

# **E – BRIEFING 5**

## **National Action Group Forum**

1<sup>st</sup> June 2004

### **New Government Economic and Business Policies**

This NAG Forum e-briefing is intended to highlight the main policies of the incoming Government related to the economy and the private sector based on extracts from the United Democratic Front Manifesto 2004 and the Inauguration Speech of His Excellency, Dr. Bingu Wa Mutharika, President of the Republic of Malawi.

This briefing contains verbatim extracts from The United Democratic Front Manifesto 2004, entitled 'Forging Ahead with Social and Economic Transformation' and 'The Road to Prosperity (A New Vision for Malawi)' which is the statement made at the swearing in ceremony by Dr. Bingu Wa Mutharika, President of the Republic of Malawi on Monday 24<sup>th</sup> May 2004.

You are strongly advised to read the original documents to get a fuller picture of the policies of the incoming Government, as this briefing note by necessity represents only a selection of policy statements made. This e-briefing is not an attempt to summarise the whole of these important documents rather to draw attention of the Private Sector to some of the key policy statement that are likely to impact on businesses. The structure of this e-briefing follows the relevant headings of the Road to Prosperity statement with additional extracts from the Manifesto included in these.

The extracts are referenced to the document and page number as follows: [RTP 16] meaning The Road to Prosperity page 16 and [M 42] meaning Manifesto page 42.

#### ***"My Vision for Malawi" [RTP 6]***

"My vision is to see our country resume economic growth fast enough to bring about prosperity, to reduce poverty significantly, and to make life better for everyone. It is also my vision to see that our country transforms from being a predominantly importing and consuming country to being a predominantly producing and exporting country and to gradually emerge as an industrial nation capable of transforming our agricultural primary commodities, other raw materials and minerals, so as to create new wealth for our people." [RTP 8-9]

"My mission is also to create more jobs and to redistribute income by promoting significant domestic and foreign investment in our agricultural processing, industrial production and manufacturing, thereby increasing the supply of goods and services for the domestic and international markets." [RTP 9]

"My Government will initially focus on four major priorities:

The first priority is to implement Public Sector Reforms aimed at creating stable macroeconomic conditions for growth, and instilling donor confidence in our ability to adhere to international commitments.

The second priority is to introduce deep rooted Private Sector Reforms aimed at developing and strengthening the business enterprises to contribute more positively to economic growth.

The third priority is to introduce new Agriculture Sector Reforms aimed at developing agriculture and making Malawi a “hunger free nation”.

The fourth priority is to institute Civil Service Reforms aimed at improving the conditions of service and professionalism of our civil servants, and developing national capacity to resuscitate economic growth.” [RTP 10-11]

### **“Creating Stable Macroeconomic Conditions.” [RTP 12]**

“With regard to achieving sustainable economic growth, there is no disagreement that in order to create stable macroeconomic conditions thereby kick-starting economic growth in our country, fundamental policy reforms are needed in the public sector.” [RTP 12]

“We shall therefore design and implement effective policies aimed at achieving low inflation, low interest rates and stable exchange rates.” [RTP 12]

“We have interest rates that are high and unsustainable. Small and medium enterprises are priced out of the market as they cannot afford to borrow at current rates. Exchange rates are unstable and inflation is still relatively high.

This instability can partially be explained by our inability to institute fiscal discipline and reduce public expenditure. We have domestic debt that is clearly unsustainable and is eating through our resources thereby inhibiting growth. In order to get out of this poverty trap, we need to reduce public expenditure and domestic borrowing.” [RTP 13]

“In that regard, I shall institute measures aimed at-

- (a) reducing significantly the size of the cabinet to be in line with our limited resources;
- (b) rationalizing the functions and operations of statutory corporations to reduce over-expenditure;
- (c) maintaining tight budgetary controls to eliminate “below the line” budgetary items and to reduce travel expenditure;
- (d) moving the residency of the President from Blantyre to Lilongwe where the capital city is located; and
- (e) reviewing the number of State Palaces/Residences in order to reduce public expenditure.” [RTP 14]

“As a component of its growth strategy, the UDF government wants to achieve a GDP growth rate of at least 6% per annum.” [M 50]

“The UDF government will promote investment in support sectors of the economy including Utilities, Finance, Transportation and Distribution. In addition to relying on the three core sectors (tobacco, tea and sugar) the UDF government will accord high priority to the development of Cotton, Textiles and Garments, Mining, Agro-processing and Tourism to make major contributions to fiscal revenues.” [M 52-53]

“Principally, the UDF will aim to improve macro-economic conditions by:

- Consolidating and improving fiscal discipline;
- Strengthening policies relating to revenue mobilisation;
- Accelerating the privatisation programme to reduce state subventions;
- Mobilizing further donor funding for budget and project support;
- Seriously renegotiating debt relief and capitalizing on all available facilities aiming to eliminate fiscal pressures arising from debt service;

- Promoting export led growth to stimulate domestic demand and consequently fiscal revenues from indirect tax;
- Integrating informal sectors of business into the mainstream of economic activity thus consequently widening the tax base;" [M 53]

### ***Towards a Corruption-Free Nation [RTP 15]***

"Therefore, through a zero-tolerance option, my Government shall eliminate corruption by implementing, *inter alia*, the following measures:

- The establishment of clear "performance criteria" and benchmarks by which government spending will be regularly audited and validated by independent auditors.
- Designing an efficient system of financial management and monitoring the allocation and utilization of all resources so that fraud can be detected as it occurs in the project or programme cycle, and prompt measures are taken to address the situation.
- Ensuring swift investigation, prosecution and punishment of public officers who are found guilty of corruption, theft, mismanagement, and abuse of power in all its forms.
- Strengthening the offices of the Accountant General, Auditor General, Public Accounts Committee and the Anti-Corruption Bureau, to ensure that officials and politicians entrusted with public funds act in a transparent manner, with regard to the utilization, reporting and accountability of public funds. [RTP 16-17].

### ***Working with the Private Sector [RTP 18]***

"When I look at the prosperity of Malawi through the eyes of the private sector, I am convinced that the road map to prosperity dictates that we should have effective private sector reforms that aim at creating a conducive and enabling climate for domestic and foreign investment." [RTP 18]

"I believe that the way forward for us is to develop high performing entrepreneurship, small-, medium- and large-scale to transform our economic and productive structures. This would lead to the creation of new job opportunities and increases in local and foreign investment in both the productive and service sectors." [RTP 19]

"My Government will therefore develop the private sector by creating new opportunities for many Malawians to start new businesses and thus become meaningfully self-employed and financially independent." [RTP 19]

"In order to ensure equitable distribution of growth, the UDF government will complete the preparation of the Economic Empowerment Programme to enable Malawians to champion private enterprise development in order to increase their participation in the ownership of medium and large-scale enterprises. [M 53]

"The UDF government recognises that, as a public institution the Malawi Revenue Authority (MRA) has made the most desirable impact on the private sector. However, the pressure for collections on an ever-narrowing tax base is creating apprehension within legitimate businesses. Under this manifesto, the UDF government will refocus the activities of MRA on businesses that are evading tax and officials involved in corrupt practices.

In addition, the UDF will establish the office of a Tax Ombudsman, as there are many areas of discretion and lack of clarity in the legislation and regulations that are subject to wide interpretation by the MRA. This would significantly address the need for greater accountability of the MRA. The MRA will be reformed to eliminate any possible disincentive to trade and investment by legitimate businesses in Malawi." [M 55]

“Drawing from the experience of ten years in government, the UDF will, under this manifesto, aim to improve upon the tripartite dialogue between government, private sector and donors. The UDF government will also implement more joint initiatives through dialogue between government and private sector at all levels, and provide support to linkages between smallholders and export-oriented firms. A tripartite commission will also be established as a mechanism for dialogue between all government, private sector and donor institutions. [M 54]

“The newly introduced surtax will be reviewed to ensure that the levies being charged are not killing small business.” [M 58]

“Furthermore the UDF government will also aim to promote the private sector by reviewing and implementing major improvements in the operation of public services that impact on businesses.” [M 60]

“The UDF government will aim to strengthen incentives for private investment in relation to regional and international competitive offers by offering a range of incentives targeting capital expenditure investment through enhanced initial allowances, enhanced capital allowances and targeted investment allowances.

The UDF government will also implement sub-sector specific investment incentives to encourage investment that will add value and create revenue streams for the government. [M 60]

“Reduce the tax burden on formal sector businesses while uplifting informal sector enterprises into the mainstream tax qualifying category.

Achieve wider surtax compliance through administration of lower rates and provision of incentives to compliant sections of the business community

Improve the legal and regulatory environment to make Malawi an attractive place to invest. To this end the Investment Promotion Act will be revised.

Improve incentives for investment so that they are comparable to the most competitive in the developing world

Make the process of guaranteeing incentives more transparent and improve administration procedures and regulation at national and local authority levels.

Target investment allowances to ensure that Treasury does not lose current revenue but creates additional revenue streams in the immediate future.

Maintain a policy of sharing revenues with investors to persuade them to make initial investment.” [M 61- 62]

“Develop and implement an effective trade policy and strategic plan.” [M 61]

“Lobby for simplified rules of origin in preferential markets, especially textiles/ garments. [M 61]

“The UDF government will allocate substantial resources towards road construction and maintenance to improve the quality of infrastructure. The government will also aim to implement measures to enhance the competitiveness and functioning of the transport and communications sector. Among other things, this will include completion of the privatisation of key utilities in communications, power distribution and transport.

Having completed the task of identifying under-utilised or neglected assets in the public sector, under this manifesto the UDF will embark on the task of facilitating the optimisation of their usage in the private sector.

The UDF will also create institutional arrangements for effective regulation of utilities to ensure business and consumer interests are protected.” [M 66]

“Invest extensively in rehabilitation of roads as well as replacing bridges including Kasangadzi, Liwaladzi and Kalwe on the Nkhotakota/Nkhata Bay road.

Implement the following new projects:

- Road shuttle service to provide trucking capacity between Mbeya and Chilumba in order to facilitate transshipment of break bulk and liquid cargo between these two destinations.
- Rehabilitation of Lilongwe International Airport Runway.” [M 67]

### ***Taking Development to Rural Areas [RTP 20]***

“I am determined to change this by implementing policies specifically designed to balance economic and social prosperity between the urban and rural areas. To that end, my Government will create a special Rural Development Fund of not less than MK 500 million, specifically to provide soft loans to indigenous Malawians to enable them to start new businesses or to expand existing ones.” [RTP 20]

### ***Producing Enough Food for All [RTP 22]***

“I am convinced that we cannot adequately empower people without giving them enough food to eat. This will come about through the provision of improved agricultural inputs, such as seeds, fertilizers, insecticides, irrigation, extension services and marketing. I cannot over-emphasize that Malawi’s future economic and social transformation depends on viable and efficient agriculture.” [RTP 23]

“Therefore in the new road map, high priority will be given towards:

- Encouraging diversification to decrease over reliance on maize meal, by growing other food crops such as cassava, potatoes, rice, pumpkins, millet and sorghum.
- Increasing food production through winter cropping and irrigation methods using low cost technologies. We shall supply more rural farmers with treadle pumps, sprinklers and motorized pumps.
- Removing all taxes on staple foods such as maize, beans, meat, rice, cassava, potatoes and other food crops.
- Expanding and strengthening access to agriculture inputs especially among women and other vulnerable groups, by increasing the number of “Starter Packs” in the 2004 planting season, and subsequent years to reach more vulnerable individuals.
- Reducing the price of fertiliser, and agricultural chemicals to make them more affordable to poor rural farmers.” [RTP 24]

“The UDF government also wants to expand the agro processing industry. By adding value to food products, farmers will get more money for their products. Additionally, wastage of perishable foods such as fruits, tomatoes, and vegetables will be avoided. To encourage private sector participation in food processing, a favourable tax policy will be introduced.” [M 18]

## ***“Diversifying the Malawi Economy” [RTP 25]***

“I am pleased to say that economists in Malawi agree that our country should not depend on one agricultural commodity for driving this economy. There is also consensus that Malawi needs to break into the global markets if we have to survive as an economic entity. In consideration of this, the next few years will see high priority being given to the diversification of industrial production and manufacturing in order to increase the supply of high quality goods for the domestic and international markets. I believe this is the only way forward for us.

I believe there is a broad agreement in Malawi on the negative impacts on the economy resulting from the vagaries of globalization. Therefore, my Government will diversify our economy by establishing a "basket of commodities" that will initially include cotton, tobacco, sugar, tea, rice and paprika.

This implies that we shall anchor our macroeconomic stabilization programmes on the performance of these commodities in the international markets. The cultivation of other cash crops, such as fish, cassava, groundnuts, sunflower, and macadamia nuts, will also be enhanced so as to increase our export earning capacity thereby guaranteeing the stability of the Kwacha.

In the pursuit of this new economic drive, I shall place the highest priority on diversifying the sources of foreign exchange through the establishment of an Integrated Cotton Textile Industry.” [RTP 26-27]

“With regard to other commodities in the basket, my Government will increase export earnings from tobacco by adding value to tobacco through manufacturing of cigarettes, pipe tobacco, snuff, cigars and cigarillos that will also create new jobs for our people.

The sugar industry also needs to be given a boost by increasing investment in sugar production and by introducing better technologies for processing so that our sugar continues to meet international standards.

Similarly, the tea industry will be reviewed and reorganized to contribute more positively to the economic prosperity of our people. We plan to facilitate and to attract new investments while improving the quality of our tea in the international markets.

Concerning the paprika as an important cash crop, my Government will give higher priority than has been the case in the past. I believe we can improve our exports of paprika, thereby enhancing its contribution to our economic transformation. To that end, I plan to increase investment in research, production, processing and marketing of this crop and to encourage more farmers to grow this cash crop.” [RTP 29].

“Improve private sector participation in the agriculture sector by creating a favourable tax policy environment and providing clear information and policy on private investment.” [M 24-25]

## ***Reforms to the Education System [RTP 30]***

“My Government will introduce reforms in the education sector that respond to our changing macroeconomic realities. Firstly we shall redesign the school curricula so as to train students in primary and secondary schools to look for business opportunities rather than white collar jobs. Secondly, business studies will be introduced alongside on-going vocational training, specifically geared at preparing the child at an early age to become business-oriented.” [RTP 31]

“Drawing from its experience of 10 years in government, the UDF will also aim to improve the human resource base, particularly through skills development, a more co-ordinate approach to HIV/AIDS and changes towards results orientated management in the private and public sectors. Among other things, the UDF government will improve incentives for skills development in private companies through tax credits for training, and also review Technical and Vocational Training Authority (TEVETA) performance and the TEVET levy to ensure adequate mobilisation of resources for vocational training.” [M 54]

### ***Empowering Women to Prosperity [RTP 33]***

“In the business and economic fields, my Government shall financially empower women by creating special business and investment schemes that ensure that they have full access to loans and credits, as well as training in the organization and management of business ventures.” [RTP 34]

### ***One Malawi One Destiny [RTP 43]***

“I must emphasize that the road to prosperity demands our unequivocal commitment to work hard, much harder in order to realize our common vision. Our success will depend upon our ability as a nation, to develop our capacity to kick-start economic growth, turn things round, create new wealth and bring about prosperity.” [RTP 44]

#### **About this E-briefing and the National Action Group Forum**

This e-briefing is intended to act as a means to feedback information to businesses and to organizations that work with the Private Sector about the National Action Group Forum, the Malawi Economic Growth Strategy and other issues of importance to making Malawi a better place to do business.

The National Action Group is a tri-partite national forum for the **discussion** and **resolution** of issues that impact on the performance of the Private Sector in Malawi

The National Action Group Forum brings together the three main stakeholder groups who are interested in developing the private sector - that is government, donors and businesses, with input from Civil Society where appropriate.

- **Government** is represented by the Ministers of Finance, of Commerce and Industry, of Agriculture, Irrigation and Food Security and of Economic Planning and Development. There are other high-level representatives from the Reserve Bank and from key public sector organisations, such as the Privatisation Commission and MIPA.
- **Donors** that are active in Private Sector Development are represented by the Heads of Mission and their Private Sector Specialists
- **Private Sector** is represented by Chief Executives of leading companies, the Chamber of Commerce and some of the key Sub-sector/Industry Associations, including the NASFAM.

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