	7.0	8.5	10.0
Ownership of Dwellings	1.5	2.8	2.8	2.7	2.8	2.8	2.8	2.8
Private Social and Community Services	1.6	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Producers of Government Services	-1.4	-0.7	0.2	1.0	1.5	2.0	2.5	2.5
Unallocable Finance Charges	1.6	15.2	5.9	5.2	5.0	5.5	7.5	3.0
GDP at Factor Cost	1.7	1.8	3.4	4.3	6.7	7.2	7.5	7.6

Source: Ministry of Economic Planning and Development

The growth strategy emphasises that economic growth in the medium term (2004 – 2008) will emanate from improvements in agricultural productivity. Other sectors like transport and distribution will also benefit from high increases from agricultural production. Therefore the structure of the economy in terms of sectoral shares to GDP will remain unchanged in the medium term. However, in the long run, increased investments in infrastructure will lead to increase in the shares of other sectors to total GDP. The scenario is built around these assumptions that the agriculture sector will remain the backbone of the economy, with tobacco, especially flue-cured tobacco and cotton being high contributors to growth. On average, overall growth for the agriculture sector is estimated at 9.4 per cent per annum over the entire period.

Table 3.7: Gross Domestic Product at 1994 factor cost, 1994- 2008
(Sectoral share of total GDP)

	Average 1994-2001	2002	2003	2004	2005	2006	2007	2008
Agriculture	34.6	38.9	39.1	40.3	41.4	42.4	43.1	43.0
Smallscale	26.1	30.0	30.4	31.7	33.4	34.6	35.3	35.3
Seed Cotton	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other	25.8	29.8	30.2	31.4	33.1	34.3	35.0	34.9
Largescale	8.5	8.9	8.7	8.6	8.0	7.8	7.8	7.8
Tobacco	6.4	7.3	7.1	7.0	6.9	6.9	6.9	6.9
Tea	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Sugar	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Other	1.3	0.9	0.8	0.9	0.3	0.3	0.3	0.3
Mining and Quarying	1.2	1.4	1.7	1.7	1.7	1.7	1.7	1.8
Manufacturing	14.0	10.9	10.6	10.4	10.1	9.9	9.8	9.6
Agro-processing	4.0	2.8	2.7	2.7	2.8	2.8	2.8	2.8
Textiles and Garments	0.7	0.8	0.8	0.8	0.8	0.9	1.0	1.0
Other	9.3	7.4	7.0	6.9	6.5	6.3	6.0	5.9
Electricity and Water	1.4	1.5	1.4	1.4	1.4	1.3	1.3	1.3
Construction	2.1	2.4	2.5	2.5	2.4	2.3	2.3	2.3
Distribution	23.0	22.5	22.4	21.9	21.5	21.3	21.3	21.8
Tourism	0.4	0.6	0.7	0.7	0.6	0.6	0.7	0.7
Wholesale and Retail	22.5	21.9	21.7	21.3	20.8	20.7	20.7	21.0
Transport and Communication	4.5	4.6	4.6	4.5	4.4	4.2	4.2	4.1
Financial and Professional Services	7.7	8.5	8.7	8.7	8.6	8.6	8.6	8.8
Ownership of Dwellings	1.5	1.5	1.5	1.5	1.4	1.4	1.3	1.3
Private Social and Community Services	2.1	2.2	2.2	2.2	2.1	2.0	2.0	1.9
Producers of Government Services	11.4	9.4	9.1	8.9	8.4	8.0	7.6	7.3
Unallocable Finance Charges	-3.4	-3.8	-3.9	-3.9	-3.3	-3.3	-3.3	-3.1
GDP at 1994 Factor Cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Economic Planning and Development

As regards the high growth potential sectors of mining and quarrying, tourism and agro-processing, their shares of GDP will remain small even though they will grow at high rate of between 7.0 per cent to over 10.o per cent per year over the 2003-2008 period. The major reason is that these sectors will start from a low current base of about 1.5 per cent of GDP and this will take a long time of high growth for their share of GDP to rise to significant levels.

Table 3.9 gives a summary of gross investment, savings and other selected macroeconomic indicators for the 2003-2008 periods. In order to achieve the rapid projected growth rates above. The table shows that:

i. Gross fixed capital formation should increase by an average annual rate of 7.2 per cent from K20.4 billion in 2005 to K49.5 billion in 2008. This means an almost double increase in the share of GDP from 9.6 per cent to 18.2 per cent;
ii. Domestic savings will have to rise from K-2.9 billion to K18.1 billion over the same period. As a share of GDP, it will reach only 3.6 per cent by 2008;
iii. National savings must rise from K10.6 billion to K35.5 billion. This is an increase from 5.9 per cent to 11.2 per cent of GDP; and
iv. Foreign savings will have to increase by nearly three times from K6.8 billion to K16.8 billion.

Table 3.8: Projected Selected Macroeconomic Indicators, 1994- 2008
(Annual percentage changes)

	Average 1994-2001	2002	2003	2004	2005	2006	2007	2008
GDP at 1994 factor cost	4.4	1.8	3.4	4.3	6.7	7.2	7.5	7.6
Real Exports of Goods and Non-factor Services	5.5	2.9	5.6	1.4	5.5	6.5	7.5	8.0
Real Imports of Goods and Non-factor Services	3.5	17.4	-8.5	-2.0	0.5	1.5	2.0	2.0
Real Gross Fixed Capital Formation	-3.0	-19.7	0.7	4.1	14.4	19.1	23.8	24.0
Domestic Savings as Share of GDP	2.9	-3.5	-0.4	-1.4	1.4	4.4	8.0	12.0
National Savings as Share of GDP	7.6	2.8	7.5	5.8	8.2	10.9	14.2	17.9
Gross Investment as Share of GDP	13.7	10.5	9.9	9.6	10.2	11.3	13.1	15.1
Inflation	37.4	14.8	10.0	8.0	6.0	6.0	6.0	6.0

Source: Ministry of Economic Planning and Development.

There will, therefore, be a need for macroeconomic stabilisation among other things through the reduction of domestic debt, continued containment of fiscal deficit within IMF/Government economic program and targeted fiscal incentives that would stimulate investment in activities that will deliver growth and value-added. There will also be measures to remove obstacles and change policies that constrain performance, without involving substantive additional expenditure by GoM. However, the existing "core" industries can only continue to retain their status if they are innovative and embrace growth as their primary objective.

4.0 CONSTRAINTS

4.1 CROSS CUTTING CONSTRAINTS ON BUSINESS GROWTH

There are many cross cutting constraints on private sector growth identified from consultative process involving private sector and other key stakeholders that would need to be addressed first. These are the macro-environmental issues that constrain individual firms from achieving higher sales and profits through investment and trading activities. The constraints fall into six broad areas:

4.1.1 Weak Macroeconomic conditions

Achieving macroeconomic conditions that are conducive to investment and growth has to be the top priority for GoM. The country has over the recent past experienced poor macroeconomic conditions as follows: access to and cost of capital; relative high inflation; and weak effective domestic demand.

4.1.2 The Burden of Taxation

The Malawi Government has implemented a number of tax reforms, which are aimed at improving the business climate. It also has an elaborate system of incentives, which is comparable to most countries in the region. Tax rates are broadly competitive in the region, however, there are problems regarding increases in personal income tax rates, the failure to index wages and salaries to inflation and that withholding tax is unclear in scope and application. In addition:

(i) **Burden of Taxation on Businesses-**
There is high tax evasion in Malawi. As such, the collection of the tax revenue falls on the few 'taxpaying' businesses and establishments.

(ii) **Implementation and scope of surtax–** While appreciating that the use of value added taxes is a common method for raising revenues by Governments throughout the world, there are several major problems with the design of extended surtax system in Malawi and the way it is being implemented. Firstly, the rate of 20 per cent is high in absolute and relative terms compared with neighbouring countries. Secondly, most businesses have not been given enough time and support to implement a major change like this. The impact for smaller locally owned businesses is particularly significant, as they have limited technical capacity to deal with the change and the complexity of the extended Surtax whilst undertaking their normal business activities. Thirdly, the extent of non-reclaimable inputs is too wide and damaging to suppliers of such items and those that buy them. Fourthly, the cash flow burden falls entirely on businesses especially the asymmetric rules on reclaims.[10] Fifthly, the coverage of surtax appears includes companies in export processing zones, which seems to be counter to the purpose of EPZs.[11] The reclaim process is long, resulting in cash flow costs and unnecessary costs for businesses and Government to administer the reclaim process. Seventh, the penalties for

[10] Three consecutive months before a reclaim can be made and then 3-6 months for actual repayment based on the experience of manufacturing businesses.
[11] Prior to this extension, supplies to EPZ companies were exempt through the use of form ST14.

surtax are very punitive and the circumstances in which they are applied are no longer as flexible[12]. All in all, the extension of surtax has also impacted directly on prices and created dual markets in some cases at the expense of those following the rules that put legitimate businesses at a price disadvantage.

4.1.3 Weaknesses in the Legal and Regulatory Environment

The regulatory environment is there to support, monitor and regulate business activity and encouraging investment and exports. These are legitimate public sector functions. The weaknesses in the legal and regulatory framework are as follows: costly regulated and administrative procedures in terms of foreign exchange administration, pre-shipment inspection and transit bond management; ineffective investment incentives packages because the system favours international greenfield[13] investments and does not consider the existing domestic investors; approval process for incentives and allocation of land is slow and uncertain because of policy reversals; unfavourable terms of trade and weak negotiating capacity; and high insecurity which adds significantly to operational costs in terms of anti-theft measures and insurances charges.

4.1.4 Poor Infrastructure

Poor infrastructure includes poor access to ports, limited air links and freight capacity, limited rail capacity and poor condition of roads serving manufacturing, mining, tourism and rural producing areas as well as unreliable, inefficient and expensive utilities (water, electricity and communication) that affect production. The capacity of information technology is weak in both the private sector and the public sector.

4.1.5 Private and Public Co-operation and Dialogue

There has been very weak co-operation between the private and public sectors due to a lack of understanding and mutual suspicion on both sides as well as a failure to fully appreciate the necessary interdependence for mutual success. There are important areas of potential co-operation between the private and public sectors, on policy development and implementation. These are detailed below:

(i) **Weak dialogue between private and public sectors**– Consultation processes between government and the private sector are weak mainly because of lack of feedback. The Chamber of Commerce has generally failed to win the trust and confidence of the private sector and to perform as an effective mouthpiece for the private sector ideology.

(ii) **Weak inter- and intra-sectoral linkages-** The major challenge of MoAI is organising inputs, consistent access to input credit schemes and extension services which have affected the quality and yields of smallholder cash and subsistence crops. Initiatives in tobacco, sugar, cotton and tea suggest that cooperation between smallholders, large-scale farmers, larger processors and marketing firms can be symbiotic. This could

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12 Late submission of a return by one day, even if the return were for a reclaim would apparently result in a fixed penalty of K20, 000.

13 Greenfield refers to developments on new sites that have not previously been used for business/industry, rather than re-development of previously developed but now vacant ('brownfield') sites that are more costly to develop as clearance of buildings etc. may be required. Policy may wish to favour utilisation of vacant developed sites rather than use Greenfield land.

provide a solution to lack of linkages between agriculture, manufacturing and other sectors.

4.1.6 Weaknesses in the Human Resource base

The development of the human resource base in Malawi is a key part of the MPRS. The current resource base is relatively weak characterised by low skill, limited vocational and technical skills, low productivity and low wages. This partly reflects weaknesses in the education system *inadequate specialised skills development* but also the devastating *impact of HIV/AIDS* and *poor management practices* in the private sector more generally.

4.2 SECTORAL/CLUSTER CONSTRAINTS

This sub-section looks at the constraints of the three core sectors and the high growth sub-sectors. Detailed analysis of the sectors is in part 2 of this Economic Growth Strategy.

4.2.1 CORE SECTORS

The identified core sub-sectors are tobacco, tea and sugar. The specific constraints of these core sub-sectors are discussed in the subsequent sections.

5.0 STRATEGIES

The sub-section reviews the constraints and proposes strategies for the high growth sub-sectors, which are presented in clusters. Table 2.6 below indicated the performance of the high growth areas and the selected core sectors.

Table 2.6: Manufacturing Sector Value Added, 1998- 2003
at 1994 constant prices (K' million)

	1998	1999	2000	2001	2002	2003*
Food Processing	189.9	198.5	215.0	168.7	145.3	133.6
Beverages	227.3	226.6	242.0	262.5	279.8	278.6
Tea	49.0	43.0	44.3	46.2	47.7	49.1
Tobacco	46.6	46.6	46.9	47.7	55.2	56.3
Textiles, Netting and Blankets	45.8	35.9	21.6	12.6	10.5	9.5
Clothing, Leather and Footwear	74.5	74.3	70.6	71.7	67.9	63.3
Sawmill and Wood Products	74.6	79.7	56.4	23.5	24.7	25.5
Packaging, Printing and Publishing	251.3	260.7	191.8	140.6	127.7	133.8
Chemicals and Fertilizers	104.7	71.7	78.2	84.5	66.9	68.8
Pharmaceuticals, Paints and Soaps	231.2	233.3	217.3	208.2	189.3	194.5
Plastics and Tyre Retreading	59.2	40.3	31.0	25.7	19.9	18.3
Non-Metallic Products	54.7	59.5	69.6	60.5	60.3	63.0
Metal Products and Other Machinery	184.1	193.5	220.7	172.9	183.0	186.9
Machinery and MV Assembly	68.5	119.0	120.8	50.6	20.4	20.9
Other	56.0	66.2	70.2	79.9	95.6	97.9
Total	1,717.3	1,748.7	1,696.1	1,455.7	1,394.4	1,399.8

Note: *Projections.
Source: Ministry of Economic Planning and Development, National Statistical Office, Treasury and Reserve Bank of Malawi.

The strategies outlined in this section cover core sectors of tobacco, tea and sugar; high growth strategies of cotton/textile/garments, agro-processing including cassava, mining and tourism.

5.1 CORE SECTOR STRATEGIES

This sub section discusses the core sectors of tobacco, tea and sugar.

5.1.1 Tobacco

Around 375,000 smallholders depend for cash incomes on tobacco, which means that success in tobacco's success has a major impact on rural incomes and livelihoods. The biggest challenge facing the tobacco industry revolve around productivity, the cost of inputs and profitability, access to credit, effectiveness of extensions services, the marketing system, tobacco prices at the floors and at the world market and environmental sustainability of production and curing. Threats to the industry come from the anti-smoking lobby, regional competition, cross-border trade, genetically modified tobacco, access to finance, child labour, HIV/AIDS and gender issues.

5.1.1.1 Strategies

The strategic plan calls for efforts to take advantage of the short to medium production gaps in the region and increase production of Northern Dark Fired (NDF), burley and Flue Cured to meet market requirements. In addition, address constraints in the industry and increase production by engaging smallholder farmers. The priorities of the tobacco industry include: clear tobacco policy and tobacco Act; review taxation of the tobacco industry including the withholding tax; review factors that influence informal cross-border trade; and encourage the exportation of processed tobacco.

5.1.2 TEA

The biggest challenge facing the tea industry revolve around issues of productivity, rain-fed production, the cost of inputs and profitability, low yielding tea technologies, access to credit, closure of the Stabex scheme, effectiveness of extensions services, the marketing system, tea prices at the floors and in the world market, exchange rate instability, high interest rates, electricity tariff system, taxation including extended surtax, demand for tea in the world market and the land policy.

5.1.2.1 Strategies

The strategic plan calls for reducing the production costs of the tea industry, review the negative effects of certain taxes on the industry, encourage investment in high yielding varieties, revitalise the smallholder to improve rural incomes and address the constraints identified in the tea industry including investment.

5.1.3 Sugar

The biggest challenge facing the sugar industry revolve around issues of productivity, rain-fed production, the cost of inputs and profitability, lack of skilled personnel, access to credit, effectiveness of extensions services, the marketing system, sugar prices at world market, exchange rate instability, electricity tariff system, demand for sugar in the world market and the land policy.

5.1.3.1 Strategies

The strategic plan calls for: closer liaison between MoCI and SUCOMA in the negotiation of trade agreements and protocols that directly or indirectly affect sugar; development of smallholder growers; improve productivity of Dwangwa sugar scheme; protect the domestic market against unfair competition; and review the electricity tariff pricing system and regulations on own generation.

5.2 HIGH GROWTH SECTOR STRATEGIES

This section discusses the high growth sectors, which have been grouped into four, clusters namely Cotton/Textile/Garments, agro-processing, mining and tourism.

5.2.1 Cluster I: Cotton/Textiles/Garments

The focus of this cluster is on cotton production, textiles and garments.

5.2.1.1 Cotton

The biggest challenge facing the cotton industry revolve around issues of productivity, rain-fed production, the high cost of inputs and profitability, low yielding cotton technologies, access to credit, effectiveness of extensions services, the marketing system, low cotton prices at world market, exchange rate instability, electricity tariff system, demand for sugar in the world market and the land policy.

5.2.1.1.1 Strategies

The strategic plan calls for: reducing cost of production and increasing productivity through high yielding technologies; increase the coverage of extension services; improve availability of inputs for the cotton industry; improve the marketing of cotton; encourage investment in textile industries to stimulate the demand for cotton; encourage the establishment of the Cotton Council to improve the organisation of cotton farmers; and review the tax system in relation to the cotton industry.

5.2.1.2 Textiles/Garments

The future for the garments and textiles industry depends on the development of a vibrant cotton growing and processing industry. The garment industry has been badly hit by the collapse of the bilateral agreement with South Africa leading to a series of closures in 2000, as access to the South African market had been one of the main driving forces for firms to locate in Malawi.

The major constraints of the textile and garment industry are as follows: severe underdevelopment of the textile industry; production inefficiencies and product defects; limited access of credit to the industry; lack of pre-shipment finance; cost of borrowing is very high; low productivity levels of labour; inadequate capacity to enforce the various rules of origin; rules on EPZs are overly restrictive; and removal of surtax exemptions for firms in EPZ.

5.2.1.2.1 Strategies

The Textiles and Garments Strategy calls for encouraging spinners, weavers, knitters and dyers to invest in the industry, including revitalisation of DWS as a spinner and weaver; improve availability of credit including export financing; improve economic and social infrastructure as well as reliability of transport services; improve human capital productivity; and support the companies in the EPZ as well as the scope of EPZ.

5.2.2 Cluster 2: Agro-processing

A significant proportion of agro-processing relates to production of beverages, tobacco and sugar. The areas of proposed potential are processing fruits and vegetables, processing rice, processing macadamia nuts and processing of cassava. For example, the products from cassava would include glue, animal feeds, ethanol, starch and other food products.

The main problems that affect the agro-processing industry in Malawi include: cost and availability of capital for investment; inadequate supply of affordable raw materials; inappropriate technology; poor marketing and distribution system; and inadequate incentives.

5.2.2.1 Strategies

The main strategies and actions for the agro and food-processing sub-sector include: ensuring the availability of affordable capital for investment; establish specific investment incentives for agro-processing; improve marketing and distribution by providing information and better accessibility; improve productivity in the smallholder sub-sector; organise farmers into co-operatives; and develop technologies that can be made available at low cost.

5.2.2.2 Specifically for the Cassava Cluster of Products

The strategy will focus on developing and disseminating appropriate cassava technologies and attracting private investment in cassava processing, particularly industrial starch from cassava. The following objectives are proposed for a full-scale cassava development programme:

i. To develop high yielding mosaic and mealy bug resistant cassava varieties which meet requirements of consumers in different agro-ecologies.

ii. To develop ecologically sustainable methods of controlling pests and diseases such as cassava mealy bug, mite, cassava mosaic, etc.

iii. To develop improved crop management practices which are within the means of resource poor farmers.

iv. To develop improved production practices, and methods of storing, processing, and utilizing cassava roots so as to improve the commercial value of the crop.

v. To accelerate the transfer of improved cassava production and utilisation of cassava through closer linkage and training of extension staff and farmers.

5.2.3 Cluster3: Mining

Mining and quarrying accounts for 1.6 per cent of GDP and has been identified as having the highest growth potential. Exploration licences as well as mining licences have already been issued based on known deposits. Government needs to support small-scale mining that includes gemstone, stone aggregates, sand, lime production and salt.

The major constraints affecting the mining sector can be divided into those affecting small-scale mining and those affecting medium and large-scale mining. The constraints for small-scale mining relate to low productivity because inappropriate equipment is used, low value-added because of lack of equipment, safety, inadequate technical support which leads to poor practices and environmental damage, limited access to legitimate market outlets and smuggling of gemstones. The constraints for the medium to large scale mining include: lack of a minerals policy and minerals Act; inadequate incentives; poor access to credit by small scale miners; lack of skilled small scale miners; poor linkages between suppliers and buyers; inadequate economic infrastructure to support the industry; and risk of irreversible environmental damage.

5.2.3.1 Strategies

The strategic plan will focus on defining investment incentives in the industry including tax incentives, review the policies on infrastructure upgrading, improve technical support to the industry through training and by increasing budgetary allocation to the Department of Mines and Geological survey, embark on skills development in response to the needs of the industry, ensure that government provides the necessary support services and drafting a minerals policy by specifying ownership of mineral resources, environmental issues as well as health and safety standards.

5.2.4 Cluster 4: Tourism

The main problems affecting the tourism industry include high cost of air fares, poor domestic infrastructure, low numbers of wild animals, perceptions about health risks, poor marketing, negative publicity, hotel tariffs are high, poor incentives for investors, poor macroeconomic situation and poor quality of services.

5.2.4.1 Strategies

The MTPW has developed a five-year strategy that seeks to reposition Malawi as an eco-tourism destination, as well as to improve the tourism product and to enhance the attractiveness of the country to investors.[14] The tourism strategy should be aligned to MTPW strategy and ensure that the cost structure is conducive to attracting tourists. The constraints will be addressed as follows:

Constraint 1: Poor international Access and High Cost

The main activities shall be to review the cost factors contributing to the high air fares; and to attract more international carriers to fly into Malawi, particularly direct flights from Europe and South Africa.

Constraint 2: Poor internal infrastructure

The main activities shall be to prioritise roads maintenance programme that will contribute to the promotion of tourism, upgrade aerodromes from gravel to bitumen in key lakeshore resorts and national parks, review existing port infrastructure against requirements to improve services, support development of solar power as back up to erratic power supply and to support Eco Lodge development.

Constraint 3: Low Attractiveness of National Parks, particularly low numbers of wild animals

The main activities shall include the review of the environmental protection strategy and develop restocking plans for prioritised national parks.

Constraint 4: Negative Perceptions of health risks

The main activities shall be regular monitoring of tourism destinations in co-operation with the private sector operators, improve visitors' documentation through websites, posters and leaflets and regular quarantine of areas prone to waterborne diseases.

Constraint 5: High Costs and Prices

[14] Strategic Tourism Development Plan, Final Report 2002

The main activities shall include the review of the tax system in the tourism industry and the cost structure of the hotel industry relative to neighbouring countries; review the structure of the Tourism Levy; and proposals for revamping the tourism industry.

Constraint 6: Poor development of the Lakeshore

The main activities shall include re-zoning the lakeshore and set up Regional Development Control Committees to oversee approval for lakeshore developments at district level; and enforce the mandate of the Lakeshore Development Committee under the Land Order of 1989.

Constraint 7: Insufficient and ineffective Marketing Efforts

The main activities shall be to implement the Tourism Development Plan, which include the Statutory Authority and marketing.

Constraint 8: Poor Quality of Service

The main activities shall include implementation of MTPW's proposed Human Resource Development Plan; implementation of the Department of Tourism's Human Resources Development Plan with emphasis on the service culture and costing of services.

Constraint 9: Negative Publicity

The main activities shall include the effective use of Missions abroad and a public relations agency in Europe, proactive response to negative incidences.

Constraint 10: Insufficient co-ordination in the industry

The main activities shall include stimulating development of a transfer service company, greater efforts for collective marketing and packaging, improved reception arrangements at points of entry, increase the membership of the Malawi Tourism Association and ensure financial stability of the MTA through developing a credible institutional plan.

Constraint 11: Inadequate legal framework

The main activities shall include the review the legal framework governing Tourism and develop an appropriate legal framework and implementation of a Tourism Promotion Act.

Constraint 12: Inadequate Domestic Support Infrastructure

The main activities shall include provision of incentives for investment in local water treatment, local power supplies, Solar Energy etc; work with utility companies to prioritise investment for tourism areas (e.g. digital exchanges) and develop a strategy to enhance the Eco-tourism credentials of Malawi.

Constraint 13: Poor Macro-Economic Situation

The main activity shall be to reduce the fiscal deficit and reschedule the debt to medium-term or long-term nature; and explore ways to resolve the debt problem with donors.

Constraint 14: Poor Marketing of Investment Opportunities

The main activities shall be to run an investment conference to promote specific opportunities, run regular investment events to promote specific and general investments and better promotion of investment opportunities through the website and missions abroad.

Constraint 15: Inadequate Statistical Base for Decision Making
The main activities shall be to implement the agreed system and making data available to the industry and investors for decision-making.

Constraint 16: Underdeveloped Tourism Industry
The main activities shall include the development of specific incentives for tourism industry, guaranteeing of the incentives in a new Investment Act, improving the process for investment incentive approvals, particularly in relation to allocating land, creation of a Malawi Tourism Investment Fund, review tourism investments of MDC with a view to disposal of mature investments to fund the Tourism Investment Fund and promote both Public and private sector Investments.

Constraint 17: Co-operation between MTPW and Private Sector
The main activities shall include regular dialogue between MTPW and MTA/private sector.

6.0 THE TRADE STRATEGY

Trade is a fundamental and powerful catalyst for economic growth. Although, the exact correlation between trade and economic growth is not definitively understood, no country has developed successfully without increasing domestic and international trade and stimulating long-term capital inflows. The Economic Growth Strategy can only be successful if the focus is on Trade and Investment and when the crosscutting constraints are addressed.

6.1 Overview of Trade Strategy

Malawi is a member of COMESA (Common Market for Eastern and Southern Africa), SADC (Southern African Development Community), ACP/EU Cotonou and the World Trade Organisation (WTO) as well as a beneficiary of the African Growth Opportunities Act (AGOA) and Everything But Arms (EBA) agreement. Bilateral agreements exist with South Africa, Zimbabwe and Botswana, with further agreements currently under consideration with Zambia, Tanzania and Mozambique. These alongside other initiatives such as the Growth Triangle and spatial development initiatives offer considerable opportunities for increasing trade and investment in the region and stimulating growth in Malawi.

6.2 Major Constraints Affecting Growth of Trade

According to the Needs Assessment undertaken in 1998, the main trade related constraints were identified as follows: as a land-locked country, lead times and transport costs are high; the domestic market small; inappropriate technology; limited access to trade and investment finance; inadequate trade Missions[15]; poor economic infrastructure including-roads, rail, airports, ports, utilities and telecommunications which undermines domestic and international trade; lack of a clear trade strategy and supporting policies; high customs tariffs on manufactured imports[16]; and high level of informal cross border trade.

6.3 Proposed Strategy to Stimulate Trade

The Strategy to stimulate growth in the trade includes the following:

6.3.1 Review and Improve Trade Policy:

MCI developed an Integrated Trade and Industry Policy in 1997 but this has not been fully implemented nor does it reflect more recent developments including this Growth Strategy. This policy will be reviewed in line with Vision 2020, the MPRS and the Growth Strategy.

6.3.2 Provision of Supportive Trade Infrastructure

The major activities will include developing transport and telecommunications to link domestic markets and access international trade infrastructure; urgently identify resources to repair the Nacala rail link to the coast; and create functioning export credit financing mechanisms with the commercial banks.

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[15] Malawi only has trade attaches in South Africa and Zimbabwe, though there are proposals for including other countries

[16] This may be solved in part through the SADC FTA in the final years of its phase in (possibly in 2008).

6.3.3 Expand Export Markets and Diversify Product Base

Export promotion will focus largely on product and market diversification. A national export development and marketing plan will be developed to complement the Growth Strategy. In view of globalisation and shrinking demand in traditional markets, Malawi has to expand the range of export markets. This will involve: Malawi Export Promotion Council re-orienting it's activities to ensure greater co-ordination of export promotion activities; increase Trade Promotion Missions; and implement Sub-sector strategies for export products.

6.3.4 Maintain and Strengthen Preferential Non-reciprocal Agreements

The AGOA and EBA initiatives provide Malawi with a window of opportunities to increase exports. However, the extent to which Malawi will expand its exports and capture a larger share of United States and European Union markets depends on: the extent to which AGOA and EBA represent a genuine improvement on current terms of access for Malawi's exports to the US and the EU markets; the ability to satisfy rules of origin; the supply capacity of Malawi's export sector and its ability to meet increasing demand; availability of export financing; and the competitiveness of Malawi's products in terms of prices and quality.

6.3.6 Creation of Competitive Domestic Markets

GoM recognizes the challenges of globalisation and liberalization including anti-competitive behaviours by those businesses that exploit dominant or monopolistic positions in the domestic market. Thus Government should:

- Develop and implement a Competition Policy with supporting legislation/regulation
- Develop and implement a Consumer Protection Policy with supporting legislation/ regulation
- Develop and implement a Trade Remedies Policy with supporting legislation/ regulation

MCI has identified a series of activities and projects in relation to domestic trade, which require a review and make them consistent with the Growth Strategy.

The further development and eventual implementation of the Trade Strategy will need to involve the key stakeholders, particularly the MoCI, MEPC, the Trade Policy National Working Group and the Integrated Framework National Steering Committee. This group of stakeholders will develop a detailed implementation plan focusing on immediate actions, short term and medium term actions.

7.0 THE PRIVATE SECTOR INVESTMENT STRATEGY

The private sector investment strategy focuses on addressing the general weaknesses in the investment climate that would stimulate investment in the prioritised sub-sectors. Increased private sector investment creates the capacity to undertake more trade in goods and services both domestically and internationally. This will create sustainable economic growth.

7.1 Current Situation

The Malawi Investment Promotion Agency (MIPA) was established in 1991 as a result of the Investment Promotion Act 1991 to stimulate inward investment and became fully operational in April 1993. Through MIPA, investors can access general incentives and export incentives, including Export Processing Zones (EPZs). Between 1993 and 2001, MIPA facilitated a total of $163.9 million of Foreign Direct Investment (about $20 million per year), much of it from South Africa. This is a tiny proportion of the world annual investment flows and even for Africa,[17] and not sufficient to generate the targeted growth rate of 6 per cent per annum. UNIDO[18] calculate that to achieve an average growth rate of 7 per cent per year would require an investment rate of 33 per cent of GDP including domestic savings and Overseas Development Assistance (ODA), yet between 1980-1997 the average public and private sector investment total for Malawi was only 15-15.5 per cent. Recent data from GoM suggests that current levels of investment are below this average.

Investment in manufacturing has been declining because of: the poor macroeconomic environment, which will be addressed through the macro-environment strategy including: stable macroeconomic environment; investment incentives; appropriate and functioning economic and social infrastructure; financial sector reforms; capital market development; and appropriate legal and regulatory framework for domestic and foreign investment. In addition, the political climate is critical because investors will not invest if there is a significant risk of social and political instability[19].

7.2 Private Sector Investment Constraints

Despite the efforts made by MIPA, the legal and regulatory framework for investment in Malawi has serious weaknesses and has affected the level of inward and domestic investment. This section will focus only on the sectoral and micro levels.

7.2.1 Sectoral Level Constraints

The major sectoral level constraints include the following: existing incentives are inadequate to offset the high cost structure of the economy because of being land locked; domestic investors are not provided with adequate incentives; corporate tax waivers favour new investors over existing firms in the same business and creates artificial competitive advantages for new entrants when granted[20]; current incentives are inappropriate for some of the priority sub-sectors such as mining and tourism; incentives have been ineffective in preventing the steep decline in manufacturing; process for investment incentive approval is too slow,

[17] $400 billion/year for the World and $8.3 billion for Africa according to UNDP/UNIDO Project Document MLW/02/010/08/37.

[18] Foreign Direct Investor Perceptions in Sub-Saharan Africa, 2002

[19] The forthcoming elections present a potential risk factor for investors.

uncertain, not transparent and discretionary; and domestic market is relatively small compared to other countries[21].

7.2.2 Micro level Constraints

The major constraints at micro level include the following: the EPZ regime is not properly supported by government particularly in the textile and garment industries thus making it less attractive; and lack of skilled labour because of insufficient investment in training, research and development, design and quality control.

7.3 Investment promotion strategy

There are a lot of challenges for Malawi to revive the private sector and this can be achieved through the following Action Plan:

Action 1: Ensure that the Cabinet Committee on the Economy (CCE) actively discusses the issues of investment and exports.

On matter of investment and export promotion, the CCE will: receive, approve and guide the investment and export strategy; consult captains of industry, senior government officials; regular review of reports on investment and trade; give direction for sustaining a Big Bang; review the concept Export Processing Zones and integrate the concept into a more versatile Malawi Multi-facility Industrial Zone (MMIZ); and ensure that incentives are properly structured and an ideal investment climate is created for private sector growth.

Action 2: The identified industries should be packaged for promotion.

The Government should ensure that appropriate linkages are established between the identified industries and the selected high potential crops (cotton, textiles, cassava, maize, tobacco, tea and sugar). In addition, government should ensure that skilled labour is available in the country in order to improve productivity in industries.

Action 3: Promote actions that create confidence among investors including the signing of investment guarantee agreements and double taxation agreements with capital-and technology - exporting countries.

Action 4: Investment and export promotion efforts should be maximized by engaging Embassies and High Commissions located in capital-and technology-exporting countries.

Action 5: Intensify investment promotion efforts through the establishment of a «Friends of Malawi» club among existing foreign investors in Malawi; roundtable meetings in their home countries should be encouraged

Action 6: Announce a Malawi Investment and Export Vision Implementation Period (MIEVIP) in tandem with the launch of the MMIZ preferably for the period beginning 2004 - 2006.

[21] UNIDO's 2002 survey suggests that the domestic market size is a major factor for inward investors.

8.0 STRATEGY FOR REFOCUSING PUBLIC SECTOR SUPPORT AND REGULATORY INSTITUTIONS

The public sector has an important role to play in *supporting* the development of the private sector, *regulating* its behaviour, *enforcing* policies and procedures and in *collecting* revenues. These roles require active and constructive co-operation between the private sector and the public sector. The growth strategy recognises some key institutions whose role is critical in the implementation of the growth strategy as follows.

8.1 Support Organisations

An institutional review of Malawi Investment Promotion Agency (MIPA) and Malawi Export Promotion Council (MEPC) was undertaken in 2001/02 and the recommendation was that the two institutions should be merged. The delay in the implementation of this recommendation is damaging to both organisations. Government needs to make a decision as to whether the two institutions will be merged so that the new establishment should embark on capacity building in the key selected areas.

There are now many private sector and non-governmental organisations in Malawi that provide training in business and entrepreneurship. This is a function that is also provided by Malawi Entrepreneurship Development Institution (MEDI) so there needs to be a review of whether that function is still relevant or needs to be refocused, possibly towards the training of trainers in entrepreneurship and accreditation of entrepreneurship training. There is also some overlap of functions with other government funded training activity undertaken by SEDOM and DEMATT.

Malawi Industrial Research and Technology Development Centre (MIRTDC) focus on technology research and transfers. The focus areas need to be aligned with growth strategy.

8.2 Regulatory agencies

The most significant agency that impacts on private sector development is undoubtedly the Malawi Revenue Authority (MRA), which is a public institution. However, repayment of amounts due from MRA needs to be symmetrical with the periods imposed on business, with an equivalent regime of fines and penalties for late repayment by MRA. There is no question that the MRA has a legitimate function to play and that taxes due must be collected, but the method of undertaking these tasks is currently creating a further disincentive to trade and investment in Malawi.

The Malawi Bureau of Standards (MBS) plays an important role in setting and monitoring the standards of products that are produced in the country or imported. Its capacity should be strengthened to ensure that it is able to efficiently and effectively carry out its mandate. This will ensure that Malawian products meet international standards that are required for both international and local products.

8.3 Development Finance Institutions

The Malawi Development Corporation, Indefund and SEDOM were established in order to address the financial intermediation gaps. The existing commercial banks usually concentrated on relatively short-term lending for commercial purposes and set loan conditions which are inappropriate for establishing new enterprises or for financing large-scale projects. The concept of venture capital for new industries is nonexistent in the banking sector and is rarely provided in adequate amounts.

Government should restructure the existing development finance institutions and encourage the establishment of new types of savings and financial intermediaries. Such institutions should not only mobilise domestic savings from small as well as large in urban areas but also channel these financial resources to the small and medium entrepreneurs in peri-urban and rural areas.

8.4 Key Ministries and GoM Institutions

8.4.1 Ministry of Commerce and Industry

The Ministry of Commerce and Industry should designate desk officers as focal points in each of the selected sub-sectors and develop their capacity to ensure greater specialisation.

8.4.2 Ministry of Agriculture, Irrigation and Food Security

The Ministry of Agriculture should designate desk Officers as focal points for key crops that have been selected in the growth strategy namely tobacco, tea, sugar, cotton, maize and cassava. The desk officers should be charged with the responsibility of spearheading the implementation of the growth strategy in their respective sector.

8.4.3 Reserve Bank of Malawi (RBM)

In order to ensure sustainable macroeconomic stability, RBM and the Ministry of Finance should co-ordinate their efforts to limit Government borrowing from the RBM to statutory requirements. In this regard the legal framework may need to be reviewed to correct this.

8.5 Electricity Supply Commission, Water Boards and Communications

The supply of efficient, reliable, affordable and sustainable electricity, water and communications at all times promotes private sector development and economic growth. The growth strategy should ensure that these utilities should be properly regulated and available at all times at the required standard.

8.6 Role of Ministry of Economic Planning and Development

There is a strong linkage between the growth strategy and the public sector investment programme in that the growth strategies outlines the national development goals and objectives which provide the basis for selecting projects to enter into the PSIP and ensure that government priorities are harmonised. The PSIP is a five-year rolling plan for guiding and prioritising public sector investment in the country. It comprehensively lists all development programmes and projects, both social and economic.

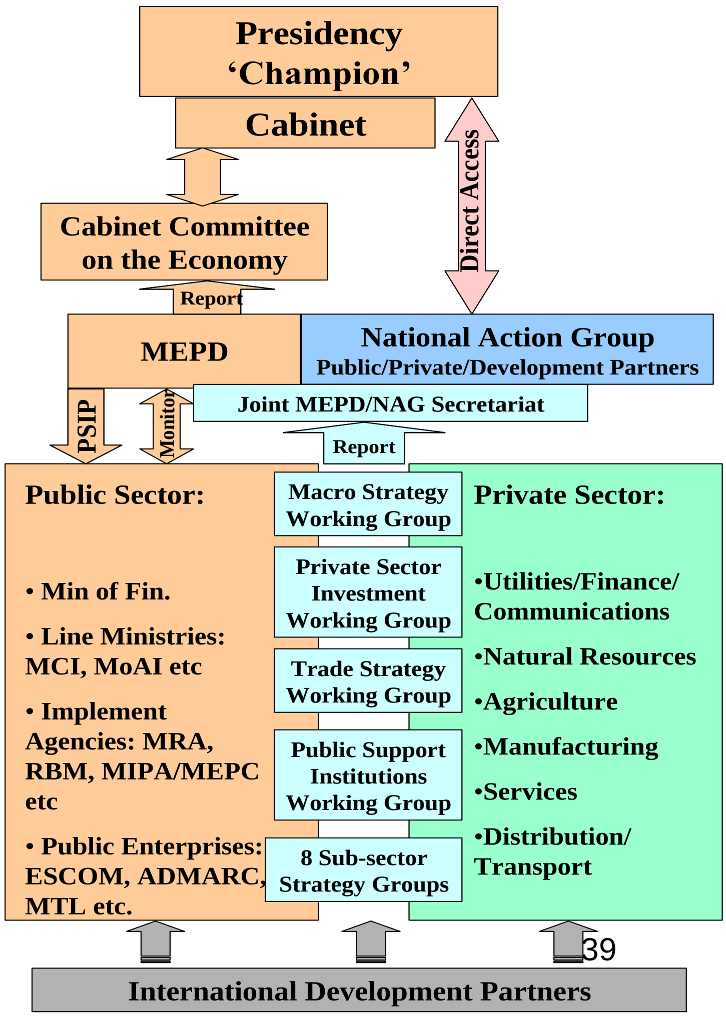
9 IMPLEMENTATION OF THE GROWTH STRATEGY

The economic growth strategy is multisectoral and covers a considerable range of detailed technical analysis of eight sub-sectors including the macro-economy, the legal and institutional framework, trade and investment issues and the role of public sector institutions. A strategy is only as good as its implementation.

The traditional method used by many governments and corporate businesses to implement Strategies was to work out a detailed action plan centrally, delegate the tasks within the organisation/structure and then monitor the implementation. This approach has several disadvantages which include: the technical complexity of a sector can be misunderstood and often leads to the design of inappropriate actions; ownership of the strategy and its implementation is weak beyond those who drafted it; and there tends to be an unrealistic appraisal from the centre of what can be achieved given the constraints and operating conditions on the ground. Modern management suggests that the full involvement of those who have to implement actions is critical to success.

The economic growth strategy has been developed by stakeholders in the public and private sector; the participation has been in the drafting, the prioritisation of high potential sectors and core sectors and in the preparation of the Implementation Action Plan. Some of the Action Plans have already been developed and are awaiting operationalisation while as the remaining Action Plans are being developed by stakeholders in the selected high potential sub-sectors.

Figure 2: Framework for Implementing the Growth Strategy



The Economic Growth Strategy contains 12 sub-strategies. Each of the 12 Sub-strategies has to be able to be read as a freestanding element for the relevant stakeholders to address. However, it is also necessary for the linkages between the various sub-strategies to be clear and also their contribution to the overall Growth Strategy.

The benefit of segmenting the Growth Strategy into these 12 sub-strategies is in the implementation process described below.

Political will is central to the implementation of the Growth Strategy; without which the Growth Strategy cannot be successfully implemented. It is proposed that the most appropriate Champion would be the Presidency, supported by the Cabinet and the Cabinet Committee on the Economy. The Ministry of Economic Planning and Development would take the leading role in co-ordinating, monitoring and evaluating the implementation activities of the Growth Strategy. The Public Sector Investment Programme will be a key tool in directing resources in support of the Growth Strategy.

MEPD will work alongside the National Action Group to sustain the momentum behind the design process of the growth strategy. The key mechanism for delivering the Strategy is through the establishment of 12 Working Groups, one for each of the 12 Sub-strategies that together form the Growth Strategy. Of great importance is that these Working Groups represent a coalition of the three groups of stakeholders, i.e. public sector, private sector and international development partners. The Working Groups are therefore important fora for private/public dialogue and concerted action. Each Working Group has a 'Champion' as the focal point of contact and as the person accountable for progress. The immediate reporting of progress would be to MEPD and NAG jointly, as well as referring on issues that the stakeholders could not resolve themselves, such as policy decisions or cross-cutting issues. This process would be co-ordinated on a day to day level by a joint Secretariat of MEPD, NAG and other key organisations like MCI and MoAI that are critical to the implementation of the Strategy.

International development partners are collectively involved through their support for the PSIP and as members of the National Action Group/Malawi Economic Growth Consultative forum. Individual Development Partners are involved in the Working Groups that relate to areas of interest and expertise. For example UNDP and UNIDO have a particular interest and involvement in the private sector investment-working group given their particular expertise and current project involvement.

This is a fast moving process and it is still evolving and there is a need to retain flexibility in the implementation process to deal with new and unforeseeable issues that could arise. If a particular group or arrangement is not working, then there should be the willingness to make changes to ensure that the overall Strategy is delivered. The Growth Strategy itself will need to be regularly reviewed in the light of progress made and wider developments in the international and domestic macro-environment. The critical issue is to start a process of change that begins to deliver benefits for the various stakeholders. Delivering early changes will build confidence in the process and lead to the full commitment and engagement of all stakeholders. All the Stakeholders that have been involved in the development of the Growth Strategy believe that it can be implemented and, if it is implemented, that it will deliver the Growth and Empowerment that is needed for the benefit of this Nation and its people.

9.1 The Macro environment Strategies

This section sets out the strategies and actions that are required to stimulate trade, investment and growth in Malawi.

9.1.1 Cross Cutting Enabling Factors Supporting Growth

There are some positive enabling factors for Malawi that can support private sector growth:

i. A good climatic condition for certain crops– Malawi has a generally favourable climate for a number of key commodities, including tobacco, tea, cotton, cassava, soya beans and sugar. However, the concentration of the rains into one period limits the scope for a second or third crop for many commodities, especially as most land is rain-fed only.

ii. The availability of year round water, particularly from the Shire and Bua rivers provides potential for greater use of irrigation for cash crops.

iii. Relatively Low Labour Costs- Labour unit costs are still relatively low in the region though so is productivity. However, there is potential to improve productivity through investment and improved management practices to improve business performance.

iv. Linkages between processors and smallholders– The performance of most smallholder crops is well below potential, even accounting for the limited use of inputs and capital. Good technical support and availability/access to key inputs has been demonstrated to deliver higher returns for smallholders in tobacco, tea, sugar, cotton and other crops. There are also examples of where linkages between smallholders and large export oriented processors is improving smallholder and business returns.

v. Organisation of Smallholders- Better organisation of smallholders is already occurring. However, there is significantly more potential to organise smallholders in key sub-sectors. NASFAM[22] and private sector firms are already delivering these benefits from better organisation of smallholders in the tobacco and cotton sub-sectors with potential to do more. There is also scope for better organisation in other sub-sectors such as mining and possibly in support of manufacturing.

vi. Rule of law applies in Malawi, so contracts can be enforced and arbitrary decisions by officials challenged. However, there are always pressures on the rule of law that need to be guarded against for all investors to have full confidence in the system.

vii. Degree of political will - There is an increasing degree of political will within GoM to address the constraints facing the private sector despite the difficult decisions that have to be taken. Whilst there are misunderstandings between private and public sectors, there is an increasing awareness that both depend on each other. This Strategy is a direct result of that increased willingness to address the issues.

[22] Currently with 100,000 members and potential to increase this considerably.

viii. Membership of Regional and International Trade Bodies– membership of SADC and COMESA gives Malawi potential to increase access for its products and to deal with unfair trade related activities and resolve disputes with other countries that are to the detriment of Malawi's businesses.

9.1.2 Strategies to Improve the Macro- environment

This section highlights the specific strategies and broad actions that need to be taken to address particular cross cutting constraints identified in section 5.2 that are causing low investment and growth across the economy. These are linked to the numbering of the constraint in the section 5.2. The high level actions have been prioritised into those requiring action 'immediately', meaning within six months, 'within one year' meaning seven to 12 months, and 'medium term' between one to three years.

9.1.2.1 Cost and access to finance inflation, exchange rates

Implement macroeconomic policies that are consistent with: a reduction in the bank rate to below 10 per cent and that will maintain this bank rate at an internationally competitive rate; stable inflation; stability in the exchange rate; and the medium term development of domestic demand. Introduce reforms that improve access to finance for businesses:

Immediately:

i. Reduce the fiscal deficit to sustainable levels, with borrowing only for public sector investment
ii. GoM must reach an agreement with the IMF to restore the economic programme which an important factor in the resumption of budgetary support by donors
iii. Ensure the completion of the privatisation process for Air Malawi, MTL, David Whitehead and Sons and GRAMIL by the end of the calendar year
iv. Ensure the availability of the concessionary tea and coffee facility from the European Investment Bank (EIB) and other multilateral lenders that have funds designated for Malawi and on lent at the same concessionary rates.
v. Deepening the financial sector reforms
vi. Explore ways to resolve the current domestic debt problem with donors or restructure the debt to medium- to long-term nature
vii. Address the spread between savings and lending rates charged by financial institutions

Within one year

i. As a key priority, refinance domestic debt through agreement with multilateral donors
ii. GoM to implement further actions to reduce GoM expenditures further compatible with the overall objective
iii. Restore Malawi Development Corporation (MDC) to its original mandate of providing development and venture finance, including sale of any remaining mature assets
iv. Review the availability of development finance through appropriate institutions to small and medium enterprises, particularly the role of Indefund
v. Review the progress of MRFC, MSB, SEDOM and DEMAT financial operations to cease loss making operations and re-orient their roles

vi. Identify measures that will enable more larger businesses to provide access to credit for smallholders and other small business suppliers
vii. Identify further loss making parastatals and be privatised
viii. Review the operation of financial capital markets and stimulate a wide range of more competitive mechanisms for private sector funding
ix. Develop an Economic Empowerment Programme

Over the medium term:

i. Set GoM expenditures at the level of realised revenues with an agreed plan for reducing the level of domestic debt
ii. Complete the privatisation process for all remaining Public Enterprises that do not have primarily clearly defined social functions

9.1.3 Strategies for reducing the burden of business taxation and the burden of compliance, and improving the Implementation of surtax

Reduce the burden of taxation on businesses to be competitive with the best regimes in the region and to encourage compliance, whilst enforcing compliance by evading businesses. Reduce the scope and improve the implementation of surtax to reduce the incentives for evasion and the benefits of complying.

Immediate

i. In consultation with businesses, business representatives and the accounting profession agree on measures within two months and implement measures in the next budget
ii. Index personal tax threshold rates and review the starting rate for the lowest paid employees
iii. Rationalise PAYE, corporation tax and fringe benefit tax rates
iv. Review the operation of pre-shipment inspection with businesses to ensure that they are not adding unnecessary costs to those that are complying.
v. Review the operation of provisional tax, in particular, the timing of instalments and the proportion to be paid at each point
vi. Review minimum turnover tax particularly the way it penalises start-up businesses and new investments which tend to be loss making in the early years
vii. Review withholding tax rules to clarify and simplify
viii. The surtax rate is too high and should be reduced to a rate that substantially encourages compliance based on a full assessment of the yielding point
ix. Extend the period for full compliance with surtax by smaller businesses before penalties are applied, with more education by Malawi Revenue Authority (MRA) and more tolerance of genuine mistakes/misunderstandings
x. Reduce the scope of surtax from basic food items and reduce the number of non-allowable inputs
xi. Re-introduction of surtax exemption to supplies to EPZ companies and introduction of block exemptions for those industries that are predominantly export oriented.
xii. The time-scales on payments and repayments for surtax need to be more symmetrical or offset provisions against other taxes.

xiii. Level and scope of surtax penalties needs to be reviewed especially the disproportionate effects on smaller businesses and applied more selectively
xiv. MRA should grade businesses according to their track record of compliance with a lighter touch for those that are complying in all material aspects, support for those that are seeking to comply but facing difficulties in complying and greatest attention to those that are consistently not complying or evading tax on a significant scale.
xv. MRA should target and vigorously pursue businesses that are evading tax and behave in a manner consistent with section 84 and 85 of the Customs and Excise Act.
xvi. MRA should specify the controls that are needed to prevent corruption by MRA officials and to enforce them strictly.
xvii. In consultation with businesses and the accounting profession, review penalties for all non-compliance to be more reasonable and agree a code on how they are applied.
xviii. Bring greater equity in sharing the cash flow burden with symmetric periods for payment by businesses and repayment by MRA
xix. Allow businesses to offset different taxes against repayments due.

Within one year:

i. Review, simplify and codify the business tax system and its implementation through a new Taxation Act
ii. Review the whole implementation of surtax to improve its operation in a way that generates revenue but encourages compliance without placing an undue cash flow, administrative and cost burden on business that are seeking to comply
iii. A Tax Ombudsman and supporting office should be created for easier dispute resolution between businesses and the MRA

9.1.4 Strategies for improving the legal and regulatory environment:

GoM needs to considerably improve the climate for doing business in Malawi if it is to stimulate growth. At present domestic businesses and international investors regard Malawi as an extremely unattractive, high cost, bureaucratic place to do business with little potential for making profits. This needs to be reversed with Malawi having a more attractive overall legal and regulatory environment than its competitors. The following is the implementation activities:

a) Reform costly regulatory and administrative procedures and improve public services for businesses

Simplify and improve the administrative procedures and regulations at national and local authority level to support private sector activity. Make significant improvements to the operation of GoM services by Ministries and agencies through a general reform of the Civil Service:

Immediately:

i. Review of procedures that impact on businesses to identify those that can be simplified easily and immediately to reduce business and GoM costs.
ii. Review which public services are not working well and that can be improved quickly and at limited cost
iii. Review what further changes can be made to remove unnecessary procedures
iv. Review which services do not have to be delivered by the public sector - these services should be run by private businesses on a competitive basis.
v. Commence a Public Sector Review to determine how a stronger performance related culture can be brought about including a review of the public sector pay structure
vi. Cases of fraud and corruption need to be vigorously pursued within the public sector and results obtained to send a clear signal
vii. Ministries need to take measures to stay on-line to enable communications with businesses and other stakeholders
viii. Introduce tax credits given for firms that provide 'public' services to employees and communities where GoM is not providing them
ix. Complete the current review of the importation process by RBM within two months and implemented within six months
x. Enforcement of the rule allowing export earners to convert one hard currency to another without first converting to Kwacha.
xi. Review the operation of Pre-Shipment Inspection (PSI) with businesses to improve its operation and reduce costs on those businesses shown to have been complying in most cases
xii. Establish a grading system for application of rules and procedures allowing a lighter touch with businesses that are complying
xiii. Allocate dedicated staff for large importers and exporters to assist in the processing of documentation and reducing compliance costs
xiv. Categorise all importers, not just road transporters, so as to exempt those that have a good track record in tax compliance from paying transit bonds
xv. Undertake a business and customs education programme on PSI compliance

Within one year/medium term:

i. Progressively reduce the requirement to convert 40 per cent of forex earnings for legitimate major exporters into Kwacha on receipt to allow better synchronisation of receipts with business costs as they arise
ii. Move to Valuation method that complies with WTO rules on duty calculations

b) **Strengthen incentives for investment, improve the process for investing and guaranteeing of incentives**

Improve the incentives for business investment to be at least equal to those of the best regional competing countries. General investment incentives need to be substantively more attractive to encourage inward and domestic (re)-investment, particularly for manufacturing.

Immediately

i. Undertake a tripartite review of the current general incentives with appropriate international comparisons within two months linked to current UNIDO/ECAMA activity.
ii. Develop related policies for the speedy allocation of non-sensitive land to investors
iii. Review improvements to the granting of business residence permits and temporary employment permits
iv. Review the EPZ rules to make them more attractive to investors e.g. disposal of reject materials, designation of buildings within a site, surtax exemption re-instituted, wider scope of items covered by exemptions etc.
v. Implementation of agreed incentives for the priority sub-sectors and the improved investment incentives for all sectors within six months
vi. Introduce a mechanism for guaranteeing acceptance of granted incentives throughout GoM, possibly through an investor certificate that is recognised by all GoM agencies and Departments
vii. Let the suspension of duty waivers for investors lapse at the end of the six-month period and commit to no further reversal.
viii. Review the investor package to make it more comprehensive and competitive to include all the elements that a potential investor wants to know at the outset
ix. Progress with the MIPA/MEPC merger and make necessary resources available for effective implementation
x. Formation of a National Investment Steering Committee with high level GoM representation to guide the process of increasing private sector investment
xi. Stimulate investment by businesses through improved investment allowances, initial capital and improved depreciation rules (see Section 7 for details).

Within one year:

i. An Investment Act to provide institutional clarity and an Incentives Act to provide mechanisms for introducing and guaranteeing incentives are enacted
ii. Operation of a fully resourced and empowered Investment Approvals Committee.

c) Strengthen Pro-business Policies by GoM and ensure implementation

Adopt and consistently follow pro-business policies, undertake a programme to change attitudes of GoM staff towards the private sector and fully implement all policies:
Immediately:

i. Endorsement by GoM of this Growth Strategy and commitment of resources to implement agreed changes quickly
ii. Review which policies could be further improved and which are not being implemented in full
iii. Ensure full implementation of existing policies
iv. Design an information programme to explain the role of business to the economy through the education programme

v. Continued support by all stakeholders for the high-level dialogue through NAG and/or any future representative consultative forum and confidence building decisions and actions that address private sector concerns
vi. Appoint designated individuals or teams in the Ministries of Commerce and Agriculture who have a thorough understanding of the key sub-sectors and who can champion their sub-sectors in GoM and ensure policies are relevant and supportive of growth.

d) Improve the Commercial Legal Systems

Liberalise and strengthen the commercial legal system:

Immediate:

i. Cases of theft, corruption and fraud by employees to be pursued more vigorously by businesses, police and supported by GoM
ii. Review labour legislation to be fully supportive of disciplinary processes for theft, corruption and fraud
iii. Enforcement of the rule of law to protect commercial property rights with unequivocal support for the rule of law in all cases

Within one year:

i. Deregulate legal fees for commercial related work
ii. Establish a commercial court system and small claims court with more appropriate procedures and dedicated judges/magistrates.

e) Improve GoM Trade Negotiating Capacity (see also Trade Strategy)

Prioritise and strengthen trade-negotiating capacity with full consultation and involvement of affected businesses before decisions are taken and agreements/protocols signed.

Immediately:

i. GoM must make a commitment to always involve relevant businesses directly in trade negotiations
ii. Implement the MEPC/MIPA merger with full resourcing for the merged organisation

Within one year:

i. Build MCI's trade negotiation capacity to a much higher and more specialised level
ii. GoM must review its trade policies, develop a clear trade strategy and develop negotiating stances on key issues
iii. GoM should allocate additional resources to trade missions and export promotion

f) Improve the functioning and competitiveness of domestic markets (see also Trade Strategy)

Improve the competitiveness and functioning of domestic markets

Immediately:

i. Review why domestic markets for certain goods and services are not competitive

Within one year:

i. Increasing the attractiveness of Malawi to domestic and international investors through a more attractive package for investors
ii. Review and implement an effective Competition Policy with supporting institutions

g) Improve the functioning of Public Enterprises

The privatisation and commercialisation process needs to be speeded up and extended to divest businesses and assets that do not have to be in the public sector and to commercialise those that are to remain under public ownership:

Immediately:

i. Complete the privatisation process for all public enterprises slated for privatisation
ii. Limit subventions to remaining parastatals to the agreed limits enforcing stricter budget discipline
iii. Commercialisation process to be agreed for ADMARC to dispose of non-core businesses/assets and clear separation of its 'social/strategic' functions
iv. Remaining loss making enterprises within GoM to be identified with an action plan for preserving GoM revenues

Within one year

i. MDC needs to be refocused as a development finance institution as per its original remit with a programme identified for disposal of its mature assets
ii. Ministries to review under-utilised assets and prepare action plans e.g. many research stations are not functioning properly through lack of funding to run them, yet have staff, buildings, equipment, vehicles and land that are deteriorating but could be utilised in conjunction with the private sector or disposed of.
iii. Begin process of disposal of under-utilised assets and remaining public enterprises

(h) Reduce insecurity affecting property and people

The police should prioritise resources to protecting property and people and the vigorous pursuit of criminals

Immediately:

i. A direction from GoM on prioritisation of protection of people and property leading to an action plan from the police as to how they will reallocate resources
ii. Action is required on current land encroachment wherever it happens to reassure investors that their legitimate property rights will be enforced

9.1.5 Strategy to improve the infrastructure that supports the economy

There needs to be a fundamental improvement in the infrastructure that enables businesses to trade, particularly transport infrastructure and utilities/communications:

(a) Improve Transport Infrastructure and reduce the cost of Transportation

Improve the transport infrastructure through targeted public sector investment and donor support. Identify the main factors that cause high transport costs and bring them down:

Immediately:

i. A major review of how to increase competitiveness and functioning of domestic and international transport infrastructure is urgently required within six months
ii. Complete the privatisation of Air Malawi and slate the remaining transport providers for privatisation (MITCO, Shire Buslines and MANICA)
iii. Set a date for full implementation of the Yamoussoukro Decision to open up access to Malawi for all carriers
iv. Negotiate funding for strengthening both the Nacala and Beira Corridors transport infrastructure
v. Negotiate funding for improving port and airport infrastructure
vi. Mechanism established for urgent responses to ensure key rail and road routes are kept open at all times
vii. Develop a mechanism for identifying transhipment issues with neighbours particularly on harassment of transporters passing through neighbouring countries and for resolving issues with these countries
viii. A thorough review of the competitiveness of the transport sector and the contributors to the high costs is urgently needed
ix. Review of the fuel levy and licensing rules, including the third party rule

Within one year

i. Develop an integrated infrastructure investment plan to put to the donor community
ii. Improve the infrastructure to reduce transportation costs and to provide more competitive alternatives
iii. Develop the Nacala Corridor as a reliable route to access a sea port

(b) Improve the reliable of Utilities and reduce their costs to businesses

Improve the reliability of utilities through a mixture of privatisation, investment and increased competition:

Immediately:

i. Develop an agreed power strategy with ESCOM, GoM, donors and key users for reducing vulnerability to blackouts, with prioritisation of interconnection for regional imports and exports
ii. Commence work on the Inter-connector South to Cabora Bassa and on Kapachira Phase 2
iii. Revise the maximum demand tariff in consultation with businesses
iv. Remove the charges/generation fees for those that install back up generation capacity
v. Complete the privatisation of MTL within the agreed schedule
vi. Ensure the third mobile licence investor is operational within the set schedule
vii. Review whether water companies will be privatised and if so then set an action plan
viii. Review the pricing structures of all utilities and service standards with recommendations on how to reduce prices and improve services
ix. Review the regulatory process for all utilities to establish a regime that balances customer demands and providers' need for profitability

Within one year/*Medium Term*

i. Extend the extra high voltage line to Lilongwe with an inter-connector to Zambia

(C) Improve information technology and communication infrastructure

Strengthen Malawi's connectivity and increase the number of ICT graduates

Immediately:

i. Taskforce created to develop an action plan for greater emphasis on use of ICT in government and the private sector, including education
ii. Review the speed of investment by MTL in digital exchanges and availability of communication lines, including those capable of handling large amounts of data
iii. Develop incentives for ICT businesses to increase competition and reduce costs

9.1.6 Strategies to improve the dialogue between Government, Private Sector and International Development Partners:

The dialogue between GoM and the private sector needs to be more effective with each side listening and responding to the other. There also needs to be more joint initiatives, for example in relation to developing smallholders.

a) Improve the dialogue between Public and Private Sectors

There needs to be more regular dialogue at all levels between GoM and the private sector and identified opportunities for co-operation:

i. Private sector and GoM need to continue the high level dialogue initiated at the National Action Group with the adoption and implementation of Growth Strategy for Malawi as a test of the commitment of all parties
ii. Policies relating to specific industries need to be discussed in realistic and thorough consultation processes and not imposed on the private sector

iii. More effective contribution by the private sector to the MPRS at its first review
iv. Support from the private sector to revitalise an independent Chamber as a focal point for lobbying and dialogue, but based on more direct consultation by MCCCI with member firms.

b) Develop public/private co-operation to improve smallholder productivity/incomes

Improve and support linkages between smallholders and export oriented firms in collaboration with GoM support services

Immediately:

i. Review lessons from current smallholder models and agree how to provide resources and incentives to enable more smallholder large firm linkages where these can deliver productivity improvements for smallholders
ii. Stimulate better organisation by smallholders supported, but not controlled, by government through NASFAM and other mechanisms– make available funding to support better organisation of smallholders[23]
iii. Policy decision to ensure that proposed Councils and Boards are private sector led with the primary purpose of promoting the industry not controlling it, as over regulation and control add cost, deter investment and constrain sub-sector growth

c) Improve dialogue between International Development Partners and the private sector

Mechanisms need to be created for dialogue between private sector and donors

i. There needs to be more direct opportunities for private sector businesses, not just business associations, to engage with the IMF and other multilateral donors in discussions that will impact on businesses in Malawi.
ii. An action plan by MCCCI for better representation by and effectiveness of MCCCI through improved performance and responsiveness and willingness of businesses to become engaged
iii. Formal commitment by multilateral donors to engage businesses directly whenever they are reviewing or considering policies that affect businesses

9.1.7 Strategy for improving the human resource base

The human resource base is key to Malawi's development. Skills development is key, requiring better incentives for training, improvement of TEVETA's performance and other initiatives to improve supply of trainers and quality training. The response to HIV/AIDS by business and the public sector needs to be improved with better collaboration between the two sectors and within each sector. There is a need to strengthen management practices in the private and public sectors.

(a) Improve Skills Development and retention in the private sector

[23] Norway has just announced funding for promotion of smallholders for $3.6m

There needs to be better development of skills at all levels of the private sector.

Immediately:

i. Discuss with business, business representatives and accountants the design of attractive incentives through tax credits for training employees, with a wide definition of qualifying training, including accredited internal courses for those with a good track record
ii. Review effectiveness of TEVETA in improving vocational education with more accountability and transparency for how the levy is being spent
iii. Donors and NGOs need to review their remuneration policies and packages to be in line with the private sector so that they do not outbid private sector for skilled staff and distort the market
iv. Strategy/action plan for revamping technical schools

Within one year:

i. Agree a system of exemptions from the TEVET levy for businesses that can demonstrate they are spending at least the amount of the levy on recognised external training for staff or where there is an industry funded body, such as in Tourism.

(b) Improved response by the Private Sector to HIV/AIDS

Improve the co-ordination of the response by private and public sectors to HIV/AIDS

Immediate:

i. Launch the Malawi Business Coalition Against HIV/AIDS (MBCAH) with high profile business and GoM support
ii. National Aids Commission and MBCAH to agree how to form a stronger partnership to bring about change in behaviour and attitudes by employees and by Managers towards employees
iii. NAC/MBCAH to agree how to use available funding for relevant initiatives and learning from the initiatives of other businesses in Malawi and beyond

(c) Better Management in the Private Sector

Management needs strengthening so that it can find ways to bring about a change in attitudes by employees to performance, productivity and rewards.

Immediate:

i. Introduce incentives for investment in research and development, design and quality improvement
ii. Vigorously pursue cases of corruption in the private sector

Within one year:

i. Design an education programme that highlights good management and leadership practices to increase professionalism of managers in private and public sectors

(d) Address the severe manpower supply and demand problems

Immediately

i. Conduct a human resource study to assess the supply and demand requirements coupled by the required policy intervention
ii. Resuscitate the Quarterly Employment Enquiry (QEE) in order to have up to date information on employment and earnings.

9.1.8 Need for continuous constraint and strategy review

There needs to be a continuous review process to highlight new constraints and actions required particularly where these are urgent. For example the problems in March/April 2003 in relation to power, telecom disconnections through the unilateral move to pre-paid systems and water shortages have been extremely disruptive and costly to businesses.

10.0 REFERENCES

1. MEPD's Additional Engines for Growth Study[24]
2. The Integrated Framework, Diagnostic Trade Integration Study and process that provides a strategy for developing international and domestic trade by the Ministry of Commerce and Industry (MCI)
3. The 2003 World Bank's Country Economic Memorandum (CEM)
4. The UNDP/UNIDO Investment and Technology Promotion Project that provides a framework and process for stimulating domestic and foreign direct investment
5. Ministry strategies and policies for Ministry of Agriculture, Irrigation and Food Security (MoAI), MCI, Department of Mines, Ministry of Tourism
6. The value chain analysis and process by Kadale Consultants and Imani Development on identified opportunities in key sub-sectors of the economy; and
7. Other work on the private sector development and key sub-sectors with supported by a range of donors including EU, World Bank, UNDP/UNIDO, USAID, NORAD, JICA and others

[24] Additional Engines for Growth, NEC 2002