REPUBLIC OF MALAWI

ECONOMIC AND FISCAL POLICY STATEMENT 2019

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

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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. This EFPS specifies the broad strategic priorities by which Government will be guided in preparing the budget estimates for the 2019/20 fiscal year.

II. ECONOMIC POLICY ENVIRONMENT

The Malawi Growth and Development Strategy (MGDS) III

2. The Government of Malawi developed a five year Malawi Growth and Development Strategy (MGDS) III (2017-2022), an overarching national strategy, succeeding the MGDS II. The Strategy was launched in March 2018 and is implemented under the theme, "Building a Productive, Competitive and Resilient Nation". The strategy has five Key Priority Areas namely: Agriculture, Water Development and Climate Change Management; Education and Skills Development; Energy, Industry and Tourism Development; Transport and Information Communication Technologies (ICT) Infrastructure; and Health and Population.

3. With these Key Priority Areas, in 2019/20 FY Government will continue to provide support towards improving productive capacity of all sectors of the economy. Government will also ensure that the country competes on the global stage while building systems that are resilient to natural shocks and disasters emanating from climate change. Preparation of the annual national budgets for the next three years will continue to be informed by this national strategy.

4. Currently, the National Planning Commission (NPC) is working with Government Ministries, Departments and Agencies (MDAs) and local councils to ensure that their plans, policies and strategies are aligned to the MGDS III. So far 15 districts have already aligned their District Development Plans (DDPs) and Socio-Economic Profiles (SEPs) to the MGDS III.

The 2030 Agenda on Sustainable Development Goals (SDGs)

5. **Malawi has also domesticated the SDGs in the MGDS III to accelerate the pace of economic growth and create wealth for its citizens.** The Strategy is expected to facilitate implementation, monitoring, and reporting on the SDGs. In addition, Government intends to solidify efforts of domesticating the SDGs and other international commitments through Sector Working Groups (SWGs). The SWGs have Technical Working Groups (TWGs) in accordance with thematic areas of the joint sector strategies and intervention areas. Government will therefore allocate desk officers to each SWG to guide the MDAs on how they are supposed to plan, coordinate, participate, implement and monitor their SWG activities and undertake joint sector reviews.

6. **To evaluate whether implementation of the SDGs is successful, Government has produced the SDGs baseline report.** The report is a benchmark for assessing the implementation of the SDGs. It provides the basis for assessing contributions of various programmes and projects towards achieving the SDGs. The report serves to identify data gaps for monitoring national and international commitments and identify areas of support for data collection and generation. However, to ensure successful implementation of the SDGs, in the 2019/20 FY Government will mobilise adequate resources and fast-track mainstreaming of SDGs into district development plans.

Extended Credit Facility Arrangement

7. **Budget implementation will continue to be guided by the macroeconomic program under the International Monetary Fund (IMF) Extended Credit Facility (ECF) arrangement.** This is in line with the approval of a 3-year ECF program for Malawi by the IMF worth SDR 78.075 million (about US$112.3 million). This is equivalent to 56.25 percent of Malawi's quota in the IMF. The current ECF arrangement is aimed at entrenching gains of macroeconomic stability achieved in the recent past. Under the ECF arrangement, structural benchmarks and quarterly quantitative targets are set at the beginning of each fiscal year to monitor implementation of the budget. Government attained most of the structural benchmarks and quantitative targets set for end-December 2018.

8. Government anticipates that this will facilitate the continuation of the macroeconomic program with the IMF in 2019/20 FY and ensure continued donor confidence in the Government. This will in turn lead to continued disbursement of funds from development partners. The macroeconomic environment is therefore expected to remain stable going forward.

Public Debt and Aid Management Reforms and Developments

9. Government borrows to finance temporary revenue shortfalls or long term development plans. Government also contracts debt to refinance outstanding liabilities and onward lending to other government agencies. In 2019/20 FY, Government will continue to adhere to the principles of prudent fiscal management as stipulated in the Public Finance Management Act (2003) and in line with best practices of sovereign debt management. Therefore, Government will endeavour that the financing needs and debt payment obligation for both external and domestic debt are met at lowest cost and risk possible.

a) Public Debt Management

10. In the medium term, Government is moving towards restructuring domestic debt with the aim of having more long term dated debt than short term one. Guided by the Medium Term Debt Management Strategy, Government will aim at achieving a financing mix that would increase the proportion of Treasury Notes and reduce Treasury Bills in the domestic debt portfolio. This will ease refinancing risk and assist in domestic debt market development.

11. Further, Government recognizes that interest cost on domestic debt is on the increase as debt stock increases since a large proportion of the debt is held in short term instruments. In light of this, Government will attempt to repay some share of short term debt as it falls due. Coupled with fiscal discipline, repayment should translate into a reduction in the domestic debt levels.

12. On foreign borrowing, Government will continue to borrow from external concessional sources. Semi-concessional loans will only be contracted to finance projects with higher rate of return.

b) Aid Management

13. Government will continue being guided by the principles embedded in the Development Cooperation Strategy (DCS). The DCS is a country-led and country-owned strategic document that takes forward the principles of ownership, results-oriented, inclusive development partnership, transparency and accountability as embodied in the Busan Partnership for Effective Development Cooperation.

1.0.RECENT DEVELOPMENTS

World Economic Outlook

14. Global growth, which peaked at close to 4 percent in 2017, softened to 3.6 percent in 2018, and is projected to decline further to 3.3 percent in 2019 partly because of the negative effects of tariff increases enacted in the United States and China earlier in 2018. (World Economic Outlook Report by IMF, April 2019). Partial recovery in commodity prices should allow conditions in commodity exporters to gradually improve. Helping to drive this output acceleration is faster growth in the euro area, Japan, China, and the United States, all of which grew above expectations last year, along with some recovery in commodity exporters.

15. With improvements expected in the second half of 2019, global economic growth in 2020 is projected to return to 3.6 percent. This return is predicated on a rebound in Argentina and Turkey and some improvement in a set of other stressed emerging market and developing economies, and therefore subject to considerable uncertainty (World Economic Outlook Report by IMF, April 2019).

16. Further, along with China, several other emerging markets and developing economies are expected to register growth. This group includes Brazil, Mexico, and emerging Europe. The aggregate gains for this group of countries are however weighed down by sharp downward revisions for a few countries in the group due to civil strife, notably in Libya, Venezuela and Yemen. Furthermore, outlook for commodity exporters remains generally subdued, with a need for further economic diversification and adjustment to counter lower commodity prices. As a result, more than one-quarter of emerging market and developing economies are projected to grow by less than advanced economies in per capita terms over the next five years, and hence fall further behind in terms of living standards.

Sub-Saharan regional outlook

17. Sub-Saharan Africa continues to grapple with high inflation rates stemming from the pass-through of earlier exchange rate depreciations. This is in contrast to many emerging market and developing economies, where recent currency stability or appreciations against the US dollar have helped keep a lid on core inflation. Sub-Saharan African economies have experienced substantial growth slowdowns in recent years as they started adjusting fiscal policy to the permanent loss of commodity revenues. Output, especially domestic demand, decelerated sharply in oil exporters in the aftermath of terms-of-trade losses, which gave rise to large fiscal and external adjustment needs and tighter financial conditions.

18. Growth in sub-Saharan Africa is projected to rise from 3.0 percent in 2018 to 3.5 percent in 2019 and 3.7 percent in 2020. In the medium term, growth is expected to improve slightly to about 4.0 percent. While the headline numbers suggest a broadly unchanged picture relative to the January 2018 WEO, revisions to growth projections for key large economies point to underlying differences in prospects across the region.

19. In Nigeria, the economy is projected to grow from 3.0 percent in 2018 to 3.5 percent in 2019 and 3.7 percent in 2020. This is a reflection of improved oil prices, revenue, and production as well as the recently introduced foreign exchange measures that contributed to better foreign exchange management and availability. Similarly, for the region's other large oil dependent economy of Angola, growth was projected to rise from 0.7 percent in 2017 to 2.2 percent in 2018 and 2.4 percent in 2019.

20. Growth in South Africa is expected to strengthen marginally from 0.8 percent in 2018 to 1.2 percent in 2019 and 1.5 percent in 2020. Business confidence is likely to gradually firm up as political uncertainty diminishes, but growth prospects remain weighed down by structural bottlenecks, including power shortages.

Economic Outlook for Malawi

21. The Malawi economy recorded economic growth at 4.0 percent in 2018 and is expected to grow further by 5.3 percent in 2019, largely due to the recovery in the agriculture sector. This is also supported by increased transportation activities, a stable financial and insurance sector, exchange rate stability, infrastructure developments, declining inflation and resultant reduced interest rates over the period 2014 – 2018.The construction; wholesale and retail trade; manufacturing; electricity, gas and water; transportation and storage; information and communication and the financial and insurance services are among the sectors behind the expected high economic growth in 2019.

22. Economic growth is expected to move towards an average of 7.0 percent over the medium term. This is expected to be buoyed by enhanced electricity generation, growing infrastructure investment, improved irrigation systems, better road networks, increased donor assistance, and greater access to finance. Private sector confidence needed to re-ignite investment spending will be enhanced due to the combined effect of the on-going macroeconomic stabilization and reform program, including those to improve competitiveness. This is expected to spur economic diversification, employment creation and support a higher and more sustained inclusive growth, including capitalizing on the young and dynamic population.

2.0.MEDIUM TERM ECONOMIC POLICIES

Inflation Outcome and Outlook

23. 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 of Malawi, improved food availability, and a stable currency – the Kwacha. Throughout 2018, inflation rate remained in single digits save for November 2018 when inflation shot to 10.1 percent but thereafter reverted back to single digit and is recorded at 9.1 percent in April 2019. The downward trajectory has provided scope for monetary policy to gradually loosen its 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 on domestic production.

Exchange Rate Policy

24. **Since 2012, the Reserve Bank of Malawi (RBM) has implemented a floating exchange rate system and remains committed to this regime.** This is aimed at allowing the kwacha to adjust to domestic and international developments. Nevertheless, the Bank will continue to monitor the foreign exchange market and intervene in case of excessive volatility which pose risk to financial stability. In such circumstances, the RBM will take necessary measures in order to make sure that the foreign exchange market operates efficiently.

25. **The Bank will also continue to build up its international reserves in order to provide the economy with a buffer against exogenous shocks.** In 2018, gross official reserves were consistently maintained above 3 months of imports. In the medium term, the Bank aims at accumulating import cover of at least 6 months. In view of this, the Bank will continue supporting the Export Development Fund (EDF) as a vehicle for increasing export revenue generation. Further, the Bank will aim at increasing diaspora remittances through, inter alia, creating a diaspora unit, issuing diaspora bonds and also creating various investment vehicles. The Bank will also ensure compliance of Authorized Foreign Exchange Dealers (AFEDs) with foreign exchange regulations in order to reduce illegal externalization of foreign currency.

Monetary Policy

26. **The Reserve Bank of Malawi conducts monetary policy in an increasingly forward looking manner, with the aim of achieving price stability.** This notwithstanding, in 2018, the Bank conducted its monetary policy in a challenging environment. The economy experienced numerous shocks including fuel price increases of about 16 percent following global oil price pick up;

electricity tariffs increase of 35.2 percent; and poor agricultural performance due to dry spells and fall armyworms infestation. These shocks mounted excessive pressure on inflation making the conduct of monetary policy challenging. The Reserve Bank of Malawi remains committed to a 5.0 percent inflation objective in the medium term.

27. In terms of Monetary Policy framework, Reserve Bank of Malawi is committed to developing the current interest-based monetary policy framework, with the plan to move to the Inflation Targeting Framework (ITF) in the medium term. Within this framework, the Bank will continue to allow interest rates to play a bigger role. The emphasis will continue to be that of stabilizing the short term interest rates and keeping the interbank rate (IBR) closer to the Policy rate, with the aim of improving the transmission mechanism of monetary policy. The Bank will continue to use the Liquidity Reserve Requirement (LRR) and open market operations (OMO) to manage liquidity in the money market.

28. Further, the Bank will continue to strength its monetary policy communication strategy as a supportive instrument. The main communication documents of monetary policy are the Monetary Policy Committee (MPC) Statement and the Monetary Policy Report which are published on a quarterly basis. Further, in 2018, the Bank introduced quarterly monetary policy forums as part of the communication tools for monetary policy. Within the course of 2019, the Bank will also introduce Town hall meetings aimed at enhancing communication on Monetary Policy with the major objective of managing public expectations.

Financial Policies

29. The Government has been undertaking a number of interventions in order to promote development and enhance stability of the financial sector. Together with other financial sector players, the Government is implementing the National Strategy for Financial Inclusion (NSFI), the Financial Sector Development Strategy II (FSDS II) and the Malawi Government Payments Roadmap to digitize payments. Additionally, Government established the Malawi Agricultural and Industrial Investment Corporation (MAIIC) aimed at mobilizing financial and other resources for investment in commercially viable agricultural, industrial and other projects in line with the MGDS

III. The Government also embarked on a partnership program with financial service providers to increase access to financial services in rural areas targeting enterprises and smallholder farmers.

30. Government through the Registrar of Financial Institutions will continue to implement laws and regulations aimed at enhancing the stability of the sector. These include the Interoperability Directive, revised Insurance sector directives, consumer protection directives, Supervisory Levy Regulation for banks and Agent Banking regulation. In addition, Government has developed E-Money Regulations with the aim of providing a regulatory framework for the provision of e-money services. Government has also reviewed and enacted the Reserve Bank of Malawi Act to enhance the independence of the Central Bank and align its functions with international best practices.

31. Furthermore, Government has installed an automated trading and settlement system at the Malawi Stock Exchange. This is in recognition of the importance of modern financial infrastructure in enhancing efficiency and improving consumer experience. Leveraging financial infrastructure like the Central Securities Depository (CSD), Government has embarked on a program to dematerialize securities such as stocks. The dematerialization is expected to enhance and ease trading in securities.

32. Government will also undertake measures to continue improving financial stability. Stable financial systems improve consumer confidence, hence improving the utilization of financial services. Therefore, apart from continuing implementation of recently enacted financial sector laws, Government will introduce legislation to enhance financial consumer protection by, among others, establishing a financial services ombudsman and deposit insurance scheme in the country.

Fiscal Developments and Policies

33. Over the past few years the country has experienced fiscal challenges emanating from, among other factors, a substantial decline in donor budget support. This affected fiscal operations to the extent that fiscal deficit position worsened to levels higher than the internationally acceptable threshold of 3 percent of GDP. However, lately, Government has started regaining donor confidence and plans to spend within available resources. As such, Government will continue focusing on fiscal consolidation through the continued implementation of Public Finance Management System reforms.

34. **In 2018/19 the overall fiscal deficit worsened as a result of higher-than-expected spending due to the once-off 2019 Elections-related administrative costs.** In addition, weather related shocks and natural disasters led to more unbudgeted relief maize for distribution by the National Food Reserve Agency (NFRA) to ensure food security across the country.

35. **Going forward, Government will focus on substantially reducing the fiscal deficit.** This will be done through increased revenue collection by broadening the tax base; improving tax administration; enforcing the use of electronic fiscal device; formalising the informal sector; and spending within available resources.

36. **Over the medium term, Government will also focus on the implementation of fiscal strategies that have multiplier effects.** In this regard, Government will ensure that it endeavours to increase resources allocated for development expenditure to internationally acceptable levels of around 30 percent. In this vein, Government will strengthen the link between the national budget and the Public Sector Investment Plan, specifically projects that have multiplier effects.

3.0.STRUCTURAL AND SECTORAL REFORMS

1. Structural Reforms

Public Finance Management Reforms

37. **Government is committed to implementing reforms in the Public Finance Management (PFM) sector.** In order to realize this goal, Government developed a PFM Rolling Plan to guide all PFM reform interventions until 2021. The Rolling Plan sets the platform for improving the alignment of public finances to national development goals and optimizing their impact on economic growth by implementing pertinent reforms in five thematic areas of planning and budgeting; budget execution; monitoring and reporting; budget oversight; and PFM institutional framework.

38. The Government will continue to improve its procurement systems. Following the establishment of the Public Procurement and Disposal of Assets (PPDA) Authority, Government has made significant progress to operationalise the PPDA Act. Recently, a Board of Directors was appointed and regulations for implementation of the PPDA Act were developed. Processes are also under way to fill the vacant positions of Director General and his Deputy.

39. Furthermore, Government is on course to complete the review of the Public Finance Management Act (PFMA). The review will strengthen the PFM Act and make it more robust to address the emerging challenges related to public finance management.

Revenue Policy Reforms

40. Government shall continue with efforts to broaden the tax base, and improve efficiency and effectiveness in revenue administration systems. Government plans to widen the tax net and broaden the base by among others exploring new areas to tax, increase enforcement and monitoring compliance. Government will expedite the automation processes at the Malawi Revenue Authority (MRA) by ensuring full implementation of the Integrated Tax Administration System (ITAS) branded Msonkho On line under the Domestic Taxes and continue to adopt new ICT systems to cope with the growing levels of E-Commerce.

41. Government will continue to review tax legislation including the establishment of a Revenue Appeals Tribunal for efficient resolution of tax disputes. Government also intends to curb tax avoidance by reviewing and renegotiating some obsolete Double Taxation Avoidance Agreements (DTAAs), negotiating new DTAAs with potential treaty partners and adopting measures to prevent Base Erosion and Profit Shifting (BEPS).

42. Furthermore, Government will comprehensively review user fees and charges to reflect the economic cost of provision of social services and other public goods. This includes improving the efficiency in collection and management of non-tax revenues by among others conducting a Business Process Review, and automating the processes in receipting of Government revenue and electronic payment for all Government services. Government is committed to further improve transparency in revenue collection and management in the extractive sector by adhering to principles and objectives of the Extractive Industries Transparency Initiative (EITI) to which the Government of Malawi is a member.

Budget Reforms

a) The Medium Term Expenditure Framework (MTEF)

43. The proposed 2019/20 budget estimates will continue to be preceded by stressful fiscal dynamics due to expenditure pressures in statutory payments. Growth in statutory expenditures especially wage bill, interest payments and domestic debt has exerted enormous pressure on the budget during the past couple of years. For the 2018/19 fiscal year, statutory payments amounted to K658.7 billion, representing 62.6% of domestic revenue and 45.3% of total expenditure. It also represented a growth of 12.8% from the 2017/18 fiscal year allocation of K584 billion towards statutory payments, significantly higher than the 7.3% growth in statutory payments from the 2016/17 fiscal year. This growth in statutory payments translates into under-provision for operational expenses for MDAs.

44. Therefore, Government will continue to focus on reducing domestic debt largely by keeping expenditures within targeted levels. To achieve this, 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. Government will also aim at financing a large portion of the development budget through domestic resources. Fiscal space emanating from growth in revenues and stringent expenditure control measures will be utilized to provide for essential services such as in health, education as well as for development expenditure.

45. From the 2019/20 FY, MDAs will be expected to use a standardized costing template as they prepare their budgets. In an effort to strengthen the Medium Term Expenditure Framework (MTEF), MDAs have been tasked to prepare medium term budgets with clearly defined costing assumptions. Since the introduction of the medium term expenditure framework, budgets are still submitted for one financial year. However, the concept requires a multi-year budget submission from MDAs. The standardized costing template has taken into account this aspect by including two outer years. As such, MDAs will be preparing and submitting a multi-year budget as a way of strengthening the MTEF.

46. **Furthermore, the 2019/20 budget will continue to be aligned to key priority areas as outlined in the MGDS III.** Government Ministries, Departments and Agencies have already been provided with activity codes that have been aligned to the strategy. MDAs will be provided with standardized costing sheets that require them to align budgets to MGDS III activities and key priority areas.

b) Programme Based Budgeting

47. **Government will continue to implement the Programme Based Budgeting (PBB) Reform.** Focus during the 2019/20 FY will be on PBB institutionalization. This 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. Other objectives include 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 indicators that are simple to define and can be observed by credible data are maintained; initiating operationalisation of enabling factors such as the reviewed 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 budget performance among key stakeholders.

48. **During the 2019/20 FY, Government also plans to start developing a web-based database to ease the preparation process for the Program Based Budget.** The database will ensure that there is efficiency in the production of the PBB document. With the database, Government will be able to maintain quality and reduce time spent formatting individual submissions from MDAs. MDAs will be able to submit their PBB's online. In addition, the database will serve as a dataset for MDAs performance information which will be used for monitoring budget performance.

49. **Government will be orienting budget execution personnel during the 2019/20 FY, to ensure that budgets are implemented in line with PBB Reform.** Starting from the 2019/20 FY,

focus will be on ensuring that budgets are implemented in line with programs and outputs as outlined in the PBB document. Accountants, Internal Auditors and Compliance Officers will be oriented on the reform to ensure that they perform their duties accordingly.

Public Enterprise Reforms

50. Recognizing the need for improved oversight of parastatals in Malawi, Government will continue to strengthen its monitoring role. To that effect, Government developed a parastatal monitoring framework that has been synchronized with a web based database for 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. In order to ensure optimum returns on investment in State Owned Enterprises (SOEs), Government has developed a Dividend and Surplus Policy to guide proper management and administration of parastatal contribution to the national budget.

2. Economic Growth Sector Reforms

Agriculture

51. Malawi's agriculture sector remains the mainstay of the country's economy and is key to the country's development objectives. Government focus is to ensure sufficient availability and access to food for all; and ensuring sustainable use of natural resources. Despite being endowed with abundant natural resources, including an estimated 7.7 million hectors of land available for agriculture, 24,300 square kilometres of fresh water resources, and ecological diversity, contribution of the sector to Malawi's economy has stagnated in recent years. It is against this background that Government seeks to transform the agriculture sector so that it should continue to effectively contribute to Malawi's economic growth. It is for this reason that Government launched a five-year National Agriculture Investment Program (NAIP) in 2018 as an operational guide for policy implementation. Guided by this investment framework, Government is therefore committed to carry out the following things in 2019/20 FY:

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

53. Under resilient livelihoods and agricultural systems, 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 fertilizer. Furthermore, Government will continue with programs that improve maize productivity, and diversify crop production and agricultural enterprises. Livestock and fisheries enterprises will 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 armyworm threat and other important pests and diseases.

54. 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. A cotton regulatory body has been in operation for a year and Government will improve this body's institutional capacity by filling the remaining vacant positions.

55. Government will also continue implementing the Contract Farming Strategy in the production and marketing of agricultural commodities. Among others, contract farming is expected to bring greater expertise in the negotiations of prices through concerted lobbying by a group of farmers rather than through individual bargaining with the buyer; increase tax revenue; enhance the export potential; and increase access to raw material for food and other agro-based industries.

56. Further, Government revised the National Fisheries and Aquaculture Policy in 2018. The policy has taken care of 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. The Government has prioritized developing capture and aquaculture fisheries, fish quality, value addition, social development and decent employment. Therefore, implementation of the policy will result in improved operational efficiency and effectiveness in the sector.

57. **In addition, Government launched the approved Seed Policy in 2018 and currently Government is in the final stages of revising the Seed Act.** The new revised Policy and Act seek to accommodate developments that have taken place in the seed industry since 1993 by providing clear guidelines for the development and promotion of the seed industry, and ensuring supply of adequate and high-quality seed and planting materials for all uses. This will go a long way improving agricultural productivity, food security and job creation.

58. **Furthermore, through the National Irrigation Policy, Government will continue to improve the irrigation infrastructure in a bid to enhance the country's economic productivity.** In line with this, Government has just completed construction of the Bwanje Dam which will provide access to reliable gravity fed irrigation and drainage services on 800 hectares of land. Government has also commenced implementation of the Shire Valley Transformation Programme. Apart from providing access to reliable gravity fed irrigation, the Programme seeks to secure land tenure for smallholder farmers, and to strengthen the management of wetlands and protected areas in the Shire Valley.

59. **LastlyGovernment 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). So far, GBIHL 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 a sugar factory.

Energy

a) Electricity Sub-Sector

60. **Electricity is crucial for the industry, the service sector and households.** It is the life-line of modern economies. Government made electricity one of the priorities in the MGDS III under the energy subsector and will therefore continue its efforts to increase the reliability and security of

power supply and its efficient utilization. The country has electricity generation capacity of 361 MW of hydro and 91.3 MW of diesel generators. However, the current suppressed demand for electricity is 450 MW. Therefore, Government intends to increase the generation capacity so that there is adequate electricity all the times for social and economic activities.

61. In the short run, Government will continue engaging the private sector to invest in solar and wind power generating plants as Independent Power Producers (IPPs). Government has to date engaged three companies JCM Capital of Canada; Phanes of United Arab Emirates and Voltalia SA of Portugal to produce a total electricity of 137.5 MW from solar. The three companies are expected to finalize the construction of the projects by the end of 2019. Government has also engaged Droege Energy of Germany to generate at least 50MW from wind in Mzimba as an IPP. The site has a potential of generating up to 100MW.

62. In medium term, Government will continue with its plans to implement a 300MW Kam'mwamba Coal Fired Power Plant Project and the 250MW Mpatamanga Hydropower Plant. The Kamwamba Coal Fired Plant Project will potentially be developed by Government with a loan from EXIM Bank of China. On the other hand, Mpatamanga will be developed through a Public Private Partnership arrangement and Government is working on this project with International Finance Corporation (IFC) - an investment arm of the World Bank. Further, Government plans to co-develop 180 MW Songwe Hydropower plant with the Government of United Republic of Tanzania which will be shared equally between the two countries.

63. Government will continue exploring the possibility of drawing power from the Southern Africa Power Pool through Malawi-Mozambique and Malawi-Zambia Interconnectors. Feasibility studies for the two interconnectors were completed. Malawi and Mozambique have jointly secured financing for the project from the World Bank, KfW and the Norwegian Trust Fund. Construction of the line is expected to start in 2020 and completed in 2022. Meanwhile Government is looking for finances for the Malawi – Zambia interconnector. Further to this, the Government is working with the neighbouring countries to import power for the border towns and trading centres.

64. **Government replaced the old pricing mechanism with an automatic electricity tariff adjustment system that makes the electricity tariff to adjust in response to market forces.** In this regard, Government will continue implementing electricity cost reflective Tariffs in 2019/20 FY.

65. **In its quest to expand access to electricity, Government will continue implementing an extended phase of MAREP Phase 8 in 2019/20 FY.** Construction in phase 8 started in January 2019 and is expected to end in August 2019. This phase will electrify 270 rural sites. These are additional sites to the 336 centres already electrified.

b) Fuel Sub-Sector

66. **Similar to electricity tariffs, Government will continue to apply the automatic fuel pricing adjustment mechanism in 2019/20 FY.** In this system, the In-bond Landed Cost (IBLC) of petroleum products reflecting movements in international prices and movements in exchange rate are taken into consideration when determining fuel pump prices in the country.

67. **Furthermore, Government in conjunction with the private sector will embark on a promotion programme for Liquefied Petroleum Gas (LPG) as an alternative source of energy.** Government will also continue working with various Non-Governmental Organizations (NGOs) in promoting energy-efficient cooking stoves in order to ensure that the available biomass energy resources are utilized efficiently.

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

68. **The Government recognizes the role that climate change, natural resources and the environment play in the socio-economic development of Malawi.** For this reason, 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 this respect, Government will continue with:

- integrating environmental and social considerations into development projects in order to address environmental degradation in the country;

- (ii) monitoring development projects for Environmental and Social Impact Assessment (ESIA) and audits and compliance to chemicals and toxic substances and waste and sanitation regulations;
- implementing waste management strategy for a clean and health Malawi;
- promoting conservation and sustainable utilisation of biological resources, and promote fair and equitable sharing of benefits arising from utilization of biological resources for the benefit of the nation; and
- increasing public awareness and participation in environment, natural resources and climate change management.

69. Government will strengthen regulatory framework in climate change, natural resources and environmental management. This will include continued implementation of the Climate Change Management Policy (2016), National Environmental Policy (2004), Environment Management Act (2017) and other environment, natural resources and climate change related legislation. Government will also operationalise the Malawi Environmental Protection Authority and the Atomic Energy Regulatory Authority for the protection of people from ionizing radiation. In addressing the impacts of climate change, Government will establish and operationalise a National Climate Fund. This Fund will be a vehicle for financing climate change projects that will transform Malawi into a climate resilient nation and develop and implement climate change mitigation and adaptation programmes.

d) Forestry Sub-Sector

70. Government recognizes the contributions of forests to the economic growth of the nation. Therefore, Government will continue protecting and managing forest resources, including the 87 forest reserves, catchment areas, the 20 state owned industrial forest plantations and also promoting tree planting and natural regeneration. In this regard, Government will develop and implement the Reduced Emissions from Forest Degradation and Deforestation (REDD+) Strategy, continue with the implementation of the National Charcoal Strategy, protect and develop 90,000 hectares of state owned industrial forest plantations, enforce the existing forest management legislation to protect the endangered forest reserves, and raise and plant up to 62 million tree seedlings on customary estate and state owned industrial forest plantations in collaboration with multi-stakeholders including the youths. At least 700 hectares of natural regeneration is expected to be fully managed and protected by Government and surrounding communities.

71. Government will also protect hot spot areas and conserve at least one million hectares of forest reserves and customary estates. Most of the sub-sector's resources will be channelled towards protection of prioritised forest reserves namely, South Viphya, Kaning'ina and Perekezi in the North, Dzalanyama, Thuma and Ntchisi in the Centre, and Liwonde, Zomba-Malosa and Mulanje Mountain in the South.

e) Mining Sub-Sector

72. Malawi has abundant mineral resources that can be sustainably exploited to contribute to Government vision of transforming this country to a predominantly producing and exporting country. Government will therefore ensure that the upcoming and promising large-scale mining projects in Malawi are fully developed. The upcoming mining projects include Kanyika Niobium Project in Mzimba, Malingunde Graphite Project in Lilongwe, Songwe Hill Rare Earths Project in Phalombe and Makanjira Heavy Mineral Sands Project in Mangochi. Government will continue creating competitive and favorable working environment for mining companies and potential local and international mining investors. This will mostly be through review of pieces of mining legislations which are not in tune with new global trends in the mining landscape and also through the development of new policies to address new challenges in the mineral sector. Currently, government is facilitating the development of a new Petroleum Policy and review of Petroleum (Exploration and Production) Act of 1983. All these efforts are being undertaken to upscale the development of the mineral sector in the country so as to turn the mineral sector around to be one of the major sectoral economic contributors to the country's economy.

73. An electronic Geo-data Management and Information System (GDMIS) has been installed at the Geological Survey Department. The system is currently under trial at intranet level.

GDMIS will improve the archiving, accessing and updating of geo-scientific data. All old analogue data is being digitized and over 24,000 documents have already been digitized and uploaded into the database. GDMIS is expected to be fully functional by December 2019.

74. Government will continue to implement the Geological Mapping and Mineral Assessment Project (GEMMAP). The project shall provide a set of modern and up to date geological and thematic maps of the territory of the Republic of Malawi that will serve as a fundamental base for the future management of the mineral resources of the country. The data from GEMMAP is also invaluable to other sectors such as agriculture, infrastructure development, environment, land use planning, mitigation of natural disasters especially geo-hazards and general research, among others. Government will continue to demonstrate its commitment to the Extractive Industry Transparency Initiative (EITI). Malawi joined the initiative with a strategic goal of ensuring that extractive industries contribute to national development through revenue transparency and accountability.

75. Government will continue with building and strengthening capacity in both human and institutional infrastructure relating to the mining sector. This includes, the procurement of modern geological mapping and mineral exploration equipment; mining and mineral processing inspection equipment; rehabilitation of mineral laboratories at Geological Survey Department and Department of Mines to facilitate in-country analyses of geological and mineral samples, support specialized geological and mining courses in tertiary institutions and training of a critical mass of officers at various levels in geological and mining courses. The Geological Survey Department shall also continue with the monitoring and assessment of geo-hazards such as earthquakes, landslides, mudflows, among others, in the country. Mapping of all geo-hazards prone areas will continue for production of risk assessment maps. The data is very important in decision making towards land use planning and designing of infrastructure.

76. Government also recognizes the role that Artisanal and Small-Scale Mining (ASM) plays in the economic growth and poverty reduction in Malawi especially at household level. Government will continue to provide technical services to ASM in areas of geological information;

prospecting and mineral identification. In addition, Government with support from European Union Panaf GEO project is developing the ASM Hand Book for Malawi. This handbook will guide most of the ASM operations in the country.

f) Wildlife Sub-Sector

77. **The Government is aware that conservation and management of wildlife resources is of paramount importance to economic growth of the country through tourism.** Therefore, Government will curtail poaching and illegal use of wildlife resources by strengthening the law enforcement capacity through enhancing inter-agency collaboration with other law enforcement agencies, enhanced community participation and other adaptive wildlife management techniques. Government will launch the recently approved National Wildlife Policy and complete with the gazetting of the revised regulations emanating from the amended National Parks and Wildlife Act so that the penalties regarding illegal utilization of wildlife resources become deterrent.

78. **Furthermore, Government will improve and develop eco-tourism and management infrastructure in national parks and wildlife reserves.** This will boost tourism and enhance effective protected area management. In this regard, Government will undertake a number of rehabilitation works at Kasungu and Lengwe National Parks, Lake Malawi National Parks and Lilongwe Nature Sanctuary. Additionally, Government will enhance Public-Private Partnerships in park management and ecotourism concessions at Kazuni in Vwaza Marsh Wildlife Reserve and Lilongwe Nature Sanctuary by procuring two concessions. Government will also strengthen the involvement of local communities living close to protected areas as partners and beneficiaries in the ownership and management of wildlife. This will be achieved through collaborative management by promoting revenue sharing schemes as well as enhancing general public awareness and understanding of the importance of wildlife conservation and management.

Industry and Trade

79. **Government is leading a number of efforts aimed at improving the business environment to promote Private Sector Investment.** 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 cost and complexity. In 2019/20 FY, Government will continue spearheading the development of the Investment and Export Promoting Bill whose aim is strengthening the legislative framework of Malawi Investment and Trade Center and make its mandate become more robust. The Bill seeks to repeal the IEP Act and the Export Incentives Act [Cap. 39:04]. Among other things, the Bill aims at tackling the issues of registration of investors and exporters as well as issues of accessing and administering incentives.

80. Government will also continue implementing the Leather Value Chains Strategy. Currently, Government is implementing the Malawi Enterprise Productivity Enhancement (MEPE) project whose ultimate objective is to ensure that SMEs, cooperatives and associations are value adding the country's local hides and skins and textile. The support to value addition and skill development is focusing on youth, women, farmers' cooperatives and SMEs through existing value chain stakeholders engaged in textiles, clothing and leather. The project also prepares these groups to connect to global value chains through effective participation in national and regional trade.

81. Government is also in the process of developing the Micro, Small and Medium Enterprise Bill aimed at improving the business environment in the country. The bill classifies and regulates Micro, Small and Medium Enterprises. It seeks to increase formalization of informal businesses through simplification of procedures on business registrations, access to credit and facilitation of investments. Government will also develop a successor National Export Strategy to replace the old strategy whose implementation came to an end in 2018.

Tourism

82. Government through support from the African Development Bank (AfDB) will continue implementing a four-year project aimed at promoting investment and competitiveness in the tourism sector. The Project's broad development objective is to create an enabling environment for investment in the tourism sector through enhanced capacity in planning and business management, and improved governance in management of natural resources. The Project focuses on five areas namely:

- development of a Tourism Investment Master Plan for ensuring that the sector is well planned and monitored;
- capacity building for tourism statistics so that data on tourism is readily available and the economic contribution of the sector is clearly known or quantified;
- development of touristic products with a focus on ecotourism;
- strengthening capacity in management of touristic products, enterprises, and related businesses with a view to increase the economic performance of the sector; and
- strengthening collaboration between Government, private sector and communities in conservation and product development with an aim to create employment opportunities and generate revenue.

83. Competitiveness of the sector shall be enhanced through the country's ability to invest in touristic infrastructure and services, and in attracting as well as satisfying the needs of tourists through well developed products and improved service delivery. Among others, Government is working on upgrading road infrastructure in tourist spots. Recently, Government finalised the upgrading of a 4.7 km access road to Salima lakeshore resort areas. In 2019/20, Government will upgrade Cape Maclear access road in Mangochi district. It is expected that the roads will ease the mobility of tourists to the resort areas and result into increased tourist numbers and tourism investment in the areas.

Transport Infrastructure

84. Government has finalised 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 achieve 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

85. 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, marketing and improving rural area accessibility, the upgrading of urban roads is aimed at 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.

86. In order to achieve the above, Government will continue to look at alternative measures for increasing resources especially for road maintenance. This includes, but not limited to, introduction of road tolls and continued implementation of road fund bonds. Government is also committed to improving road safety by strengthening enforcement of road transport regulations and intensify safety awareness campaigns in collaboration with the private sector.

b) Inland Water Transport Sub-sector

87. 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 was finalised for Likoma Jetty. In addition, Government 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

88. Government recognises that rail transport provides the quickest way of reducing transport costs and is therefore committed to rehabilitating existing rail infrastructure. Government 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 finalise feasibility and design study for the Limbe – Marka section. Government will also advance the revision to the

Railways Act which seeks to separate operations, management and regulatory functions in the rail sub-sector.

d) Air Transport Sub-sector

89. The operationalisation of the Civil Aviation Authority Act will remain Government's main area of focus. 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 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

90. Labour and employment; 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 ratified international labour standards in the 2019/20FY. Specifically, Government will promote decent work programmes which aim at ensuring a safe working environment and job satisfaction. Such programmes include labour inspections in all workplaces, workers' compensation, review and enforcement of labour legislation, timely resolution of labour related disputes and scale up labour market information dissemination.

91. Government recognizes that about 89 percent of the employed people work in the informal sector where there are a lot of decent work deficits. Government will therefore embark on formalisation of programs to ensure that jobs are made decent. Government will also ensure that safe and gainful employment creation is mainstreamed in all investment promoting policies.

92. Government will review Temporary Employment Permit (TEP) procedures to ensure that expatriates are employed in jobs, which require skills that are not available in the country. This will ensure that job opportunities are available for Malawians and the youth in particular. Government will also develop labour migration policy and legislations which will help in regulating private employment agencies and protecting migrant workers.

93. Government also recognizes the existence of problems of skills gap and high levels of youth unemployment in the country. In dealing with these problems, Government will continue implementing skills development initiatives such as establishment of community technical colleges and skills development centres across the country as well as expansion of National Technical Colleges. To improve skills quality assurance, Government will implement the unified TEVET assessment and certification framework.

94. Government has completed the establishment of a Labour Market Information System (LMIS), which is aimed at bridging the information gap between employers and the labour force. The LMIS will also provide information to investors on labour related issues. Government has also completed the establishment of Youth and Sports Management information system (YOSMIS) which will ensure improved availability of youth and sports information. Government will ensure that the two systems are running efficiently.

95. Child labour still remains a challenge to economic growth and development in Malawi. 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. Furthermore, Government recognizes the evils of tenancy Labour mostly in tobacco estates in Malawi. Government will therefore abolish Tenancy Labour in Malawi to ensure that all tenants are employed just like any other employees and their conditions of service are according to the labour laws of the country.

96. **Government will continue implementing youth empowerment and development programmes across the country in order to reap demographic dividend.** Government will continue implementing Jobs for Youth Project and Graduate Youth Internship Program. Furthermore, Government will develop Volunteer and Youth Internship Framework in an effort to improve coordination in the conceptualization and implementation of volunteerism and youth internship initiatives.

97. **With regard to sports development, Government will develop a multi-discipline sports complex at Kamuzu Institute for Youth in Lilongwe and build a state of the art Stadium and of international standards in Blantyre.** This will enhance the country's capacity to host multi-discipline international competitions. Government will further ensure that competitions for sports disciplines are established at all levels so as to promote mass participation in sports.

4.0.CONCLUSION

98. **Government will ensure smooth and speedy implementation of all the proposed reforms and programs outlined above in order to steer the economy towards a much more, resilient and prosperous path.** Emphasis will be on enhancing macroeconomic stability, attainment of sustainable, inclusive and resilient economic growth. Increased private sector investment, employment creation and public financial management reforms will form the nucleus of Government policy. Enhanced efficiency in use of public resources and accountability is also paramount for the achievement of the set targets during the 2019/20 FY.