

## Chapter 4 – The Malawi Poverty Reduction Strategy

The MPRS has been designed in the light of the severe poverty situation and the lessons learnt from past experience. It is the result of extensive consultations as described in Annex 1.

In the past, Malawi has failed to achieve sustainable and equitable growth. In the 1970s, there was sustainable growth, but this was centred in the estate and large-scale sectors and did not benefit the poor. In the 1980s, SAPs succeeded in achieving relative economic stability, but this was not translated into economic growth, in part due to a lack of national ownership and poverty focus. In the 1990s, there were periods of equitable growth driven by the smallholder agricultural sector, but this growth was not sustained as a result of external shocks and policy reversals. As a result, as Chapter 2 demonstrates, income poverty has remained high, and distribution remains highly unequal. This experience points to a strategy of pro-poor growth. This is growth that involves and benefits the poor. This will be complemented by some deliberate transfers to the poor.

The strategy also deals with the rural concentration of poverty. The concentration of poverty in rural areas requires proportional concentration of poverty reduction efforts and activities in rural areas. The poor social indicators described in Chapter 2 will be addressed through human capital development interventions, which will ultimately have a major impact on long term income poverty.

The medium goal of the MPRS is that by 2004/5 the incidence of poverty in Malawi should be reduced by 6 percent, that is from 65.3 percent of the population to 59.3 percent. In other words, about 140,000 people move out of poverty and start generating their own income sustainably. The medium term poverty reduction goal will be met through a number of poverty reduction targets. The targets are summarized in Table 4.1 below.

*Table 4.1 Selected major impact targets for the MPRS 2002-2004*

Type	Current Status	Target 2004
Poverty headcount measured by consumption based poverty line	65.3%	59.3%
Extreme poverty headcount, measured by consumption based ultra-poverty line	28.8%	20%
Life expectancy	39 years	43 years
GDP per Capita (constant 2001 prices)	MK 10,500	MK 11,400
Literacy rate (female)	58% (44%)	70% (60%)
Infant mortality rate (per 1000 children)	104	90
Maternal mortality rate (per 100,000 live births)	1,120	800

The MPRS has been built around four strategic pillars. The first pillar contains strategies that will enhance rapid sustainable pro-poor economic growth and structural transformation. In the second pillar, strategies focus on human capital development. The third pillar captures strategies on improving the quality of life of the most vulnerable. The fourth pillar covers issues of good governance.

Finally, the MPRS will ensure that cross cutting issues: such as HIV/AIDS, Gender, Environment and Science and Technology are streamlined in all strategic activities of the PRSP because of their casual and consequential impact on poverty.

#### **4.1 Sustainable Pro-Poor Growth**

Pro-poor growth is growth that involves and benefits the poor. It is a prerequisite for broadening income distribution and generation of employment. The consultations country-wide revealed a number of short-comings in the previous approaches to stimulating growth and reducing poverty. Major inadequacies were identified in agricultural production, micro-enterprises and micro-finance, rural infrastructure and macroeconomic stability.

Pillar 1 is divided into two main elements: the promotion of specific sectoral sources of pro-poor growth, and the creation of an enabling environment for pro-poor growth.

##### ***4.1.1 Sources of Pro-Poor Growth***

The key specific sectoral source of pro-poor growth in the medium term is agriculture. Efforts will also be made to diversify into sectors with greater value-addition, especially through Micro, Small and Medium Scale Enterprises (MSMEs). The key sectors identified for diversification are natural resources, manufacturing, tourism and small-scale mining.

###### ***4.1.1.1 Agriculture***

As Chapter 2, clearly shows, agriculture remains the most important source of income accounting for 63.7 percent of total income of the rural poor. Thus, increasing agriculture incomes would be one main source of poverty reduction, at least in the medium-term. The agriculture sector contributes about 36 percent to GDP of which smallholder sector contributes about 27 percent of GDP. In addition, agriculture accounts for approximately 87 percent of total employment and supplies more than 65.3 percent of the manufacturing sector's raw material requirements.

Government and its partners will promote agriculture by providing farmers with the necessary services and conditions for them to increase their incomes. This will involve expanding and strengthening access to agricultural inputs; improving research and extension services, introducing smallholder friendly technologies, improving access to local and international markets; reducing land shortage and degradation; increasing investment in irrigation; and developing farmer co-operatives and associations. Further, issues of rural infrastructure and security, which are crucial to poverty reduction through agriculture, are covered under the sections on rural infrastructure in Pillar 1, and on security and justice under Pillar 4.

1. Expand and strengthen access to agricultural inputs

Low agricultural productivity is mainly due to unavailability or lack of access to essential inputs such as fertilizers, manure and quality seeds. Use of fertilizer and improved hybrid seed by the majority of farmers, especially smallholders, has been extremely low. Given the low level of average incomes, farmers can only buy inputs through credit. However, financial institutions are reluctant to lend to the agriculture sector due to inherent risks of farming, lack of collateral and high default rates. Increases in input supply through safety nets to the rural poor have resulted in increased production in the past. For instance, in 1998/99 and 1999/2000, Malawi experienced bumper harvests, among other things, owing to the implementation of free seed and fertiliser distribution under the Starter Pack Programme (SPP).

The solution to these problems is threefold. Firstly, increasing access to credit to the farmers with more emphasis on reaching the productive poor, who have in the past been non-creditworthy. The detailed strategies on credit are elaborated in the subsequent section. Secondly, encouraging the production and use of compost and other sources of manure, and linking farmers to markets that demand organically produced agricultural crops. Thirdly, ensuring access to inputs to the most vulnerable through the Targeted Input Programme (TIP) and Public Works Programme (PWP) as elaborated in Pillar 3. Finally, to operationalise credit system for farmers, the groups or farmer associations that will be formed throughout the country will be organised into Savings and Credit Co-operative Organisations (SACCOs) for the purposes of mobilising savings and providing credit to members. In addition the SACCOs will be used as collateral for accessing credit from commercial banks and other financial lending institutions.

2. Improve agricultural production through improved research and extension services.

Agricultural research institutions have developed technologies that have not been fully adopted by smallholders because of high costs of technology and inadequate linkages between research and extension. Some of the technologies (such as motorised irrigation) developed are inappropriate for use by the low capital and small land holding farming communities in Malawi.

In view of resource constraints, which have resulted in failure to maintain basic extension activities in the field, the Department of Extension in the Ministry of Agriculture and Irrigation (MOAI) has embarked on a Core Function Analysis with the aim of making extension service delivery more effective and responsive to farmers' needs. This has resulted in a new extension policy document, which emphasises demand driven pluralistic extension services, allowing farmers to determine the information required, and involving NGOs (including private institutions) in the delivery of extension services. While the government will still remain the main provider of free extension services especially to smallholder farmers, some progressive and fully commercialised estate farmers will have to pay for extension services which will be provided by some private institutions such as NGOs, ARET, NASFAM. In addition, some more private institutions will be encouraged to provide extension services.

The resulting strategies involve, firstly, improve extension and research delivery services by strengthening research and extension linkages through creating synergies between the two so that farmers do not consider them as separate institutions but as one. To this effect, a joint research extension strategic planning fora involving crops animal specialists and farmers representatives will be conducted biannually to identify farmer's technology requirements in order to come up with appropriate technologies to be transferred to farmers. A multi media communication approach involving research, extension and farmers will be created. A systemic approach to technology development, problem identification, and promotion and utilisation of appropriate technology will be advocated. On farm impact assessment surveys will be carried out every year to determine usefulness and adoption rates of the technologies imparted. In addition the farmer to extension worker ratio will be reduced to increase farmer access to extension services. This requires training and employing more extension workers to fill the gap created by high attrition rate (9 percent), mainly due to deaths and retirement. In

addition, some existing extension workers will be retrained to enhance their knowledge and reorient them to the new extension policy.

Secondly, Government will facilitate the formation and development of product specific farmer co-operatives and associations for easy access to credit and extension messages on production and marketing. The associations will be encouraged to engage into contract farming and farmers will be mobilised to actively participate in prevention and mitigation of HIV/AIDS.

Thirdly, Government will strengthen its research efforts in crops and animal production technologies, which are responsive to the needs of farmers and easily adopted while being cost effective in nature.

Fourthly, the Government will enhance and perfect production and dissemination of appropriate agricultural statistics including weather, crop production estimates, and price and market information., which will enable effective planning for production and marketing of agricultural products.

*Table 4.1.1 Extension Targets*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Maize yield (kg/ha)	1137	2000
Cassava yield (kg/ha)	16618	18000
Cotton yield (kg/ha)	776	1500
Groundnuts (kg/ha)	820	1000
Soya Beans (kg/ha)	685	1000
New extension workers trained	-	232
Farmers' groups and co-operatives formed	-	3000

### 3. Improve access to domestic, regional and international markets

There has been a general lack of understanding of domestic, regional, and international markets among Malawian farmers and small agro-enterprises such that they have not taken advantage of the market opportunities created by bilateral and multilateral trade agreements. Most stakeholders have very limited access to information on local and international markets especially smallholders and small scale traders, leading to lack of knowledge of the quality, quantity and type of products to be produced and targeted to specific markets. The competitive position of agricultural products in Malawi is relatively weak due to high transport costs and low on-farm and agro-industrial productivity. Extension agents focus on

production rather than marketing information and do not provide marketing support to farmers.

The strategic actions towards addressing these problems will include developing an efficient and effective Market Information System (MIS). This will be achieved through creating a better marketing network, which will link farmers to markets. Extension workers will be oriented towards imparting marketing knowledge such as grading, good storage and gross margin analysis. Dissemination centres will be created in all district assemblies and other conveniently accessed areas (schools, health centres, and agricultural offices). Market Information Systems in existing institutions for both inputs and outputs will be strengthened, be demand driven and based on partnership between Government and the private sector. Farmers will be trained in how they can access markets ( for example, by being informed by extension workers, through market research by farmer association representatives, and traders) and how to take advantage of specialised market opportunities. International linkages will be strengthened, for example, through trade fairs and other buyer/seller meetings, internet access, marketing bulletins and membership of local and international commodity trade associations

Rural farmers are not effectively involved in the direct marketing of their produce due to lack of producer organizations, lack of cottage industries, lack of remunerative prices and weak rural infrastructure. In order to eliminate these problems, Government will facilitate the development of co-operatives to improve supply development. Export villages will be established for selected clusters of crops to improve their marketability. Government will also initiate market development programmes to capture both domestic and export markets. Specific actions will involve creating and enhancing farmers markets, promoting buyer-seller contacts, designing and producing promotional literature and collecting and disseminating market information. Further, Government will protect rural farmers from sub-standard imported agricultural products.

#### 4. Promote small scale irrigation schemes and drainage

The current irrigation system has failed to maximise its production potential and impact on poverty for two main reasons. Firstly, smallholder farmers have in the past been provided with motorised equipment whose utilisation was not economically viable, particularly due to high maintenance costs. Secondly, there have been inadequate trained personnel and training programmes for farmers in irrigation issues, leading to low adoption of irrigation

technologies. As a result, total irrigable land (potential land for irrigation) is 200,000 hectares while only 57,000 hectares<sup>14</sup> is currently under irrigation, of which only 8,000 hectares is by small-holder farmers. By promoting small-scale irrigation and drainage, greater efficiency will be achieved in the use of water, hence increasing productivity and raising crop yields. Farmer associations and cooperatives will be encouraged to develop and maintain irrigation schemes in order to increase production of specific commodities. This will include training, technical advice and linkages to credit institutions.

To this extent, the MPRS will facilitate the development of these small-scale irrigation schemes and undertake the drainage of marshland where necessary. Strategies will include: supporting the construction of small scale irrigation infrastructure; promoting irrigation schemes based on manual lifting devices, sprinklers and motorised pumps; rehabilitation and construction of community small earth dams, introducing training programs to build capacity in management; and draining and reclaiming wetlands for agricultural use where environmentally sustainable.

*Table 4.1.2 Irrigation Targets*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Treadle pumps supplied on loan to farmers		100,000
Area under motorised pump irrigation (hectares)	1,300	3,700
Community dams rehabilitated		90
Area under irrigation per ADD (hectares)		2,000

#### 5. Encourage production of livestock and specific crops

The Malawi economy has largely relied on tobacco for income and employment. Since the repeal of the Special Crops Act,<sup>15</sup> there has been a tremendous increase in the production of barley tobacco as indicated in Figure 4.1.1. However, efforts to encourage diversification of crop production away from tobacco have been ineffective, particularly as a result of the reliable market for tobacco compared to other crops.

<sup>14</sup> Ministry of Agriculture and Irrigation *Irrigation Department Annual Workplan 2000/2001*

<sup>15</sup> An act which prohibited smallholder farmers from growing high value cash crops such as tobacco,

*Table 4.1.3 Final Smallholder Crop Estimates for Major Crops (metric tonnes)*

<b>Crop</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Maize	1,327,865	1,793,463	1,226,476	1,534,326	2,245,824	2,211,859	1,899,185
Paddy Rice	39,073	72,629	65,690	68,802	92,859	67,084	89,120
Groundnuts	30,664	40,327	68,718	97,228	124,604	116,363	147,624
Tobacco	35,438	68,978	83,567	94,063	84,555	98,614	85,715
Cotton	25,207	82,591	45,122	36,336	50,589	34,907	39,584
Sorghum	20,090	54,710	39,514	41,401	41,401	36,799	37,278
Millet	13,259	20,262	16,424	19,638	20,224	19,508	19,926
Pulses	99,772	183,093	179,226	208,859	233,811	248,243	306,560
Cassava	328,424	534,549	713,566	829,821	895,420	2,757,186	3,153,988
Sweet Potatoes	317,705	569,469	858,129	1,432,383	1,680,313	1,634,268	2,478,355

Source: MOAI Agricultural Statistical Bulletin 2001.

Government will take action to diversify and encourage the establishment of viable production units of selected key export crops which will have a direct market link with industry to facilitate agro-processing for more value adding. Key crops, apart from tobacco, such as cotton, cassava and soya beans have been selected on the basis of their high productivity by smallholder farmers and that the crops could easily be processed into a number of products. These crops also have high export marketing prospects. It is envisaged that crop specific associations of these crops will be formed in areas with high comparative production advantage. To kick-start the process, Government will encourage the introduction of schemes to provide loans to the associations.

In terms of livestock, past government efforts have had minimal impact in increasing production of livestock because emphasis was placed on disease prevention services with less emphasis on production-oriented programmes. In addition, the private sector was not encouraged to produce livestock. As a result, there has been very little increase, and in some cases decline, in livestock production, as shown in Table 4.1.2 below.

*Table 4.1.4 Trends in Livestock Production 1994-2000*

<b>Species</b>	<b>Population</b>						
	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Cattle	748,891	748,830	780,069	589,175	611,040	750,000	775,333
Pigs	252,112	340,129	312,925	420,772	-	425,000	451,051
Sheep	91,915	86,827	93,018	97,916	-	117,000	119,466
Goats	850,313	843,362	947,028	1,566,514	-	1,460,500	1,620,103
Poultry	-	-	12,807,000	10,005,000	10,366,000	12,000,000	10,000,000

Source: Department of Animal Health and Industry (DAHI) 2000/01 Work Plan

In order to address these problems, Government in conjunction with NGOs will strengthen its advisory services in production and marketing of livestock and its products. To this end, the

formation of livestock production schemes will be facilitated, and special effort will be geared towards creating loan facilities for livestock production. In addition, the establishment of viable feed industries will be encouraged, to make animal feed more affordable to smallholder farmers.

Basic animal health services such as dipping tanks will be expanded, upgraded and supported. Surveillance and control of animal diseases will be revamped and strengthened. These will partly be sustained by cost sharing.

*Table 4.1.5 Livestock Targets*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Number of farmers reached by animal husbandry extension	-	1,120,000
Production of cattle	775,333	868,373
Production of pigs	451,051	676,577
Production of Sheep	119,466	155,306
Production of goats	1,620,103	2,106,134

Source: DAHI

#### 6. Reduce land shortage and degradation.

Land constraints in Malawi arise mainly from low productivity of fragmented pieces of smallholder land, lack of security of tenure, high population density and an unorganised land market system. High population densities and lack of off farm employment opportunities have exacerbated the land scarcity problem in most parts of the country. Current land inheritance patterns encourage fragmentation of holdings and discourage long-term investments and improvements on land. Poor implementation of land policies and enforcement of the law has led to cultivation on slopes and river-banks, resulting in deforestation and serious soil erosion. There has been weak planning and coordination among sectors dealing with land. The absence of proactive policy interventions and limited capacity for dynamic monitoring of land administration may have directly contributed to current problems of poverty, food insecurity, and perceived inequalities in access to arable land.

The strategies for achieving this objective are the implementation of the Land Policy, including providing land to the landless; increasing productivity of small land holdings; promoting low cost conservation technologies, consolidating reproductive and gender issues into land management, and ensuring sustainable environmental and natural resource management. This will be achieved through redistributing 14,000 ha of land to 3,500 farming households, guaranteeing security of customary land tenure, conducting soil conservation and fertility campaigns; and training and promoting family planning to reduce pressure on land.

#### 7. Promote and Expand Farm Mechanisation.

Agricultural mechanisation in Malawi is presently at low levels. The predominant source of power is human power and the hand hoe is the main implement. This limits the performance of critical operations like tilling, planting and weeding. Currently only about 13.5 percent of farmers in Malawi are using animal drawn implements, mostly in the central and northern regions. Motorised power is essentially limited to estate farms, which cover just 30 percent of the total cultivated land. Despite the low use of basic animal drawn implements, their demand and the demand for work oxen has been on the increase in the period from 1992 to 2000. However, it has been difficult to fully satisfy the demands because of reduced numbers of animals and increased costs of farm implements. Past government initiatives towards improving mechanisation such as the use of power tillers in the rice schemes, draught animal power utilisation, motorised maize shelling, and aerial spraying of cotton failed. The reasons for the failure ranged from lack of spare parts, high cost, poor consultations with farmers, poor hiring arrangements, lack of accountability of funds collected from farmers and inadequate care for animals.

These problems will be addressed by the following strategies: increasing access to draught animals and animal drawn implements by expanding training of work oxen and encouraging use of alternative source of animal power such as donkeys. More farm implements will be made available at cheaper cost by providing conducive fiscal incentives to companies who will be investing in production of farm implements. Local artisans and suppliers will be supported and linked to industry.

Efforts will also be made to increase access to tractors for hire. Existing schemes have been unsuccessful because of small and fragmented land holding size. The new approach will involve provision of tractors for hire to groups of farmers in co-operatives with land consolidated for easy operation with tractors.

*Table 4.1.6 - Targets for Mechanisation.*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Number of animals trained	-	60,000
Number of artisans trained in production of animal drawn implements	-	300
Number of donkeys in use		865

8. Reduce weaknesses in institutional and policy framework.

Farmers are unable to participate in the formulation of agriculture programmes voice owing to a lack of co-ordination between farmers, the MOAI and other organisations in the agricultural sector. The respective roles of Government and private sector are not clearly stated or understood and in many cases lead to confusion and wastage of resources, due to lack of a core functional analysis for the MOAI. Ineffective decision-making mechanisms have led to poor development and implementation of policies. Policies and legal frameworks in most cases exist to guide the activities of the MOAI but resources for implementation are diverted to non-core functions.

In order to address these problems, the Malawi Agriculture Sector Investment Programme (MASIP), under formulation, will provide a framework for partnerships between Government, donors, Non-Governmental Organisations (NGOs), and the private sector in development of the agriculture sector. In particular, this will involve strengthening co-ordination between farmers and other institutions within the agricultural sector, redefining and restructuring the MOAI around its core functions and in response to impending decentralisation, and instituting clear arrangements for implementation of non-core functions by the private sector, NGOs and farmer associations.

9. Increase gender balance, prevent and mitigate HIV/AIDS in the agricultural sector.

In the past, agricultural services have not been equally provided to females and males. In most cases, services such as development of technologies and dissemination favoured men, leaving women, boys and girls at a disadvantage. Conversely, technology dissemination in food and nutrition was targeted at women, leaving out men. This gender imbalance has resulted in inequity in uptake of knowledge and competence necessary for understanding and benefiting from agricultural technologies between and among different gender groups of the farming community. On the other hand, HIV/AIDS issues have not been adequately incorporated within the agricultural programmes. In order to ensure quality participation, the sector will strive to design and implement activities that will generate, disseminate, avail and promote use of appropriate technologies that impact on basic and economic needs for the various gender groups.

The MPRS endeavours to achieve gender balance, prevention and mitigation of HIV/AIDS through the following strategies. Firstly, campaigns for mainstreaming gender and

HIV/AIDS will be undertaken for both communities and the work place. This will involve conducting gender and HIV/AIDS awareness meetings, which will involve participation of the local community to expose them so that they support services on gender and HIV/AIDS. Secondly, diagnostic surveys will be undertaken to bring about deeper understanding of needs, issues and links of HIV/AIDS, gender and agriculture development in selected areas (model villages and sample areas). In this regard, there will be a situation analysis at work place and communities. Thirdly, policy and programmes will be developed to support the activities of HIV/AIDS and gender in the agriculture sector. Fourthly, technical backstopping to agriculture training institutions, communities and workplace on gender and HIV/AIDS interventions will be provided. There will be training for skills development in dealing with HIV/AIDS impacts, prevention and reducing gender disparities in agriculture development through short courses for officers, on the job training for field staff at ADDs, RDPs, research stations and EPAs, and mobile training for community mobilisers on gender and HIV/AIDS.

#### *4.1.1.2 Natural Resources*

Malawi's abundant natural resources in the form of land, forestry, water and fish are currently dwindling and are rapidly being exploited unsustainably, primarily by the poor. At present, forestry and fisheries contribute about 12 percent to GDP. About 21 % of Malawi is forest reserves, national parks and wildlife reserves or conservation areas. However, the expansion of development in these sectors has been restricted by previous management policies, which put communities at the periphery and stressed natural resources conservation. Communities were prohibited from utilising and deriving tangible benefits from natural resources in forest and wildlife reserves. This situation resulted in conflicts between communities and Government and further violation of the laws by the communities. In addition, Government was managing the natural resources directly.

In forestry, for example, despite Government policing mechanisms, Malawi has experienced a rise in wanton cutting of trees for conversion to agricultural land, firewood and charcoal production, resulting in environmental degradation, soil erosion and river sedimentation. Forest cover is currently 28 % and has declined at by 19 % over the past 25 years, a loss of 2.0 ha million. Demand for wood currently outstrips production by 33 %. At the same time, existing forestry resources that could be used sustainably as a source of rural livelihoods have not been fully nor efficiently utilised.

Fish is the single most important source of protein in Malawi, contributing about 60-70 percent of national animal protein. However, due to over-exploitation, the total production has declined by 40 %, to 40-45 000 tons per year, from a peak in production in the early 1990's. This has resulted in a concomitant reduction of 45 % in the average per capita fish consumption rate. Malawi has 2 strategies whereby to increase production, One would be through fish farming the other to develop as yet un-tapped deep water stocks. However, fish farming in Malawi, despite being promoted aggressively, farmers have not taken advantage of the potential marshy areas to construct small dams and ponds for fish farming. Malawi has for a long time used primitive methods in catching of fish in the lake. There is need to explore more advanced methods especially for the undeveloped deep-water fishing.

Natural resource management activities will therefore be focussed on three key sub-sectors of forestry, fisheries and wildlife. For each of these sub-sectors, the aim will be to promote Community Based Natural Resources Management (CBNRM). In particular, the legal and institutional framework will be strengthened so that rural communities are organised and trained to empower them to effectively participate in decentralised environmental management and to sustainably benefit from natural resources. Communities will be encouraged to sustainably manage fishery, forestry and wildlife resources based on clear mechanisms of ownership and control. Secondly, efforts will be made to promote alternative livelihood strategies, for example by encouraging natural resources-based enterprises (including value-adding activities) for generation of more income in the rural areas. Finally, mass awareness of environmental management issues will be created. For example, communities will be given civic education on the importance of sustainable utilisation and conservation of natural resources to providing habitat for wildlife, reducing soil erosion, reducing global warming, increasing soil fertility and influencing weather.

These general strategies will be applied to each sub-sector as outlined below:

1. Increase sustainable utilisation of fishery resources

In fisheries, the empowerment of rural communities will focus on Beach Village Committees (BVCs). The key livelihood strategies will be to promote off-shore fishery, and local fish farming. The promotion of off-shore fishery will involve encouraging the use of more advanced equipment such as boats and deep water trawlers. Local fish farming will be encouraged by promoting aquaculture through expanding fish farming research and extension

services. Further, efforts will be made to promote the establishment of better markets and marketing practices for fish. Awareness of environmental management issues will be achieved through improving fisheries curricula at extension training colleges, and translating existing fisheries research data into user-friendly information materials.

2. Encourage sustainable utilisation of forestry resources

In addition to devolution of forestry co-management to CBNRM groups, the private sector will be encouraged to add value to non-timber products and to manage plantations through contracts and lease agreements. Management plans for potential plantations will be developed for use by the private sector. Further, mass tree planting campaigns will be conducted, focussing on the economic benefits of planting. Finally, the forestry curriculum at training colleges will be improved and existing research translated into user friendly material.

3. Encourage sustainable utilisation of wildlife resources

In addition to devolution of wildlife co-management around national parks and reserves to CBNRM groups, the strategy will also involve privatisation of wildlife through encouraging game farming and ranching. Efforts will be made to minimise contact between wildlife and animals, for example through fencing park boundaries and training hunters on control of dangerous animals.

*Table 4.1.7 - Targets for Natural Resources.*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Fish farming production (tonnes)	500	1,000
BVCs trained and functional	-	270
Forest under private sector		50,000
Parks under private sector		50,000

4.1.1.3 *Micro, Small and Medium-Scale Enterprises (MSMEs)*

Apart from small-holder agricultural production, pro-poor growth will rely on Micro, Small and Medium Scale Enterprises (MSMEs). It is these MSMEs that have the potential to allow the poor to generate their own incomes. The Gemini Baseline Survey 2000 estimates that there are about 747,363 MSMEs, of which 83 percent are located in rural areas. In terms of sectoral distribution, 75 percent of the MSMEs conduct off-farm activities including manufacturing, commerce and trade and services. The remaining MSMEs are based on crop production (22 percent), with just 3 percent on other primary activities such as livestock production, fishing, forestry and mining.

About 91 percent of these firms fit into the micro category of 0-4 employees according to the national enterprise size classification. The primary production sector, especially fishing, mining crop and livestock production, tend to have more employees.

About 34 percent of all the MSMEs are owned by women, a proportion that is significantly lower than the average of 60-75 percent recorded in most other African countries. Women's MSME activities are concentrated in the off-farm sector, primarily in commerce (mostly vending farm produce) and in manufacturing (mostly processing foods and brewing beer). On the other hand, married couples and multiple owners of businesses tend to be concentrated in crop production and trade. These ownership patterns, also observed in other studies, are determined not only by economic factors but also by certain social and cultural relations.

The development of MSMEs has been hampered by lack business skills and technological expertise, lack of capital, and inadequate supportive infrastructure for efficient production and marketing. The following strategies will be put in place to create an enabling environment for MSMEs development and operation, providing financial support for development of MSMEs and improving institutional coordination and support.

1. Provide support for development of MSMEs

This will involve special schemes on entrepreneur development, marketing, infrastructure and finance. These schemes will enable urban and rural industries to have better access to financial resources and credit facilities. Efforts will be made to improve marketing, supply of raw materials, productivity, technology, product design and management capabilities of the MSMEs. Finally, local and foreign markets for MSMEs' products as backward and forward linkages will be promoted.

2. Improve institutional coordination and support.

There are a number of activities that will be implemented under this objective. The structure and operations of MSMEs will be strengthened through the formation of product specific associations and cooperatives. Entrepreneurship development will be included as one of the key subjects not only in training schools but also in secondary schools. This will involve preparing self-employment programmes for school leavers and linking them to support institutions; formalising the apprenticeship programmes; and linking TEVET and other business growth programmes. Finally, laws and regulations affecting the development of

MSMEs will be reviewed and appropriate technology transferred through training programmes.

#### 4.1.1.4 Manufacturing and Agro-Processing

Malawi's industrial growth will be greatly influenced by the success in raising agricultural output and incomes. The bulk of manufacturing activities are highly dependent on agriculture and natural resources as sources of raw materials and provider of foreign exchange for the importation of inputs and components. In addition, increased agricultural incomes will stimulate greater demand for manufactured goods. At present, the industrial sector is relatively small, with manufacturing activities concentrated in a few agro-processing activities as shown in Table 4.1.4. However, research<sup>16</sup> suggests that Malawi's current comparative advantage in these agro-processing industries will not last into the long-term unless deliberate efforts are made to increase efficiency and introduce up-to-date technologies.

*Table 4.1.8: Structure of Manufacturing Sector, Sub-Sectoral Shares (Percent) in Manufacturing Value Added, 1994 – 2000*

	1994	1995	1996	1997	1998	1999	2000
<b>Agro processing</b>	<b>45.1</b>	<b>45.6</b>	<b>43.8</b>	<b>46.3</b>	<b>41.7</b>	<b>41.8</b>	<b>43.2</b>
Food	13.8	14.4	13.9	14.4	11.2	11.8	12.3
Beverages	15.2	16.4	14.5	14.2	13.4	13.4	14.3
Tea	3.8	3.7	3.7	4	2.9	2.5	2.6
Tobacco	2.2	2.3	2.9	3.2	2.7	2.8	2.9
Textiles, Nettings and Blankets	4.2	2.5	2.3	2.3	2.7	2.1	2
Clothing, Leather Goods and Footwear	2.6	2.6	2.5	4.1	4.4	4.4	4.3
Sawmill and Wood Products	3.3	3.8	3.9	4.1	4.4	4.7	4.9
<b>Manufacturing</b>	<b>52.1</b>	<b>52</b>	<b>53.2</b>	<b>50.4</b>	<b>55</b>	<b>54.3</b>	<b>52.9</b>
Packing Materials, Printing and Publishing	10.9	12.1	12.2	14.1	14.8	15.7	13.7
Chemicals and Fertilizers	5.3	5.8	6	5.3	6.2	4.3	3.8
Pharmaceuticals, Paints and Soaps	13	14	13.4	14.1	13.6	13.8	14.2
Plastic Products and Tyre Retreading	5.2	3.8	4	3.6	3.5	2.4	2.4
Non-metallic Mineral Products	4.1	3.5	3	2.4	3.2	3.4	3.7
Metal Products other than Machinery	9.3	9.2	10	7	9.8	10.3	10.8
Machinery and Motor Vehicle Assembly	4.4	3.6	4.5	3.9	4	4.3	4.3
<b>All Other Manufactures</b>	<b>2.8</b>	<b>2.5</b>	<b>3.1</b>	<b>3.3</b>	<b>3.3</b>	<b>3.9</b>	<b>3.9</b>
Total	100	100	100	100	100	100	100

Source: National Statistical Office, Monthly Statistical Bulletin (Various Issues)

The major constraints in the manufacturing sector are limited linkages with MSMEs, use of obsolete technologies, inadequate standards and quality assurance and limited international

<sup>16</sup> Malawi Government (1995) *Malawi Industrial Sector Opportunity Study 1994*

marketing capabilities. In addition, the Malawi Investment Promotion Agency (MIPA) reports that most local firms cite the need for collaboration with foreign firms as a necessary condition for their growth and survival, because of their capacities, capital and access to markets. In order to facilitate the development of the manufacturing sector, efforts will be made to broaden the industrial base, develop new cluster-based industries, integrate MSMEs in industrial development and establish a credible institutional framework.

#### 1. Broaden the industrial base

MIPA will spearhead the identification of new sources of growth and promote them so as to strengthen and diversify the industrial base. New approaches will be adopted to target and focus on the development of export-oriented, high value-added, high technology industries, with greater assistance and support from domestic research and development. These will ensure that labour intensive, capital intensive and technologically advanced industries have the capability to produce quality and competitive products that are integrated with the regional and international markets.

#### 2. Develop new cluster-based industries

Emphasis will be placed upon development of competitive industry clusters through integration of key industries, suppliers, supporting industries, critical supporting business services, requisite infrastructure and institutions. Value chains with significant backward and forward linkages, domestic spin-offs and value added will be developed with more emphasis on domestic MSMEs. The following industry cluster groups are earmarked for active development, promotion and support: textiles and apparel; agro-based and food products (cassava, soya, fish and fish products, livestock and livestock products, floriculture, fruits and vegetables); resource-based industries (wood and wood products, gemstones, handicrafts); chemical products (pharmaceuticals, fine chemicals), engineering industries (automobile consumables and components) and consumer manufactures.

#### 3. Accelerate Regional Development

In order to accelerate regional development and reduce transport costs, Government will continue to promote spatial development initiatives. In particular, it will focus on Nacala and Mtwara development corridors. For each initiative, the approach will be to identify the resources in the area, and then involve all stakeholders to plan and promote infrastructural investments.

#### 4. Improve Product Standards and Quality

Standards and quality control systems will play an increasingly vital role in enhancing exports as more and more value-added products are produced. Manufacturers will be encouraged to institute in-house quality control measures in order to produce products that are consistent in quality and competitive in price. The public sector will work with the private sector to indicate concern for quality and standards.

#### 5. Integrate MSMEs in industrial development

Measures will be taken to facilitate and maximise participation of MSMEs by strengthening their competitiveness through improved access to finance, markets, infrastructure, information, results of research and development and training. Government efforts shall focus on identification and review of the financial, fiscal, administrative and legal constraints inhibiting growth of the MSMEs.

#### 6. Establish a credible institutional framework

A credible institutional framework (Business Council) will be established to provide guidance on the implementation of the industrial strategy. The Business Council will facilitate a productive flow of information among the key actors, act as a forum to remove misunderstanding, and enhance mutual respect and forge relationships between the public and the private sectors.

#### 4.1.1.5 *Tourism*

The tourism sector has potential for income and employment generation. Most tourism developments have been led by foreign investors with limited participation of local communities. Tourism is currently hampered by poor product development, lack of clear standards and guidelines, lack of innovation in marketing and inadequate supporting infrastructure.

In order to facilitate poverty reduction through tourism, the MPRS will encourage community-based tourism, increase the efficiency and effectiveness of tourism marketing, ensure the enforcement of standards, and provide infrastructure where necessary.

#### 1. Promote community based tourism

New tourism products will be developed in their original and traditional settings. The major activities will include involving rural communities in tourism development, from construction

of new facilities to running and maintaining them, and through tourist villages, curio markets and cultural events.

2. Increase efficiency and effectiveness of tourism marketing

The primary strategy will be the creation of a distinct and unique image of Malawi's natural heritage and cultural resources. Strengthening Malawi's identity as the "Warm Heart of Africa" will be an important component of tourism development. Further effort will be made to intensify marketing in both old and new markets, utilising developments in information technology.

3. Regulate tourism on the basis of defined standards

Standards, classification guidelines and licensing will form key components in ensuring highest possible standards of accommodation, catering establishments, incoming tourism agencies, travel agencies, destination management companies and other tourism service providers. There will be need to set physical standards and regulations for various elements of the tourism product, set processing guidelines for new development and reclassify and license existing establishments according to standards.

4. Provide infrastructure to support tourism

Infrastructure such as access roads and airfields will be improved in conjunction with the private sector. In addition, there will be periodic identification and review of infrastructure improvement. The Lake is a prime tourism venue, however, since the early 1990s, the increase in the incidence in bilharzia amongst the communities living around the Lake, which averages 60 percent<sup>17</sup>, could be a deterrent to the expansion of the sector. Thus, tourism development will therefore also be coupled with bilharzia control through mass building of latrines, awareness and treatment campaigns.

5. Promote tourism investment

Tourism is one of the leading sectors in the world in terms of the efficiency of backward and forward linkages and yet Malawi has not taken advantage of the potential to develop and promote it aggressively. In order to redress this situation, proactive activities will be undertaken to attract private investment in tourism physical infrastructure such as business and resort hotels, casinos and international conferencing facilities.

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<sup>17</sup> Bilharzia Study of Cape Maclear 2000

#### 4.1.1.6 *Small-Scale Mining*

The mining sector offers the opportunity for creation of rural income and employment generation. The sector employs nearly 3,000 people and there is scope to increase the employment level to 10,000 by 2004, while informal employment is expected to double within the same period<sup>18</sup>. Whilst Malawi is endowed with a variety of mineral resources, such as bauxite, coal and uranium, the MPRS will focus on small-scale mining involving quarry stone, lime, gemstones, pottery-ceramics, gemstones, salt aggregate, limestone, sand and clay (pottery and brick moulding).

The key objectives in promoting small-scale mining are to disseminate information on mineral availability, identify mineral resources suitable for small scale mining, encourage the development of small-scale mineral based industries, provide technical and financial support, ensure appropriate mining legislation, improve understanding of value adding methods and promote marketing.

##### 1. Disseminate information

In order to have proper dissemination of information relating to availability of minerals, exploration-status, mining and setting up of mineral based industries, a focal point will be created in the Department of Mines to undertake a number of activities. Firstly, the preparation and updating of an inventory of minerals available and produced in the country, including district-wise tenement maps. Secondly, the introduction of a quarterly publication of the 'Malawi Mineral Bulletin', including studies in the field about mining methods, reduction and utilisation of mining waste and development of mining machinery and equipment for use in small mines. Thirdly, brochures will be prepared for target minerals like granite, ceramic minerals, decorative and dimensional stones to facilitate setting up of mineral based industry.

##### 2. Provide technical and financial support

Technical support on both mineral extraction and value-adding will be provided by the Department of Mines and Geological Survey through district-based training programmes. Credit institutions will be encouraged to extend credit facilities to small-scale miners (see Credit and Microfinance section in Pillar 1).

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<sup>18</sup> Malawi Government *Economic Report 2000*

3. Identify mineral resources suitable for small-scale mining

Although a variety of mineral deposits and resources suitable for small-scale mining are known to occur in the country, very little detailed information on quality and quantity of the minerals is available. The Geological Survey Department will identify and evaluate more mineral resources, which can be mined and processed by small-scale miners. In order to assist the small-scale miners the Geological Survey Department will focus its exploration and evaluation on minerals that can be developed or utilised locally. Where possible, preliminary and prefeasibility studies will be jointly conducted by the two departments. Minerals such as gemstones, kaolintic clays, gypsum, phosphate, alluvial gold and graphite can easily be developed by this category of miners.

4. Encourage the development of mineral based small-scale industries

To accelerate the deliberate development of mineral based small-scale industries, there is an urgent need to strengthen existing research centres, which will develop simple technologies in the manufacturing of finished mineral based products. The Geological Survey Department will extend its research activities in the application and utilisation of indigenous mineral raw materials. The existing laboratories in the Department of Mines and Geological Survey need to be upgraded. The research centres will thus provide training and extension services to small-scale entrepreneurs in mining, mineral processing and manufacturing of finished mineral based products.

5. Ensure appropriate mining legislation

Emphasis will be placed on the smoothening the prevailing office procedures for greater convenience, avoidance of delays and reduced time lag in grant and renewal of mining leases and streamlining the system to ensure greater objectivity, transparency and proper application of the law.

6. Promote value-addition, marketing and exports

Small-scale miners will need assistance to improve the quality standards acceptable to foreign markets. This will in part be achieved through the formation of miners' clubs and associations. In addition, suitable incentives will developed to increase exports. The following measures will be taken to promote export of minerals: Fairs and exhibitions will be organised locally, periodically, so that the type of minerals and decorative stones available in the country may have the desired publicity; visits to national and international trade fairs, exhibitions and seminars will be organised both, for potential exporters and Government; and

standard equipment will be used to improve and maintain quality standards suiting the requirements of foreign buyers.

#### ***4.1.2 Creating an Enabling Environment for Growth***

The key factors that will contribute to an environment conducive for pro-poor growth are macroeconomic stability, access to credit, and improved rural infrastructure. Efforts will also be made to improve other infrastructure, strengthen trade and review taxation policy.

##### *4.1.2.1 Macro-economic Stability*

Macro-economic stability is a precondition for economic growth. Strategies to ensure macro-economic stability, which include improved fiscal discipline and tight monetary policy, are described in Chapter 5.

##### *4.1.2.2 Credit and Micro-Finance*

Micro-finance plays an important contribution to poverty reduction by increasing access to credit by the productive poor. Programmes and schemes run by the Government through Development of Malawian Entrepreneurs Trust (DEMAT), Small Enterprise Development Organisation of Malawi (SEDOM) and NGOs have been seen to have positive impact on the lives of the recipients in terms of increased food consumption, increased savings, increased self-employment, access to other basic necessities and business expansion. However, these can only be targeted at the productive poor who are able to make sufficient return on their investments. The unproductive poor who cannot generate surpluses will only become indebted and therefore worse off, and are better served with safety net interventions, as outlined in Pillar 3.

Limited access to affordable credit has emerged as one of the important factors affecting production by poor households. The problem of access is in three main forms, namely, geographical coverage, costs or affordability of the credit available, and the insufficiency of loanable funds, particularly as they relate to micro-finance institutions. Where credit is available, access has been hindered by prohibitive collateral requirements. From the financial institutions' point of view, the high rates of default, particularly in agriculture or rural-based enterprises, have significantly reduced the willingness of financial institutions to lend to farmers and small business. As a result of these constraints, farmers have not been able to

buy inputs such as fertilisers, seeds and other chemicals, leading to lower yields and inability to help themselves.

High default rates are commonly attributed to a poor credit culture in Malawi. This is caused by a number of underlying factors. Firstly, lending methodologies directly affect repayment behaviour – there are some institutions that have maintained repayment rates of over 95 percent due to well-designed methodologies. Secondly, schemes with conflicting objectives or political motives tend to create confusion as to whether the programmes offer loans or grants. Thirdly, credit programmes targeting the unproductive poor are likely to have low repayment rates and will force the poor into debt. Finally, agricultural loans are subject to additional risks due to weather and international market factors.

Access to credit by rural communities has also been hindered by collateral requirements and high cost of borrowing due to high interest rates. Finally, the micro-finance sub-sector has in the past been segmented and poorly coordinated. While a micro-finance network has been established to create and promote common rules and standards for the sector, there is need for additional efforts from practitioners, government and donors to increase the coordination of the sector and establish a regulatory framework.

Government's goal in micro-finance is to promote the development of a sustainable micro-finance industry, which provides credit, savings opportunities and other financial services to the poor thereby creating wealth and employment. This necessitates strategies to address the broader financial sector, which support micro-finance.

1. Reduce the cost of credit.

Government will strive to restore macro-economic stability through the observance of strict fiscal discipline and tight monetary policy to bring down inflation and interest rates, as discussed in Chapter 5.

2. Strengthen the institutional framework

The regulatory authorities (such as the RBM) together with the micro-finance institutions (MFIs) will establish an appropriate framework to regulate and supervise the activities of MFIs. This will ensure that activities carried out by Governments institutions, NGOs, banks, financial institutions, commercial companies and the donor community are co-ordinated and have a common agenda of sustainable poverty reduction. Specific actions include the

development of legislation describing the regulatory framework including the self-regulatory mechanism and the thresholds for full supervision by the regulatory authorities.

Further, Government in collaboration with the micro-finance network will carry out an impact assessment study to evaluate the impact on the lives of poor clients. The micro-finance network will develop a code of conduct to promote performance standards in the industry with an aim to maximise the poverty impact through increased outreach in terms of client and portfolio and cost effective operations. Government will assist the micro-finance network to establish an operational secretariat and encourage their micro-finance partners to join the network.

To address the problems of high default rates among the low-income credit clientele, tougher and more efficient legal sanctions will be introduced to ensure that borrowers make an effort to repay their debts. Recovery of bad debts by the lending institutions also requires enforcement legislation to be strengthened so that the legal process of dealing with defaulters is speeded. In addition, Government will promote the formation of farmers clubs and co-operatives to reduce problems of identity and collateral.

Finally, in order to overcome the high risks associated with lending to rural communities, Government will encourage the use of other forms of collateral such as land and life policies. Where these may not be available, an appropriate credit guarantee scheme or insurance fund will be established.

### 3. Expand competition and efficiency in the credit market

Government will strive, at the appropriate time, to commercialise and privatise all Government controlled micro-finance institutions to enhance efficiency and competition. This strategy will reduce political interference, which is contributing to misallocation of resources and high default rates.

In addition, in order to expand coverage and innovative lending by institutions, there is need to further encourage competition in the system. Specifically, interlocking ownership linkages among the two dominant commercial banks will be eliminated through full privatisation of the two banks and by encouraging new entrants into the system.

#### 4. Diversify and expand coverage

Government will increase its efforts to mobilise donor support to provide financial resources to act as seed capital to strengthen and expand the geographical coverage of most MFIs. In collaboration with the micro-finance industry, Government will design and provide incentives for the development and expansion of MFIs operating in rural areas. Domestic resource mobilisation by formal institutions such as the Malawi Savings Bank (MSB), commercial banks and other financial institutions will be encouraged and linked to MFIs so that they can be channelled to the poor. Finally, as outlined under agriculture, village banks and SACCOs will be promoted and capitalised.

##### 4.1.2.3 *Rural infrastructure*

Rural infrastructure is highly deficient. Improving rural infrastructure is an essential requirement for the commercialisation, modernisation and growth of agriculture and MSMEs. Better market incentives will be irrelevant if the physical barriers to and economic costs of doing business in rural areas are too high. Hence, there is need to provide good rural roads (including bridges), water and sanitation, energy, and telecommunications.

Investment in rural roads has direct impact on linking the rural areas, urban and peri-urban areas. Improved access to rural areas reduces transport costs and leads to the creation of marketing networks to enhance value adding. Rural feeder roads also have social benefits through better access to social services such as health centres and freedom of movements. The rural population will benefit directly from the construction of the rural roads through employment generation under the Public Works Programme (see Pillar 3).

The provision of and equitable access to potable water supplies and reasonable sanitation facilities are central to poverty reduction as they have a direct impact on health status and therefore productivity. The need to improved access to safe drinking water was also amongst the top priorities during the MPRS district consultations. The MDHS 2000 shows that only 65.6% of households have access to potable water supplies. However, only about 60 percent of existing boreholes are currently functional.

Further to this, there is a limit to the extent to which the nation's groundwater resources can effectively be exploited through construction of boreholes without irreversible damage to the

environment. Thus, borehole construction will be complemented by an expanded programme of construction and rehabilitation of rural gravity-fed piped water schemes.

Increased access to safe water must be complemented by sanitation measures. At present, only 81.4 percent of households have reasonable access to a latrine. Finally, in order to sustain the borehole and piped water system construction, it is important for the sector to equally continue to put in place mechanisms for the conservation and management of the nation's water resources

Stable energy supply is essential to materialise the growth of the sectors identified above in the section on sources of pro-poor growth. The demand for power and other forms of energy will increase as the growth sectors increase their economic activities and electrification proceeds. Electricity is also an essential input to improved social services and mass-communication through television. Providing households with alternative energy other than wood fuel is essential for reducing poverty and environmental degradation. Renewable energy technologies such as solar and wind power will be an area of focus.

Malawi's internal telecommunications coverage is low at around four lines per thousand persons and is concentrated in urban and semi-urban areas. Telecommunications can benefit rural firms and people by giving them direct access to customers and linking them to information about markets, suppliers, technology, and government regulations. Such networks can also make it less expensive and more efficient for firms to locate in rural places, and can enable small towns to import services like healthcare through telemedicine technology and education through distance learning facilities.

#### 1. Construct and maintain rural feeder roads

Government and other stakeholders will improve feeder roads to increase accessibility and productive potential of rural areas. Government through the National Road Authority (NRA) has formulated a five year programme in the road sub-sector based on: improving the accessibility of the road network, reducing transport costs, increasing network coverage particularly in the rural areas, and improving road safety.

Firstly, priority sections of the road network will be restored from a state of severe deterioration to a fair condition through rehabilitation and maintenance. Government will further ensure that a sustainable road maintenance programme is in place to preserve the road

network infrastructure as a capital based asset in which government has already made substantial investment

Government will also improve accessibility to remote areas through the construction of new feeder roads. Finally, Government will decentralise responsibilities for planning and management of urban and district road maintenance and construction to local assemblies.

*Table 4.1.9 Rural Feeder Roads Targets*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Kilometres graded		480
Kilometres rehabilitated		1,320
Kilometres upgraded		6,900
Metres of other infrastructure (bridges, waterways etc.)		15,000

2. Increase accessibility to good drinking water and sanitation

The strategies under this objective are to construct and rehabilitate water facilities, extend water supply capacity, promote community based management and improve water resources conservation and management.

Government will combine an expanded borehole rehabilitation and construction programme with effective borehole maintenance strategies. This will be achieved through capacity building among rural communities to own, operate and maintain their facilities. In addition extension workers will be trained in borehole maintenance and will subsequently be used to assist rural communities as technical experts. This borehole programme will be complemented by an expanded programme of construction and rehabilitation of rural gravity-fed piped water schemes.

Secondly, capacity to meet the growing demands from industry and domestic users will be expanded. This will involve the extension and rehabilitation of the existing infrastructure, water loss reduction measures, enhancement of cost recovery measures and strengthening of the viability of the water supplies. Further, reforms to improve the operational autonomy and commercial viability of the nation's water boards will be pursued more vigorously.

The conservation and management of water resources will include the construction and rehabilitation of small community multi-purpose earth dams and instruction of catchment management authorities. In addition, institutional capacity will be strengthened to improve

the collection and quantification of hydrological data vital for the determination of viable water resources.

Finally, measures will be taken to reduce the incidence of waterborne diseases. This will include the introduction of VIP latrines and other appropriate rural water sanitation technologies.

*Table 4.1.10 Water and Sanitation Targets*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Households with access to potable water	65.6%	84%
Rehabilitation of boreholes (% functional)	60%	100% (rehabilitate 2,000)
Construction of new boreholes		7,000
Rehabilitation of rural piped water supply schemes		20
Households with sanitary excreta disposal	81.4%	100%

### 3. Increase access to affordable and sustainable rural energy

The objective is to increase access to modern and commercial energy, and to ensure economic efficiency in supplying and utilising energy at affordable prices. The first strategy is to increase rural and peri-urban electrification from the present 4% national average. This will involve rehabilitation and extension of national grid distribution lines, creation of mini-grids powered by mini-hydro, diesel or photovoltaic power generation.

The second strategy is to reduce pressure on wood fuel. The rate of utilisation of fuel wood greatly exceeds the rate of its natural growth in Malawi. Rural communities will be encouraged to use more energy efficient charcoal and wood stoves. There will be need to develop reliable, economically accessible and appropriately priced alternative energy supplies (such as biogas) and to assist low-income urban families with appropriate credit and interventions for purchasing stoves and appliances that use these fuels.

Thirdly, the MPRS will expand electricity supply options and to provide incentives for the development of fuel retail outlets in rural areas.

*Table 4.1.11 Rural Energy Targets*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Number of new sites electrified	-	73
New biogas plants	-	105
Dissemination of charcoal and wood stove technology coverage	2 districts	27 districts

#### 4. Improve rural telecommunications

The first strategy is to develop the rural telecommunications policy in order to encourage the private sector to provide telecommunications services in rural areas, for example through rural cellular based telephone bureaux. In order to complement this, network providers will be encouraged to expand their networks to serve these private sector providers. Finally, demand for telecommunications will be cultivated by providing training opportunities, public-access terminals, and demonstrations.

##### *4.1.2.4 Other Enabling Infrastructure*

The key component in the enabling environment for the private sector is the quality and availability of investment infrastructure. The provision of reliable economic infrastructure is crucial in the development process. Regular power supply, availability of water and sanitation services, good transportation and good port facilities, efficient telecommunications and infrastructure are necessary to complement public and private initiative in production and commerce. Major investments will be required to clear the backlog of maintenance and rehabilitation, and undertake new investments to match the excess demand for infrastructure needed to support productive sectors.

The growth sectors identified above cannot deliver without energy. As the sectors grow, the demand for energy rises roughly in step with economic growth. All businesses use some form of energy in their operations. The demand for electricity is likely to increase due to industrial expansions as well as urbanisation and general increased coverage. In terms of energy supply, there is need to diversify to other renewable sources.

The telecommunications sector was liberalised following the enactment of the Communications Act in 1998, which has led to an increase in the number of operators as well as the separation of postal services from telecommunications. Malawi Telecommunications Limited (MTL) was incorporated in May 2000 and it is now undergoing privatisation. Government has also liberalised non-basic telephone services such as e-mail and internet. As a result, there has been an increase in the number of mobile operators and a proliferation of

other associated service providers. However, these developments have not yet achieved the desired goal of facilitating growth and diversification as MTL is still a monopoly and does not meet demand.

Radio and television play an important role to growth and diversification by mobilizing people and creating awareness among them on socio-economic issues. The electronic media faces a lot of challenges in informing, educating and entertaining the masses because of inadequate equipment and resource mobilisation.

The goal of Government is to ensure that a full range of modern communication services is accessible by all the population of Malawi. Those living in rural areas should at least have access to basic communication services. Government's over arching objective in the postal sector is to ensure that people of Malawi especially those who live in the rural areas are provided with the necessary services to enable them communicate with one another through letters and telegrams at affordable cost.

1. Rehabilitate, maintain and expand the core road network

Government will complement its efforts as regards rural feeder roads with efforts to rehabilitate, maintain and expand the core road network.

2. Increase access, efficiency and reliability of modern energy supply

The main focus is in the sub-sectors of electricity, liquid fuels and renewable energy. The objective is to increase access to reliable, and equitable electricity services and to ensure economic efficiency in the supply chain of liquid fuels and their end utilisation at affordable prices.

Given that growth and diversification rely on power, it is evident that Electricity Supply Corporation of Malawi Limited (ESCOM) should implement strategies that will lead to reduction of electricity losses, and improve its operation through the setting of tariffs at economic levels and separating into semi- autonomous operational units. Reforms in this sector will continue to include strategies aimed at increasing the number of players through provisions in the Electricity Act. The other strategies will include the interconnection with neighbouring countries and utilising coal and petroleum products and other sources of energy in electricity generation. These strategies will aim at satisfying the energy requirements for the medium-term and beyond, in a scenario of stable economic growth and diversification.

### 3. Expand telecommunications coverage

MTL will continue to expand its coverage, aiming at increasing the number of working telephone lines to not less than 150,000 by 2004 and reach two lines for every one hundred people as soon as possible after that date. In addition, Government will continue liberalisation of the sector by opening up the provision of telecommunications to the private sector. This will help to raise the quality of service and reduce charges.

### 4. Improve quality of and access to broadcasting

Efforts will be made to improve the quality of radio broadcasting by restructuring the Malawi Broadcasting Corporation (MBC), the replacement of obsolete transmission equipment with modern equipment, and computerisation of radio studios. In order to provide televised information to the population, Television Malawi (TVM) will migrate from analogue to digital formats, install more low power transmitters to ensure maximum television reach in the country, improve the transmission network, establish community-viewing centres, improve studio infrastructure and open regional centres to ensure regional coverage of news issues. Further, adequately trained personnel will be required to ensure professional packaging of information to the viewer. Finally, efforts will be made to ensure that programmes forecast have a poverty and development focus.

### 5. Improve postal services

Access to postal services will be improved by increasing the number of post offices, including renting existing infrastructure. Efforts will be made to ensure sustainability of postal services, by increasing charges to cost recovery levels, and introducing innovative methods of service delivery, such as contracting out mail delivery services and mutual arrangements with other public institutions that frequently visit rural areas.

#### 4.1.2.5 *Domestic and External Trade*

Both domestic and external trade continue to play a major role in the growth and development of the economy. Trade has facilitated the development of both economic and social sectors, particularly agriculture, manufacturing and tourism. There are a number of constraints to growth of domestic and international trade and these include lack of access to credit, lack of appropriate skills, weak linkage to markets, inadequate quality assurance and standards, and poor packaging.

The objectives to address the development and promotion of domestic and international trade include the provision of supportive infrastructure, expansion of domestic market share, expansion of export market share and negotiation of preferential arrangements.

1. Provide supportive infrastructure

Road networks and trade administrative infrastructure will be established, including the creation of a sustainable export credit refinancing. Infrastructural developments, particularly road networks and warehousing, will play a major role in facilitating the modernization of the distributive trade sectors.

2. Expand domestic market share

Local manufacturers and producers will be encouraged to increase their share of the domestic market. This will also help in the expansion of the domestic market for Malawian products and reduce the current preference for imported goods. The main emphasis will be placed on instilling a sense of loyalty and national pride among domestic consumers to purchase local goods. Other measures will include giving recognition to manufacturing companies that will have achieved high standards and quality in the production of goods.

Specific measures will be instituted to enforce more transparent preferential treatment of local entrepreneurs. Other measures will include the encouragement of bulk purchases, joint advertisements and promotions, joint ventures and buy-outs. Formal and informal networking among the traders will be supported through collation and sharing of market information and consumer behaviour.

Steps will be taken to protect consumers by enforcing the competition law, ensuring that consumers are protected from unethical and unfair trade practices, misleading advertisements, unsatisfactory services and other unethical marketing practices. There will be need to promote growth of consumerism to educate the public of their rights. The private sector trade associations are expected to play a more effective role than in the past.

3. Expand Export Market Share

Continuous efforts will be made to expand the market shares within the existing as well as new market and non-traditional markets. Regional trade will not only cover SADC, but also extend to COMESA. At the same time special initiatives to take advantage of AGOA and the opportunities emerging with EU.

The promotion and development of exports will be further strengthened. Malawi Export Promotion Council will re-orient its activities to be business like to ensure full co-ordination and consolidation of export promotional activities. The specific measures will include establishment of trade promotion centers abroad and rationalization of existing trade representations, improve the collection and dissemination of market information in order to strengthen market analysis and international marketing intelligence for Malawi's exports, establish an efficient information system to support the export efforts of individual companies.

#### 4. Negotiate Preferential Arrangements

Government will ensure compatibility of these agreements and ensure reciprocity in the implementation of regional and bilateral arrangements. The multiplicity of trade agreements offer a challenge in terms of compatibility and implementation. Malawi is a member of both Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). The objectives of COMESA and SADC, include among others, to facilitate, increase and promote intra-regional trade through the gradual reduction and eventual elimination of tariff and non-tariff barriers. They also aim at promoting cross border foreign investment to enhance the economic development, diversification and industrialization of the region. Malawi also has bilateral trade arrangements with South Africa and Zimbabwe. Proposals are underway for bilateral with Zambia, Mozambique and Tanzania.

Government will focus on improving efficiency of the private sector in order to maintain competitiveness. The implementation of the results of the Uruguay Round is eroding the preferences enjoyed under these arrangements. There are a number of Preferential Trade Arrangements maintained by developed countries which offer non-reciprocal preferential market access to a wide range of products from developing and least developing countries. These include the Lome Convention and the Generalised System (GSP). In addition to the preferential agreements mentioned, the EU has also introduced the Everything But Arms (EBA) Initiatives. Malawi is also a beneficiary of the US Africa Growth and opportunity Act (AGOA).

Government will link trade liberalization to a process of viable industrial and export development by utilizing multi-lateral trade concessions and preferential market access. The conclusion of the Uruguay Round (UR) of the Multilateral Trade Negotiations has created more competition for manufactured products from developed countries. It has also eroded the margin of preferences offered to developing and least developed countries under some existing schemes including those under the Lome convention and the Generalised System of Preferences (GSP). Government recognizes that least developing countries, including Malawi, can make use of the special clauses of the Uruguay Round providing differential and more favourable treatment and implement and benefit from the commitments undertaken.

#### *4.1.2.6 Taxation*

Government has undertaken tax reforms during the past decade. However, there is need to develop a longer-term taxation framework which can help to establish an enterprise support agenda for future action. The major policy areas will be to develop the control of public finances to facilitate a process of tax reduction and reform in order to drive enterprise, employment and wealth creation.

A fundamental change is needed in the approach to planning public finances. At present, the tendency is to decide on public spending first and then identify the sources of funding. The new approach should move towards deciding the level of taxation and expenditure consistent with the level of taxation and tax burden.

##### 1. Review Corporate Tax

There is need to give a fundamental consideration to the corporate tax rate that will apply in the future in the context of regional developments and of the changing nature and source of employment and investment in the business in Malawi. There will be need to address limitations in the double taxation and distortions emanating from provisional tax payment.

##### 2. Widen the Tax Base

A further widening of the tax base will be accelerated to facilitate the lowering of tax burden on the enterprise sector. Tax reliefs and incentives will be rationalised and retained in highly selective circumstances for fixed period where it can be shown that they are most likely to achieve increases in employment and investment.