REPUBLIC OF MALAWI

ECONOMIC AND FISCAL POLICY STATEMENT 2018

Issued by the Honourable Minister of Finance, Economic Planning and Development
In Terms of Section 14 of the Public Finance Management Act No 7 of 2003

Ministry of Finance, Economic Planning and Development
P.O. Box 30049
Lilongwe 3
Malawi.
Tel. (265) 1 789 355
Fax (265) 1 789 173/ 788 151
Website: www.finance.gov.mw

Contents

I. INTRODUCTION **1**

II. ECONOMIC POLICY ENVIRONMENT **1**

The Malawi Growth and Development Strategy III (MGDS III) **1**

Extended Credit Facility Arrangement **2**

Public debt and Aid Management Reforms and Developments **3**

a) Public Debt Management **3**

b) Aid Management **4**

III. RECENT DEVELOPMENTS **4**

World and Regional Economic Outlook **4**

Economic Outlook for Malawi **5**

IV. MEDIUM TERM ECONOMIC POLICIES **6**

Inflation Outcome and Outlook **6**

Exchange Rate Policy **6**

Monetary Policy **7**

Financial Policies **8**

Fiscal Policies **9**

V. STRUCTURAL AND SECTORAL REFORMS **11**

1. Structural Reforms **11**

Public Finance Management Reforms ***11***

Revenue Policy Reforms ***12***

Budget Reforms ***13***

a) The Medium Term Expenditure Framework (MTEF) **13**

b) Programme Based Budgeting **14**

Public Enterprise Reforms ***14***

2. Economic Growth Sector Reforms **15**

Agriculture ***15***

Energy ***17***

a) Electricity Sub-Sector **17**

b) Fuel Sub-Sector **18**

c) Climate Change, Natural Resources and Environmental Management Sub-Sector **18**

d) Forestry Sub-Sector **18**

e) Mining Sub-Sector **19**

f) Wildlife Sub-Sector **20**

Industry and Trade ***20***

Tourism ***21***

Transport Infrastructure ***21***

a) Road Transport Sub-sector **22**

b) Inland Water Transport Sub-sector **22**

c) Rail Transport Sub-sector **22**

d) Air Transport Sub-sector **23**

Labour and Employment Sector ***23***

VI. CONCLUSION **25**

I. INTRODUCTION

1. **This Economic and Fiscal Policy Statement (EFPS) is issued in fulfilment of the requirement of Section 14 of the Public Finance Management Act (2003).** The EFPS seeks to inform and share with various stakeholders the economic and fiscal policies that will anchor the economy over the short to medium term. The EFPS also specifies the broad strategic priorities by which Government will be guided in preparing the budget estimates for the 2018/19 fiscal year.

II. ECONOMIC POLICY ENVIRONMENT

The Malawi Growth and Development Strategy III (MGDS III)

2. **The Government has developed a five year Malawi Growth and Development Strategy (MGDS) III (2017-2022), an overarching national strategy, succeeding the MGDS II.** This Strategy has been developed under the theme, *"Building a Productive, Competitive and Resilient Nation".* With this theme, Government undertakes that for next five years, support will be channelled towards improving productive capacity of all sectors of the economy and also to ensure that the country compete on the global stage while building systems that are resilient to natural shocks and disasters emanating from climate change**.** The preparation of the annual national budgets for next five years will be informed by this national strategy.

3. **The Government has identified in the MGDSIII five key priority areas which can spur economic growth due to their impact and interconnectedness to other sectors of the economy** The five key priority areas were chosen on the basis of their alignment to the Sustainable Development Goals, the goals of African Union Agenda 2063 and also by focusing on Malawi's economic and development needs. The priority areas include economic sectors of Agriculture, Infrastructure, Education, Energy and other allied sectors as well as Health as a social sector. Focus was on the areas which will have multiplier effects to different sectors of the economy. Government has also identified Flagship projects from the key priority areas which will be targeted for implementation in the next five years in order to capitalise on the available resources during the implementation

period. The focus in the preparations for 2018/19 development budget will therefore be on the flagship projects already identified in the MGDS III.

4. **On financing the implementation of the MGDS III, Government recognizes that development finance landscape in Malawi has changed over the years.** To this effect**,** government intends to finance MGDS III through revenue generated from domestic sources which will be complimented with resources generated through concessional borrowing. Government will also encourage private sector involvement in financing of flagship projects through Public-Private Partnership arrangements. Government further recognizes the importance of prudent fiscal and financial management in the implementation of MGDS III and will ensure effective use of resources by all institutions. Government further intends to undertake a **Development Finance Assessment (DFA)** that is aimed at mapping sources of development finance both domestic and external for the effective implementation of the MGDS III. This assessment will recommend policies, institutional arrangements, capacity needs to mobilise, manage and determine existing and future flows of resources.

Extended Credit Facility Arrangement

5. **Government has agreed on a third Extended Credit Facility (ECF) Arrangement with the International Monetary Fund (IMF)** for the period 2018-21. The objective is to entrench macroeconomic stability, enhance more inclusive and resilient growth. This arrangement comes after successful completion of the second ECF covering the period from 2012 2017 during which Government managed to attain macroeconomic stability and restored confidence in the budget process through implementation of structural reforms in Public Finance Management. The third ECF will therefore focus on achieving sustainable and inclusive growth to reduce poverty.

6. **Government is committed to address these unfinished tasks while safeguarding the hard-won gains achieved so far especially in macroeconomic stability.** To this effect, the macroeconomic program supported by ECF 2018-21 will provide a macroeconomic framework to underpin MDGS III, including linking MGDS III's flagship projects with

credible fiscal strategies. Key supporting measures include increased spending on infrastructure and social sectors; tackling governance challenges; improving financial intermediation; and advancing structural reforms.

Public debt and Aid Management Reforms and Developments

7. **The main purpose of Government borrowing is to finance fiscal deficit in a particular year emanating from both recurrent and development expenditures.** Government will aim at improving the management of both external and domestic debt by ensuring that the financing needs and debt payment obligations are met adequately and at the lowest possible cost and with reasonable level of risk. In addition, Government would contract debt for purposes of refinancing outstanding liabilities, developing the domestic debt market and for pursuing monetary policy objectives.

8. **In the pursuance of these policy objectives, Government will endeavour to adhere to the principles of prudent fiscal management as outlined in the Public Finance Management Act (2003)** and in line with best practices of sovereign debt management. In the past years, the main challenge faced was high interest cost especially on account of domestic debt.

a) Public Debt Management

9. **In the medium term, Government intends to restructure the domestic debt to ensure that there is more long term dated debt than short term one.** This will ease the burden of debt service on budget execution that is currently being experienced. To show its commitment, Government will develop annual borrowing plan and a domestic debt issuance calendar concurrently with the budget preparation process. Wherever possible, Government will ensure that long term investments are prioritised for financing as this is the source for sustainable economic growth.

10. **On foreign borrowing, Government strategy will involve contracting more concessional loans from multilateral sources.** Government will continue to monitor debt trends along with emerging domestic and external vulnerabilities and systemic risks.

Furthermore, results of Debt Sustainability Analysis (DSA) conducted in 2017 revealed that external debt remains sustainable over the medium to long term as the present value ratios of key sustainability indicators are within thresholds applicable to least developed countries such as Malawi. However, external debt is vulnerable to shocks on exports as well as exchange rate volatility. Hence, Government will continue to conduct annual DSA to assess how the country's current level of debt and its prospective new borrowing will affect its ability to service debt in future.

b) Aid Management

11. **Government will continue to implement principles of Development Cooperation Strategy (DCS).** The DCS is a country level framework to guide development cooperation for achievement of national development objectives. It embodies principles of ownership, inclusive partnerships, transparency and accountability. Furthermore, Government will embark on implementing division of labour where development partners will be encouraged to streamline and coordinate development assistance. Development partners will be urged to specialize in areas where they have comparative advantage and competence. Government will continue to promote the use of program based approaches as this promotes donor coordination and harmonisation.

1.0. RECENT DEVELOPMENTS

World and Regional Economic Outlook

12. **The global economic growth that began midway through 2016 continues to gather strength.** In 2016, global economic growth was registered at 3.2 percent and it is estimated to have grown to 3.7 percent in 2017 and projected to 3.9 percent in both 2018 and 2019. The upward revisions are broad based mainly dependent on stronger growth outcomes in the first half of 2017 for countries like Japan, China, the euro area, emerging Europe and Russia. These more than offset downward revisions for the United States, the United

Kingdom and India. Growth in Sub-Saharan Africa was registered at 2.7 percent in 2017 and is projected to rise to 3.3 percent in 2018 and 3.5 percent in 2019.

13. **Contrary to the previous recent years, oil and non-oil prices increased in 2017.** Oil prices increased by 23.1 percent in 2017, from a decrease of 15.7 percent in 2016. Furthermore, the price of oil is expected to increase by 11.7 percent in 2018 and to decrease by 4.3 percent in 2019. Non-oil prices also increased by 6.5 percent in 2017, from a decrease of 1.6 percent in 2016. The price of non-oil commodities is expected to decrease by 0.5 percent in 2018 and increase by 1.0 percent in 2019.

14. **Consumer prices in 2017 were estimated to have increased by 1.7 percent and are projected to increase to 1.9 percent in 2018 and 2.9 percent in 2019 for advanced economies.** On the other hand, consumer prices in developing countries are estimated at 4.1 percent for 2017 and expected to increase to 4.5 percent in 2018 and 4.3 percent in 2019. The increase in oil prices raised inflation in advanced economies and slightly raised inflation in emerging market economies.

Economic Outlook for Malawi

15. **Real GDP growth is expected to moderate to 4.5 percent in 2018.** Growth will be driven by the non-agricultural economy, tobacco production, exports, and investment in infrastructure. Agricultural growth is anticipated to be slower than last year due to the low crop yield, especially for maize following the effects of fall armyworm infestation and dry spells during the early part of the growing season. Growth prospects are also constrained by delayed recovery of power generation. It is however expected that tight monetary conditions and continuing disinflation on most non-food items will contain inflation into single digits up to the end of 2018 and beyond.

16. **Improvements in the business environment are expected to underpin confidence.** Further declines in lending rates as inflation continue to decline are expected to support recovery of private sector investment. This, combined with the present stabilization and

reform programs (including those to improve competitiveness) will solidify confidence, support inclusive growth, and spur economic diversification.

17. In light of these, real GDP growth is expected to gradually increase to around 6 percent in the medium term. Inflation at the end of 2018 is expected to level off in the region of 7 to 8 percent before gradually converging to 5 percent by 2022. A prudent fiscal stance over this period is also expected to improve the sustainability of the economy's debt position, and domestic debt as a share of GDP is expected to be placed on a declining trend over the medium term to below 50 percent.

2.0. MEDIUM TERM ECONOMIC POLICIES

Inflation Outcome and Outlook

18. Headline inflation fell from 23.5 percent in July 2016 to 7.1 percent in December 2017, the lowest level since June 2011. This is mainly due to a consistently applied tight monetary policy by the Reserve Bank, favourable base effects, improved food availability, and a stable kwacha. Non-food inflation declined from 18.7 percent in July 2016 to 10.0 percent in December 2017. Concurrently, food inflation dropped from 29.2 percent in July 2016 to 4.3 percent in December 2017. The downward trajectory has provided scope for monetary policy to gradually loosen its tight stance, thereby allowing the economy to recover. In the short to medium term, inflation is projected to remain within the single digit band. Meanwhile, risks to the disinflation path may emanate from the rise in global oil prices and the impact of the current power outages.

Exchange Rate Policy

19. The kwacha will continue to be determined by demand and supply conditions. The RBM passively intervenes in the foreign exchange market mainly to manage volatility arising from seasonal patterns in private foreign exchange inflows. Going forward, communication will be intensified to moderate speculative behaviour on the foreign exchange market during the lean seasons.

20. Gross official reserves, as at 22nd January 2018 stood at US$724.98 million (3.5 months of imports) compared to US$612.74 million (2.9 months of imports) recorded in the same period in 2016. Similarly, private sector reserves stood at US$434.16 million (2.1 months of imports) compared to US$326.32 million (1.6 months of imports) in the same period in 2016. Consequently, the Malawi kwacha-US dollar exchange rate has remained broadly stable for more than a year. The stable Kwacha augurs well with the disinflation process. The short term goal of the Reserve Bank is to hold official foreign reserves of at least 3 months of imports, while the medium term goal is to build reserves up to 6 months of import cover.

21. The external sector continues to be exposed to sudden terms of trade shocks. However, in order to cushion the country against these shocks, and in order to improve competitiveness, there is need to accelerate the diversification of exports and implement structural reforms aimed at developing capacity to export. Improvement and broadening exports base will reduce excessive fluctuations in the exchange rate which is essential to growth sustainability. As such, the Export Development Fund will continue to be used as a vehicle to support the diversification of exports.

Monetary Policy

22. The objective of monetary policy is to bring inflation to 7 percent range over the medium term. The Reserve Bank of Malawi is currently enhancing its monetary policy framework. The Bank uses an interest rate based monetary policy framework. Under this framework, a change in the policy stance is communicated by changing the policy rate. The current policy framework is forward looking in the sense that the decision to adjust the policy rate is largely dependent on what RBM sees as risks to inflation developments in the medium to long term horizon.

23. While price stability is the main focus for monetary policy, the RBM will ensure that there is sufficient credit for private sector growth. The Reserve Bank of Malawi (RBM) lowered its policy interest rate from 22 percent to 18 percent in July 2017, and further to 16 percent in December 2017.

24. **Going forward, the RBM is committed to ensuring that inflation is maintained in single digit.** The disinflation objective will be pursued through the use of an array of instruments, such as open market operations (OMO), the policy rate and foreign exchange market operations. The RBM intends to ensure that the policy rate remains above the rate of inflation. In addition, the RBM has enhanced its communication with the general public by better explaining policy changes and the envisaged future path for inflation. These efforts will strengthen policy credibility, increase the efficiency of policy transmission, and better anchor inflation expectations.

Financial Policies

25. **Government has been undertaking a number of interventions in order to promote development and enhance stability of the financial sector.** Featured interventions include the launch and subsequent commencement of implementation of the National Strategy for Financial Inclusion (NSFI), the Financial Sector Development Strategy II (FSDS II) and the National Roadmap for Digitization of payments. Additionally, the Government commenced a feasibility study for the establishment of an Agriculture Cooperative Bank and undertook a Financial Literacy and Capability Study to assess the levels of financial literacy and access in the country.

26. **Furthermore, following the enactment of the Payments Systems Act in June 2016, Government embarked on preparation of relevant regulations and directives to operationalize the Act.** One such example is the Interoperability Directive, this directive makes it mandatory for payment service providers to put in place infrastructure that supports interoperability such as auto-teller machines, point of sale devices, mobile payments, and internet based payments and other related electronic payment channels by payment service providers. Government through the Reserve Bank of Malawi also issued five directives aimed at strengthening the Insurance sector. The directives prescribe minimum capital

requirements for the different categories of insurance business, strengthen regulatory and supervisory framework of insurance business, and facilitate licensing of insurers and promote self-discipline in the management of insurance companies

27. **Going forward, Government will continue with more innovative interventions in the financial sector to deepen, widen and enhance stability of the sector.** Several innovative strategies have been proposed in the MGDS III, FSDS II, NSFI and National Roadmap for Digitization of payments. Government is committed to coordinating implementation of these strategies in 2018/19. The Government will also develop a policy on anti-financial crimes which shall provide a framework for prevention and mitigation of financial crimes. Additionally, subject to results of the feasibility study for establishment of the Agriculture Cooperative Bank, Government will start design works for the proposed Bank.

28. **Monetary authorities will continue safeguarding financial sector stability by strengthening supervision and resolution capacity despite the sector being resilient.** Some of the planned interventions include a review of two financial sector laws and twenty nine directives and regulations; establishment of Malawi Deposit Insurance Scheme; enhancement of both on-site and off-site supervision, closely monitoring and enforcing compliance with prudential norms.

Fiscal Policies

29. **The economy's fiscal policy stance will support disinflation and help maintain debt sustainability.** To this end, spending will be contained within available resources, accumulation of domestic and external arrears will be avoided, limit on non-concessional borrowing will be observed, and recourse to domestic borrowing will be limited. Continued implementation of prudent fiscal policies in the near to medium terms is necessary to keep the public debt to GDP ratio on a downward trajectory and prevent both crowding out of the private sector as well as debt service costs replacing productive government expenditure. In line with these considerations, Government has deployed strong remedial measures to

correct unprogramed widening of the FY2017/18 budget deficit. The measures underpin the mid-term revised budget which envisages reducing some budgeted expenditures.

30. **In 2017/18 financial year, Government faced severe challenges in form of reduced resource envelope arising from reduced domestic revenue collections.** This was mainly due to energy challenges and slow disbursements of donor inflows. However, performance in 2018/19 financial year is expected to improve due to the stabilization policies being implemented. In addition, it is anticipated that disbursements of donor inflows are going to improve with the signing of a new Extended Credit Facility with the International Monetary Fund.

31. **Furthermore, Government will continue implementing policies aimed at developing the economy through increased allocation of resources to development expenditure.** The Government has deployed strong remedial measures to correct the un programed widening of the 2017/18 financial year budget deficit. With implementation of flagship projects under MGDS III as well as expenditure in the social sectors, their multiplier effects are expected to lead to improved economic activity in the medium term.

32. **Additionally, Government will aim at entrenching macroeconomic stabilization.** Important measures will cover increasing the resource envelope through implementation of domestic revenue mobilisation enhancing measures and spending within programmed resource envelope. Emphasis will be on containing expenditures and improving their quality and efficiency given that Malawi's revenue collection is above the median for Sub-Saharan Africa. These measures and other spending plans are outlined below:

- Government will continue strengthening tax administration – particularly our risk-based approach to tax compliance through increased analysis of data, enhancing the tax registry, stiff penalties on non-compliance.
- Social and domestically financed capital spending will be safeguarded and budgeted to keep pace with implementation capacity.

33. **Over the medium-term, Government will be committed to implementing broad-based tax reforms to foster a simple, efficient, transparent, and fair tax system.** Tax policy initiatives will be guided by a shift in reliance on revenue from taxation of labour and investment (factors of production) to consumption. Furthermore, certain measures that have resulted in significant revenue loss shall be reverted.

34. **Our medium-term budgeting plans include enhancing the composition and quality of Government spending, while containing fiscal slippages.** The medium-term strategy includes shifting the composition of public investment towards pro-growth and poverty reducing expenditures. With high development needs and limited fiscal space, raising efficiency of spending in priority areas such as social spending will be at the core of Government's medium-term budgeting plan. Government will also develop a plan to address the challenges involved in the current decentralization process. This will include addressing issues of capacity and controls at the local level and eventually adopting a legal framework for budget systems and fiscal policy coordination.

3.0. STRUCTURAL AND SECTORAL REFORMS

1. Structural Reforms

Public Finance Management Reforms

35. **Government will continue to implement Public Finance Management (PFM) reforms.** These reforms aim at improving the use and management of public resources through setting up of financial management systems that promote transparency, accountability, fiscal discipline, efficiency and effectiveness. So far, the Public Procurement and Disposal of Assets Act (PPDA) was enacted and became effective.

36. **Meanwhile, the Government is in the process of fully implementing PPDA with the process of developing subsidiary regulation already underway.** Government is further advancing with implementation of Electronic Funds Transfer (EFT) and implementation of Treasury Single Account (TSA). Government has also embarked on the review of the Public

Finance Management Act (PFMA). The revised Act will take into account all the developments that have happened with regards to PFM.

37. **Furthermore, Government will continue to invest in operational efficiency and controls in the current IFMIS.** In this regard, servers and network infrastructure to support IFMIS operations have been installed. In addition, Government is continuously monitoring transactions that pass through IFMIS aided by agile tools that were installed. In addition, Government will continue with to prepare financial statements both for the central and local councils.

Revenue Policy Reforms

38. **The Government will continue to embark on expanding the tax base, and leveraging the usage of information communication technologies (ITC) in tax administration, and improve efficiency in tax dispute resolution.** Government will continue to automate processes at the Malawi Revenue Authority (MRA) by ensuring full implementation of the Integrated Tax Administration System (ITAS) and encourage e-payments for taxes and use of Electronic Fiscal Devices (EFDs). Furthermore, Government intends to expedite the tax dispute resolution mechanisms through the establishment of Tax Revenue Appeals Tribunal, and review and renegotiate some obsolete Double Taxation Avoidance Agreements (DTAAs) to curb against tax planning techniques by some multinational companies.

39. **In terms of the non-tax revenue, Government will review some user fees and charges, improve efficiency in collection and accountability of non-tax revenues.** Government will implement the Appropriations-in-Aid scheme to incentivise revenue collecting Ministries and Departments, and improve revenue bank reconciliations within Ministries and Departments. Further, Government is committed to improve transparency in revenue collection and management by adhering to principles and objectives of the Extractive Industries Transparency Initiative (EITI) which the Government signed up to.

Budget Reforms

a) The Medium Term Expenditure Framework (MTEF)

40. **The proposed 2018/19 budget estimates will be preceded by stressful fiscal dynamics due to expenditure pressures in statutory payments and the upcoming tripartite elections.** Despite successfully containing expenditures within annual fiscal targets in the past three years, growth in statutory expenditures especially wage bill, interest payments and domestic debt has undermined budget credibility. Growth in interest payment has averaged 55 percent over the past 5 years, growing from K28.7 billion (or 11 percent of domestic revenues) in 2012/13 fiscal year, to K177.3 billion (or 18 percent of domestic revenues) in 2017/18 fiscal year. Similarly, growth in wage bill has averaged 24 percent in the past 5 years at an average of 34 percent of locally generated revenues since 2012/13 fiscal year. The direct costs and implications of this unbalanced growth in statutory spending include under-provisioning for essential social services, locally financed development expenditure and accumulation of arrears.

41. **The 2018/19 Budget Framework will be based on the underlining assumption that Government will start reducing domestic debt largely by keeping expenditures within targeted levels.** In addition, Government will assume that all key services are financed by locally generated resources as one way of avoiding in-year reallocations due to either delayed or non-disbursement of donor resources. Fiscal space emanating from growth in revenues and stringent expenditure control measures will be utilized to provide for the national pension scheme, tripartite elections scheduled in May 2019, population and housing census, national identification and registration as well as development expenditure. Furthermore, provision for essential services such as health, education and security institutions will be provided as adequately as possible in line with the underlying assumptions.

42. **Having finalised the successor national development strategy, the MGDS III, the 2018/19 budget will be aligned to key priority areas as outlined in the strategy.** Government will ensure that all MDAs will align their budgets and priorities to the priority

areas of the MGDS III. Government Ministries, Departments and Agencies have already been provided with activity codes that have been aligned to the successor national development strategy.

b) Programme Based Budgeting

43. **The 2018/19 fiscal year will be a third year of implementing Programme Based Budgeting (PBB) in central government agencies, Local Councils and Subvented Organisations and the first year for Treasury Funds.** During the 2017-18 financial year, the PBB reform was rolled out to Treasury Funds. In addition, the Ministry of Finance, Economic Planning and Development embarked on a review of performance indicators for central government agencies. Furthermore, the Ministry of Finance, Economic Planning and Development finalized the Integrated Budgeting and Planning manual.

44. **The focus during the 2018/19 fiscal year will be on PBB institutionalization which will, among other areas, continue to achieve the following objectives:** strengthening performance aspect of PBB by improving budgeting and scrutiny by programme; improving PBB execution especially on funding, reporting and monitoring of budget performance by programme; improving the quality and strength of performance indicators specifically by sieving out process indicators from the main PBB document and aggregating indicators to ensure only indictors that are simple to define and can be observed by credible data are maintained; initiating implementation of enabling factors such as review of the Public Finance Management Act (2003) so that appropriations, virements, management as well as internal and external controls of programmes are reflected; and harmonising reporting and monitoring mechanism among key stakeholders.

Public Enterprise Reforms

45. **Government continues to employ measures that aim at mitigating potential risks to the national budget posed by contingent liabilities resulting from the activities of parastatals.** In this regard, guidelines for the issuance of parastatal guarantees, indemnities, letters of consent and comfort have been developed to guide borrowing by parastatals.

Furthermore, Government plans to develop a risk management framework for parastatals which will further enhance risk mitigation in the parastatals.

46. **Government further recognizes the need to improve oversight of the statutory bodies in Malawi and has therefore strengthened the monitoring function within the Ministry of Finance with regard to both financial and non-financial performance of the parastatals.** Furthermore, a parastatal monitoring framework has been developed which will be synchronized with the web based data bank for the parastatals. This will provide a platform where all stakeholders can share information and access progress made in the parastatals in driving the national development agenda.

2. Economic Growth Sector Reforms

Agriculture

47. **Following the launch of the National Agriculture Policy in November 2016, stakeholders in the agriculture sector have just finalised work on a five-year National Agriculture Investment Program (NAIP) as an operational guide for implementation of the Policy.** Guided by this investment framework, Government is therefore committed to carry out the following:

48. **Government will continue to implement agricultural programs through the Agriculture Sector Wide Approach (ASWAp).** Through NAIP, focus for the next five years will be on four programs, namely; policies, institutions and coordination; resilient livelihoods and agricultural systems; production and productivity; and markets, value addition, trade and finance.

49. **Under resilient livelihoods and agricultural systems, the Government will continue to implement the Farm Input Subsidy Program (FISP).** Government intends to maintain the number of beneficiaries and level of contribution of farmers per bag of fertiliser. Furthermore, Government will continue with programs that improve maize productivity, diversify crop production and also diversify agricultural enterprises. Apart from crop production, livestock and fisheries enterprises will also be developed through provision of

infrastructure and services that will ensure that livestock and fisheries production thrive in the country. Additionally, Government has put in place measures to deal with the emergent fall army worm threat.

50. **Government will continue to promote cotton production.** In order to improve trade and manufacturing performance, Government will continue with implementation of initiatives that will see productivity and production of cotton being increased rapidly in the short to medium term. Already a cotton regulatory body has been established and is now functional.

51. **The Government will continue to take a keen interest in the Green Belt Initiative.** Through Public Private Partnership, Government has engaged different private companies under the establishment of Green Belt Initiatives Holdings Limited (GBIHL). GBIHL was incorporated on 2 July, 2015 as a company with a shareholding of 99% for Ministry of Finance and 1% for Office of President and Cabinet (OPC). It has partnered with AUM Sugar Limited and Allied Companies and has formed a joint venture as Salima Sugar Company which is managing 4,000 hectares and sugar factory.

52. **Government will commence implementation of the approved Contract Farming Strategy in the production and marketing of agricultural commodities**. The contract farming is expected, among others, to bring greater expertise in the negotiations of output prices through concerted lobbying by a group of farmers rather than through individual bargaining with the buyer by each farmer on their own; increase tax revenue; enhance the export potential; and increase access to raw material for food and other agro-based industries.

53. **Government has revised the National Fisheries and Aquaculture Policy.** Issues pertaining to over-exploitation of commercially valuable fish species and low fish production from aquaculture arising from poor quality feed and fingerlings, as well as weak private sector participation have necessitated that the Fisheries and Aquaculture Policy be reviewed. The Government has prioritized developing capture and aquaculture fisheries, fish

quality and value addition and social development and decent employment. Implementation of the policy will result in improved operational efficiency and effectiveness in the sector.

Energy

a) *Electricity Sub-Sector*

54. **Government will continue with its efforts aimed at increasing the reliability and security of power supply and efficient utilization.** Government has plans to improve and expand electricity generation capacity, power transmission and distribution systems. Among others, Government will continue with the construction of Tedzani IV power plant which is expected to add 18Mw to the grid. Government will also construct grid-connected solar power plants of 70Mw. As short-term measure, the Government has already installed and commissioned 55Mw diesel power plants out of planned 78 Mw.

55. **Government will continue with the processes that are underway to explore the possibility of drawing power from the Southern Africa Power Pool through Malawi-Mozambique and Malawi-Zambia Interconnectors.** The feasibility studies for these interconnectors have been completed and final mobilization for the construction works have commenced. If accomplished this will not only increase Malawi's productive capacity but also give the country enough time to develop domestic power supply at less hurried pace.

56. **Further, Feasibility studies for Mpatamanga and Fufu hydro power plants have been finalised.** The Integrated Resource Plan for the energy sector has been developed and identified Mpatamanga as a high priority project. Government will implement this project under PPP arrangement starting from 2018 fiscal year.

57. **Additionally, Government will continue implementing a 300Mw Kam'mwamba Coal Fired Power Plant Project and start determining the likelihood of establishing a coal powered generation plant near the Northern Coal Fields under Coal Fired Power Generation Project (CFPGP).** Currently, the feasibility study and Environmental and Social Impact Assessment for Kam'mwamba have been completed, several agreements

pertaining to the project are being negotiated and preparation of documentation for financial clause is underway.

58. **In its quest to expand access to electricity to rural areas, Government will continue implementing MAREP Phase VIII.** In 2017/18 financial year, 336 sites were targeted for electrification, with more sites targeted for the same in 2018/19 financial year.

b) Fuel Sub-Sector

59. **Government will continue implementing the automatic fuel pricing adjustment system to cushion the sub-sector from price shocks.** Additionally, Government will mobilise financial resources to construct additional strategic fuel reserves to meet the international standard of 90 days cover. Government will also continue to work with various Non-Governmental Organizations (NGOs) and other players in the subsector on promotion and usage of biomass as an alternative source of energy.

c) Climate Change, Natural Resources and Environmental Management Sub-Sector

60. **Government will continue to promote, coordinate, monitor and oversee compliance to climate change, environment and natural resources policies, programs and legislation in order to ensure sustainable development and poverty reduction.** In addressing the impacts of climate change in the country, Government will establish and operationalise a National Climate Fund to help the country to be more resilient to climate change nation and develop and implement climate change mitigation and adaptation programmes. Government will also strengthen regulatory framework in climate change, natural resources and environmental management through implementation of the Environmental Management Act (2017) and other environment and climate change related legislations; operationalization of the Atomic Energy Regulatory Authority and establishment and operationalization of the Malawi Environmental Protection Agency.

d) Forestry Sub-Sector

61. **The Government recognizes that forests contribute to the economic growth of the nation.** Hence, Government plans to continue protecting and managing forest resources and

promoting tree planting and natural regeneration. Among others, Government plans to protect and conserve one million hectares of forest reserves and customary estates and intends to channel most of its resources towards protection of prioritised forest reserves namely, Viphya, Kaning'ina, Perekezi, Dzalanyama, Thuma, Ntchisi, Zomba-Malosa and Mulanje Mountain.

e) Mining Sub-Sector

62. **The Government recognizes that the country has abundant mineral resources that can be sustainably exploited to contribute to the country's vision as stipulated in the MGDS III.** Currently, Government is working on a number of initiatives aimed at attracting investment to the sub-sector. Among upcoming mining projects include Globe Metals and Mining Africa Limited (GMMA) which is proposing to develop the Kanyika Niobium Project (KNP) in Mzimba, Songwe Hill Rare Earths Project in Phalombe by Mkango Resources Limited, Makanjira Heavy Mineral Sands Project in Mangochi by New King International Company, and Malingunde Graphite Project in Lilongwe by Sovereign Metals Limited.

63. **In order to promote sustainable exploration and exploitation of mineral resources, Government is implementing various policies, strategies, programmes and projects in the mining sector.** Currently the interpretation of the airborne geophysical data has been completed. The next step is to commence ground follow-ups of the anomalies interpreted from the airborne data. Twelve clients have acquired the data. Further, an electronic Geo-data Management and Information System (GDMIS) has been installed at the Geological Survey Department and is currently under trial. GDMIS will improve the archiving, accessing and updating of geo-scientific data. All the old analogue data is being digitized. Over 16,000 documents have been digitized and uploaded into the database.

64. **Government will also continue creating competitive and favourable working environment for mining companies and potential local and international mining investors through review of pieces of mining legislations which are not in tune with new global trends in the mining landscape and through development of new policies to**

address new challenges in the mineral sector in the country. Currently, Government is facilitating the development of a new Petroleum Policy and review of Petroleum (Exploration and Production) Act of 1983.

f) Wildlife Sub-Sector

65. **Government remains committed to conserve and manage wildlife resources through various planned activities and programs to combat poaching and illegal wildlife trade that has devalued most of the protected areas to the extent that they are unable to attract significant tourism.** Government plans to curtail poaching and illegal use of wildlife resources by strengthening the law enforcement capacity through enhancing inter-agency cooperation with other law enforcement agencies, and other stakeholders in investigations and intelligence gathering techniques relevant to the wildlife crime. Further, Government will finalize the review process of the Wildlife Policy and launch the just amended National Parks and Wildlife Act so that the penalties regarding illegal utilization of wildlife resources become deterrent.

Industry and Trade

66. **Government is undertaking a number of efforts aimed at improving business environment to promote private sector investments.** These interventions and reforms have been designed to improve the business environment by promoting private sector participation in the country and efficiency of regulations hence reducing their cost and complexity. Among others, the Government developed a Warehouse Receipt System Bill which was passed by the Parliament in December 2017. Once implemented, the new legislation will enable financial institutions to increase credit to SMEs particularly farmers through use of warehouse receipts. Government is also in the process of establishing Special Economic Zones (SEZ) in the country as a tool for attracting both Foreign Direct Investment and Domestic Investment into the industrial sector in Malawi.

67. **Additionally, Government will develop the Micro, Small and Medium Enterprise Bill aimed at improving the business environment for Micro, Small and Medium Enterprises (MSMEs) in the country.** The bill will classify and regulate MSMEs in order

to formalise informal business through simplification of procedures on business registrations, access to credit and facilitation of investments.

68. **Further, the country has registered improvements on the World Bank doing business index.** The index provides objective measures of business regulations and their enforcement across 190 economies. According to the 2018 Doing Business Index World Bank report, the country was ranked to 110 from 133 across 180 economies in 2016. This will go a long way to make it easier for local and international businesses to start and operate.

Tourism

69. **Government through support from African Development Bank (AfDB) will from 2018 implement a four-year project aimed at promoting investment and competitiveness in the tourism sector.** Through the project, Government will develop a tourism investment master plan to ensure that the sector is well planned and monitored; build capacity for tourism statistics so that data on tourism is readily available and the economic contribution of the sector is clearly quantified; develop and strengthen capacity in management of touristic products, enterprises and related businesses with more focus on ecotourism; and strengthen collaboration between the Government, the private sector and community in conservation and product development to create employment opportunities and generate revenue.

Transport Infrastructure

70. **The Government has just launched the National Transport Master Plan which will guide the sustainable development of a multi-modal transport sector for the next 20 years.** The Plan has the following three strategic objectives: reduce transport costs and prices across all modes; improve the safety of transport infrastructure and services; and enhanced and sustainable passenger and freight transport systems. One of the key strategies for reduction of transport costs is through a modal shift from road to rail and inland water transport both domestically and along the major international corridors.

a) Road Transport Sub-sector

71. **Government will continue to ensure that public roads are constructed, maintained and rehabilitated.** In response to the increasing vehicle population, government shall further ensure that the road network is upgraded to meet the needs of motorists both in urban and rural areas. Whereas the upgrade of rural roads is aimed at promoting agricultural production and improving rural area accessibility, upgrading of urban roads is aimed at capacity improvement thereby reducing traffic congestion. Other interventions include rehabilitation and maintenance programs in order to improve the road condition and prevent further deterioration of the whole road network. In order to achieve this, Government will continue to look at alternative measures for increasing resources especially for road maintenance including, but not limited to, introduction of road tolls and continued implementation of road fund bonds.

72. **Government is also committed to improving road safety by strengthening enforcement of road transport regulations.** The Department of Road Traffic and Safety Services will also intensify safety awareness campaigns in collaboration with the private sector.

b) Inland Water Transport Sub-sector

73. **Government will continue its efforts to improve port facilities particularly at Nkhatabay, Likoma and Nkhotakota.** The latter two will require construction of new jetties and currently a feasibility study has just been finalised for Likoma Jetty. In addition, the Department of Marine Services will intensify enforcement operations in order to improve maritime safety. The revision of the Inland Waters Shipping Act will also be finalised in order to strengthen Government's oversight of the sub-sector.

c) Rail Transport Sub-sector

74. **Government recognises that rail transport provides the quickest way of reducing transport costs and is, therefore, committed to rehabilitating existing rail infrastructure.** The Ministry of Transport and Public Works will continue to work with the Central East African Railways in the rehabilitation of the Mchinji – Nkaya and reconstruction of the Limbe – Sandama rail sections. The works on both sections are

expected to be finalised in 2019. In the meantime, Government will be finalising the feasibility and design study for the Limbe – Marka section. The Ministry of Transport and Public Works will also advance the revision to the Railways Act which seeks to separate operations, management and regulatory functions in the rail sub-sector.

75. **Government will also be intensifying safety awareness campaigns as improvements** to rail infrastructure will lead to increased traffic on the railway lines which has the potential of increasing accidents.

d) Air Transport Sub-sector

76. **The operationalisation of the Civil Aviation Authority Act will be Government's main area of focus as this will go a long way towards meeting the international standards and recommended practices as set out by the International Civil Aviation Organisation (ICAO).** Government will also continue to work towards having all airports operated commercially. One of the interventions to achieve this is through expanding the mandate of Airports Development Limited to manage some of the major airports in Malawi. In the meantime, Government will continue to improve safety and security at the two primary international airports by replacing equipment and rehabilitation works at Kamuzu International Airport and Chileka International Airport. Government will also intensify efforts to move Mzuzu Airport to a new location.

Labour and Employment Sector

77. **Labour and employment including youth, sports and manpower development are critical areas for socio-economic growth and development.** In view of this, Government will prioritize implementation of initiatives targeting key policy areas such as skills development, youth development, sports development, employment creation, rights at work, social security, social dialogue, occupational safety, health and welfare and increased adherence to, and ratification of labour standards in the 2018/19 financial year.

78. **Specifically, Government, through dialogue with social partners, will launch the Decent Work Country Programme II which will address critical areas such as**

employment creation, social dialogue, social protection and fundamental principles and rights at work. Government will also promote decent work environment programmes aimed at ensuring job satisfaction through such programmes as labour inspections in all workplaces, public employment services, workers' compensation, review and enforcement of labour legislation and resolving labour related complaints and scale up information dissemination. In order to bridge the information gap between employers and the labour force, the Government will operationalise labour market information system which will increase access to, and availability of labour market information in the country.

79. **Additionally, Government will establish workers compensation fund in order to ensure timely settlement of workers' compensations as well as guaranteeing availability of funds.** The Government will also review temporary employment permit (TEP) procedures in order to tighten issuing of TEPs to ensure that only skills which are not available in the country are considered in order to provide job opportunities for Malawians and the youth in particular.

Youth Empowerment

80. **Malawi is a youthful nation as majority of its population is below the age of 25.** Government will continue implementing youth empowerment and development programmes across the country in order to reap on demographic dividend. Some of the initiatives being implemented include construction of youth job centres in Mzuzu and Blantyre; training of youth in vocational livelihoods, business management and entrepreneurship skills; establishment of community technical colleges across the country; modernization of trade testing centres; and rehabilitation of national technical colleges.

81. **Lastly, Government takes the issue of child labour very seriously.** Thus Government will intensify its effort towards prevention, withdrawal and rehabilitation of children engaged in child labour in the country. Government will also strengthen reintegration of ex child labourers so that they are united with their communities.

4.0. CONCLUSION

82. **In summary, Government anticipates that policy measures proposed herein will accelerate its macroeconomic objectives as espoused in the MGDS III.** In this regard, Government will ensure smooth and speedy implementation of all the proposed reforms and programmes to steer the economy towards a more resilient and prosperous path.