



REPUBLIC OF MALAWI

ECONOMIC AND FISCAL POLICY STATEMENT 2015

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

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I. INTRODUCTION

- 1. The Economic and Fiscal Policy Statement (EFPS) is issued in fulfilment of section 14 of the Public Finance Management Act (2003). The EFPS seeks to inform and share with various stakeholders economic and fiscal policies that will anchor the economy over the short to medium term. The EFPS also specifies broad strategic priorities by which the Government will be guided in preparing budget estimates for the impending fiscal year. This statement contextualises the Government's commitment towards achieving social and economic goals within a sound fiscal and budgetary framework as encapsulated in the Malawi Growth and Development Strategy II (MDGS II) and other policy documents. This necessitates the strengthening of fiscal and monetary policies as key instruments for achieving macroeconomic stability, complemented by prudent public expenditure management and structural reforms.**

II. ECONOMIC POLICY ENVIRONMENT

Malawi Growth and Development Strategy (MGDSII)

- 2. The Malawi Growth and Development Strategy II (MGDS II) continues to anchor Malawi's social and economic policies in the short to medium term (2011-2016). The** country is now in the fourth year of implementation of the strategy whose overall objective is to continue reducing poverty through sustainable economic growth and infrastructure development. The Government will continue prioritising expenditures in the 2014/15 fiscal year as determined by the MGDS II Key Priority Areas (KPAs). The KPAs' guiding public expenditure in the 2014/15 FY are: (i) Agriculture and Food Security, (ii) Energy, Industrial Development, Mining and Tourism, (iii) Transport Infrastructure, (iv) Education, Science and Technology, (v) Public Health, Sanitation, Malaria and HIV and AIDS Management, (vi) Integrated Rural Development, (vii) Green Belt Irrigation and Water

Development, Child Development, Youth Development and Empowerment and (ix) Climate Change, Natural Resources and Environmental Management.

- 3. Meanwhile, as MGDS II is due to expire in June 2016, the Government has started preparations for developing a successor Strategy for the period 2016-2021. The roadmap for the formulation of the MGDS II successor strategy is in place. It is expected that the development of the strategy will be completed and launched by the end of the 2015/16 financial year.**

Millennium Development Goals and post MDGs

- 4. The Government, realising that the fight against poverty is paramount in achieving sustainable development, signed the Millennium Declaration in 2000 thereby** agreeing to eight Millennium Development Goals (MDGs) with targets expiring in 2015. The MDGs focus on global advocacy and collective action to reduce poverty and human suffering. As a way of showing Government Commitment towards the attainment of the MDGs, the Malawi Growth and Development Strategy II (MGDSII), remains an important vehicle for translating objectives of the MDGs into short to medium term strategies as well as accelerating efforts towards their attainment for improved welfare of the people.
- 5. Progress reviews show that most of the targets will not be met by end 2015 for Malawi, despite making headway in certain areas.** Currently, the country is on course to achieve only four, out of eight, MDGs. The Government will however continue implementing interventions beyond 2015 to ensure that progress is made on the MDGs that are lagging behind. In preparation for the post-2015, the country recently undertook nationwide consultations to solicit views with the objective of stimulating an inclusive, bottom-up participatory debate on the development post-2015 agenda. Key issues that emerged from these discussions are expected to be a priority and form a basis for developing the post-2015 agenda for the country.

National Export Strategy (NES)

- 6. Within the Framework of the MGDS II, the Government has reinvigorated policy efforts to improve the business climate, boost competitiveness and diversify exports.** In December 2012, the Government launched the National Export Strategy (NES: 2013 –2018). The NES is a prioritised road map for developing Malawi's productive base to allow for both export competitiveness and economic empowerment. This strategy is fully aligned to the priorities set out in the MGDS II and has prioritised oil-seed cluster, sugar-cane cluster and manufactures to anchor Malawi's export agenda in addition to the traditional exports of tobacco, tea and cotton. 2014/15 FY marks the second year of the NES implementation period.

Extended Credit Facility (ECF)

- 7. Formulation of the 2015/16 budget will continue to be guided by macroeconomic programme under the International Monetary Fund (IMF) Extended Credit Facility (ECF) arrangement.** The Government successfully concluded negotiations with the IMF on the ECF for the fifth and sixth reviews in January 2015. Consequently, the IMF Executive Board approved the US\$18.1 million immediate disbursement under ECF programme, bringing the total disbursements under the arrangement to SDR 65.08 (i.e. about US\$90.3 million). The successful conclusion of the reviews and approval of the disbursements is expected to trigger disbursements from all other development partners as this signals government's commitment to the macroeconomic programme.
- 8. In completing the fifth and sixth reviews, the IMF Executive Board also approved an extension of the current ECF arrangement by six months to May 22, 2016** and the re-phasing of disbursements associated with the seventh and eighth reviews.

Sector Working Groups

- 9. The effective planning, budgeting, execution, and monitoring and evaluation of government policies and programmes require functioning of the Sector Working Group (SWGs)** in order to increase efficiency in the use of public resources. Government has reviewed the Sector Working Group guidelines in order to enhance coordination of development programs among relevant stakeholders at a sectoral level. The Guidelines will assist in improving coordination and adoption of sector-specific plans such as the Joint Sector Strategy (JSS), Annual Work plans and budgets in order to realise the goals and objectives of the National Development Strategy (NDS).
- 10. The revised guidelines are also expected to simplify implementation of programmes under the SWGs framework and establish common mechanisms for monitoring** progress. All stakeholders including public institutions, Civil Society Organisations, Development Partners, academia and the private sector are, therefore, expected to streamline their activities to the sector-based approaches as outlined in the revised Guidelines.

Social Protection

- 11. Government will continue to implement social protection programmes, as outlined in the MGDS II, to reduce poverty and vulnerability, and enable the poor to actively** contribute to the country's economic growth. Some key focus areas of social protection that Government is currently advancing include supporting the ultra – poor and labour constrained households with welfare support, implementing interventions that prevent poor and vulnerable households from resorting to destructive coping strategies and enhancing their productivity.

Financial Sector Development Strategy

- 12. The Financial Sector Development Strategy (FSDS) (2010-2015) is the blue print that provides strategic direction on the development of the financial sector in Malawi.** The Government's key financial sector objective is to build a vibrant and

stable financial sector which supports inclusive and sustainable growth as articulated in the Malawi Growth and Development Strategy II (MGDS II). Alignment of the financial system with the real economy, financial inclusion, financial deepening and creation of a conducive business environment are at the core of the financial sector development as key pillars of the strategy that are considered as milestones to the attainment of the objective. As the strategy expires this year, the development of the successor FSDS is already underway and is expected to be completed by December 2015.

III. RECENT DEVELOPMENTS

World Economic Outlook

13. According to the IMF's April 2015 World Economic Outlook (WEO), global activity in 2014 remained subdued and output declined due to slowdown in economic activities for the emerging market and developing economies. Consequently, Global real output growth for 2014 was 3.4 percent but is projected to marginally increase to 3.5 percent and 3.8 percent in 2015 and 2016, respectively.

14. Stagnation and prolonged deflation which ultimately result into persistent weak global trade growth are still major concerns in Japan and the Euro Area hence the slowdown in the expected growth forecast. Furthermore, geopolitical tensions, volatility in commodity markets and financial stress in major emerging market economies pose major risks to the growth prospects for 2015 and 2016. An expected pick up in emerging markets will likely improve growth in 2016. However, the decline in oil prices is expected to bring mixed results with net oil importers like USA and Japan likely to gain from the lower oil prices while net oil exporters like Russia, Saudi Arabia, and Nigeria are likely to experience low growth. Nevertheless developing countries are experiencing receding domestic headwinds and with low fuel prices, there is hope for higher growth rates from the developing countries.

15. At the global level, unemployment still remains high but is expected to decline in 2015 with unemployment for advanced economies projected at 6.9 percent in 2015 from 7.3 percent in 2014 while UK and USA unemployment rates are projected at 5.8 and 5.9 respectively in 2015.

16. The slowdown in the global growth is expected to dampen the demand for Malawi's traditional exports thereby weakening our trade balance position.

Sub-Saharan regional outlook

17. According to the IMF April 2015 Regional Economic Outlook for Sub-Saharan Africa (SSA), growth for the region remained buoyant at 5 percent in 2014, marginally increasing from the 2013 position. Growth is projected to remain robust at 4.5 percent and 5.1 percent in 2015 and 2016 respectively, due to continuing investment in infrastructure, increase in agricultural production and vibrant service sectors. Foreign Direct Investment (FDI) is expected to remain flat in 2015 and 2016 while commodity prices are forecasted to stabilise at lower levels in 2015 compared to 2014.

18. Nevertheless despite the SSA being among the fastest growing regions, there are domestic and external risks arising from declining commodity prices, Ebola epidemic, and security concerns in some countries which might slightly dampen growth prospects. Furthermore, South Africa which is also a major player in the region is also facing lacklustre growth with difficult industrial relations, weak competitiveness and electricity bottlenecks.

19. Other external risks which might impact negatively on our economy include the re-emergence of volatility in global financial markets and sudden deterioration in liquidity conditions in countries which have trade links with Malawi. Furthermore, deteriorating terms of trade will likely lead to currency depreciation which, if not properly safeguarded by appropriate monetary policy, will result into currency-depreciation-induced inflation. Weaker growth in some of Sub-Saharan Africa's new economic partners and in advanced economies, as well

as home-grown hazards, such as those related to weather-driven supply shocks or political events in some countries are probable negative drivers of growth in the region.

20. The current account deficit as percentage of GDP in the region widened further from 2.4 percent in 2013 to 3.3 percent in 2014 and is expected to widen further to 4.6 and 4.1 percent in 2015 and in 2016, respectively. In most cases the widening of the deficits in many countries in Sub-Saharan Africa reflects higher capital spending combined with less dynamic oil revenues. Fiscal balance is projected to remain the same at -3.3 percent in 2014 and 2015 from -3.1 in 2013. However, increases in wage bills in most countries and other expansionary fiscal policies as well as robust growth are drivers leading to the deteriorating of the fiscal deficit for most Sub-Saharan Africa.

21. With regard to prices, inflation closed at 6.3 percent in 2014 from 6.1 percent in 2013 and will rise to 6.6 and 7.0 percent in 2015 and 2016, respectively. The increase in food prices, adjustment of fuel price and pass through effects from past exchange rate depreciation in many countries of the region have contributed to the projected rise in inflation in 2015 and 2016. Moving forward, countries in the region continue to put much focus on maximising revenue collection and keeping debt within manageable levels while at the same time inducing growth.

Outlook for Malawi

22. The country is projected to register real GDP growth of 5.5 percent in 2015, despite setbacks including recent floods and dry spells which have disturbed the growth prospects. Except for the agricultural sector which has registered a slight decline in growth as a result of late onset of rains, severe floods that plagued some parts of the country and the dry spells experienced in most districts, other sectors are expected to register a strong and positive growth. Growth is

expected to be driven by manufacturing, wholesale and retail trade, transport, storage information and communication among others.

23. Going forward, the country is expected to rebound with a strong growth of 6.5 percent in 2016. The increase in growth is attributed to continued favourable macroeconomic fundamentals, particularly a decreasing rate of inflation, restoration of donor confidence due to the resumption of the IMF supported ECF programme and an expected stable exchange rate, among others.

24. Annual average inflation is expected to fall to 16.4 percent in 2015 as compared to 23.8 percent registered in 2014. The combined effects of the significant decline in global oil prices and an increasingly stable exchange rate have contributed to this decline, particularly on non-food inflation. With regards to the food inflation rate, a slight decrease is expected, though not as significant as it was previously forecasted. Nevertheless, the overall effect of the adverse weather conditions on food prices will depend on the Government's response to food shortages.

25. In 2016, the inflation rate is expected to continue on the downward trajectory and reach an annual rate of 12 percent. As oil prices are forecasted to slightly pickup to below the 2014 levels (IMF commodity estimates) the overall fall in non-food inflation will not be as significant as in 2015. Food inflation is expected to fall further, assuming that weather patterns will be normal and that there will be no disruptions to the harvest due to extreme adverse weather conditions as experienced in 2015.

IV. MEDIUM TERM ECONOMIC POLICIES

Exchange rate policy

26. The Government remains committed to a flexible exchange rate regime to allow the kwacha to reflect market fundamentals so as to enhance Malawi's external

competitiveness. The RBM will intervene in the foreign exchange market mainly to ensure orderly market conditions. Furthermore, the central bank will continue to build up its international reserves in order to provide the economy with a buffer against exogenous shocks.

27. In 2014, the Reserve Bank maintained an import cover of at least 2 months.

Official reserves were boosted in December 2014 by a portfolio inflow amounting to US\$250.0 million through the purchase, by the PTA Bank, of a 3-Year Treasury note from the RBM. The RBM aims to maintain foreign exchange reserves of at least 3 months of imports up to December 2015. Prospects for meeting foreign exchange reserves target are high, primarily on account of planned market purchases during the agricultural marketing season. Sufficient reserves are a key anchor to restoration of the credibility of macroeconomic policies. Furthermore, with the International Monetary Fund's Extended Credit Facility back on track, budget support to Malawi is expected to resume. This will allow RBM to effectively intervene in the foreign exchange market to manage volatility arising from seasonal patterns in private foreign exchange inflows.

28. It is, therefore, envisaged that the exchange rate path will reflect the positive outlook of general economic outturn and particularly the higher levels of international reserves. Going forward, communication will be intensified to moderate speculative behaviour on the foreign exchange market during the lean season.

Monetary policies

29. In order to achieve the objective of price stability, the RBM maintained a tight monetary policy stance through intensification of mop up operations as well as sales of foreign exchange to the market during the year 2014. These operations were conducted in a bid to stabilise the kwacha and reduce eminent risks to inflation in the near term. Furthermore, the Reserve Bank changed the

composition of eligible assets for the Liquidity Reserve Requirements (LRR) facility in order to strengthen this monetary policy instrument.

30. The Reserve Bank also introduced a Lombard Facility as an always available and transparently priced facility for banks to manage their liquidity better in light of the tight monetary policy stance pursued in 2014. During the same year, a Policy Rate was introduced replacing the Bank rate. The Policy rate and the Lombard rate will together enhance the effectiveness of monetary policy through better alignment of money market rates, while fostering the development of alternative money market instruments. In this context, the Treasury bills yields were aligned to the Policy rate. In general, focus of monetary policy is currently to achieve price stability.

31. In order to increase effectiveness in implementing the monetary policy program, the Bank increased the usage of liquidity forecasting to determine optimal market intervention. Open market operations were used to adjust liquidity in the system in line with the inflation objective. The Bank also intensified communication with stakeholders on monetary policy issues in order to help steer expectations in line with its objectives. To this end, the first ever conference on the Malawian experience in formulating and implementing monetary policy was held in August 2014.

32. Going forward, monetary policy will be geared towards bringing down inflation to around an annual average of 16 percent in 2015. This objective will be pursued through the use of an array of instruments such as open market operations (OMO), the Policy rate and foreign exchange operations. Efforts to bring down inflation are likely to be successful if the automatic fuel pricing mechanism continues to be consistently implemented as the international price of fuel remains low. Furthermore, the successful implementation of the 2014/15 budget is germane to attaining monetary policy objectives. However, risks remain in the months ahead associated with the modality of the Government financing of

emergency response as well as managing the food situation to contain speculative pricing behaviour.

Financial policies

- 33. The Government of Malawi continues its efforts to develop and improve efficiency of the financial sector through formulation of sound policies.** A number of developments are being undertaken to improve the stability of the financial system in the country such as strengthening of legal and regulatory framework for financial services, improvement in the financial infrastructure, consumer protection and financial literacy.
- 34. On the legal framework front, a number of laws have been reviewed and proposed amendments have been submitted to cabinet for consideration and subsequent** submission to parliament for enactment. These include the Financial Services Amendment Bill, the Credit Reference Amendment Bill, and the Banking Amendment Bill. New laws have also been drafted to improve the regulatory framework of the financial sector such as the National Payment Systems Bill, the Malawi Deposit Insurance Corporation Bill, and the Anti-Money Laundering Bill which will be submitted to cabinet and parliament.
- 35. To improve financial infrastructure, the Government will continue the drive to update basic infrastructure for payment services.** Apart from installation of the ATS & CSD System and the National Switch (an interoperable central switch for payment processing) which are running, a Micro Finance Institution (MFI) Transaction Processing Hub is also planned to be installed. This will improve the processing efficiency of small value transactions and deliver a robust platform that allows MFIs to share transaction processing infrastructure such as payment system connectivity, core banking application, mobile banking application, and integration to the new central switch.
- 36. The Government will also continue to implement policies aimed at increasing availability of long term finance in the country which is critical for business**

investment and infrastructure development. This will be done through coming up with a long term finance policy and regulatory framework, lengthening the maturity of Government debt to boost the development of sovereign bond market and provide a benchmark yield curve for the development of private debt securities market, and developing a new framework for leasing. The Government also intends to revitalise the Malawi Stock Exchange in order for it to efficiently play its role, promote secondary market trading, and identify impediments for capital market development in the country.

Fiscal policies

37. The Government remains committed to fiscal consolidation while protecting social expenditure. In this regard, the 2015/16 budget will reflect a prudent fiscal stance whereby all recurrent transactions will be largely financed by domestically generated resources with a modest net domestic borrowing of 1.1 percent of GDP. In a quest to subdue the burden of liabilities that have haunted the Government for the past five years, repayment of outstanding arrears to suppliers of goods and services is one of the priorities for central government. This is aimed at reducing gradually the current stock of audited arrears to suppliers of goods and services. The Government intends to clear these arrears using zero coupon bonds thereby creating fiscal space for other priority expenditures.

38. Going forward, the Government plans to avert accumulating new arrears. To support this effort, the Government is at an advanced stage of instituting a mechanism for regular monitoring and reporting on arrears and strengthening commitment control.

39. To ensure that monetary policy is supported in its efforts to lower and stabilise inflation while at the same time directing the exchange rate to a sustainable path, the Government will ensure that fiscal policy is tightened without suffocating public service delivery. This policy stance will subsequently ensure

attainment of the government goals of macroeconomic stability, growth and poverty reduction.

V. STRUCTURAL, SECTORAL AND ECONOMIC POLICY REFORMS

1. Structural reforms

Public Finance Management Reforms

40. The Government continues to implement the Public Finance and Economic Management (PFEM) reform agenda within the PFEM Reform Programme framework. In line with the framework, the Ministry of Finance, Economic Planning and Development is implementing the Financial Reporting and Oversight Improvement Project (FROIP), the Public Finance Management Institutional Support Project (PFM ISP), the Development Effectiveness and Accountability Project (DEAP) and other direct activities supported by various development partners.

41. Among other things, the Government will be procuring a new Enterprise Resource Planning solution to replace the existing IFMIS platform to enhance controls in public finance management. Within the current system, the Government has incorporated major accounts including the MG account number 1, to ensure that transactions are monitored in real time. The Government will further enhance controls by strengthening the internal audit function through, among other things, engaging private auditors to work with internal auditors for professional conduct of the internal audit function. Additionally, the Government will continue to improve procurement systems and domestic resource mobilisation.

42. The Government recognises that efficient Infrastructure, Communication and Technology (ICT) is central to Public Finance management reforms. In this regard,

the Government is in the process of enhancing the performance of the Government Wide Area Network (GWAN). GWAN fibre backbone has already been rehabilitated. Plans are underway to have the switching equipment replaced. The initiative is expected to improve the availability and accessibility of GWAN for effective performance of public finance management IT systems.

43. Furthermore, the Government has made significant progress in the devolution of payroll processing. During the 2013/14 financial year teachers' payroll processing was devolved to six local councils hosting education divisions. The initiative is expected to be rolled out to other sectors in these councils. After full operationalisation, delays in payment of salaries are expected to be reduced significantly. Further, updating payroll records are expected to be effected timely, thereby significantly saving public resources.

44. Additionally, the Government has initiated a review of the Local Authority IFMIS and a systems audit of the Human Resource Management Information System (HRMIS). Issues thrashed out from these reviews will enable the Government to identify areas requiring attention in order to remove inefficiencies in these systems. All the above initiatives are implemented within the Public Finance Management program which was launched by the State President and is expected to go a long way in supporting fiscal discipline and effective public service delivery.

Revenue Policy reforms

45. The Government will continue to review all tax legislations with a view to broaden the tax base, strengthen tax administration and increase tax compliance. Some of the reforms include re-negotiating and negotiating Double Tax Agreements; reviewing the Taxation Act, the Customs and Excise Act and the Value Added Tax Act; review of user fees, levies and fines; interfacing the Malawi Revenue Authority customs system (ASYCUDA) with the Road Traffic Directorate system (MALTIS); and expand and intensify the use of electronic cargo scanners,

electronic fiscal devices. The Government will also continue to introduce and consolidate measures aimed at sealing off all non-tax revenue leakages. To this end, the Government will continue to intensify its effort to align and conform the tax system to acceptable regional standards.

Budget reforms

i. The Medium Term Expenditure Framework

46. The Budget framework continues to be implemented through the Medium Term Expenditure Framework (MTEF) which the country, along with most African countries adopted in 1995. However, the reform process was slow until in 2011/12 financial year when three-year expenditure ceilings, backed by the Medium Term Fiscal Framework, became a guiding tool for all MDAs in budget preparation. This was an improvement over the past years where outer years were merely a percentage adjustment to the current budget by inflation. In 2015/16 financial year, the Government will adopt a similar approach for budgeting. Efforts are currently underway to improve forecasting of the resource envelope so as to guide predictability of the budget. Alongside this initiative, the Budget Policy Framework (BPF) paper preparation has been promoted. The BPF outlines policies to be implemented in the medium term in line with resource availability.

ii. Programme Based Budgeting

47. With current emphasis on performance enforcement transparency and accountability across all Government's institutions in line with the Public Service reforms, the Programme Based Budget (PBB) reform seeks to improve the presentation of the budget with focus on performance indicators. In this reform the budget will be prepared in a programme manner. This is a departure from the current Output Based Budget (OBB) where the programs used are based on the 18 functions of Government. In the PBB, programs developed by each MDA will be aligned to their strategic objectives. The programs will set out outcomes

and outputs to be achieved with clear priorities identified in line with the resource envelope in the medium term. The outputs will have clear indicators and targets for each of the three MTEF years. Program budget allocations will be inclusive of the recurrent and development/capital expenditure.

48. The ultimate objective of the PBB is that appropriations should move from the current vote level to program level within a vote to make the link between funds and results more transparent. The implementation of PBB started in 2014/15 financial year on a pilot basis with the Ministries responsible for Health and Education, and the National Audit Office successfully presenting to Parliament budgets in a PBB format, alongside the usual OBB, to allow for a comparison of the two budget formats for easy understanding of the reform. In the 2015-16 financial year, 13 additional institutions have been included in the pilot.

49. Full implementation of the PBB, initially planned for the 2015-16 financial year, is scheduled for the 2016-17 financial year to allow for changes required in the legal operating environment and current efforts to improve the Integrated Financial Management Information System (IFMIS) software package. It is envisaged that all technical aspects of the reform will have been engineered by that time. Parliament will then be expected to approve the budget in PBB format and execution in PBB format will follow.

2. Economic Growth Sectors, Policies and Reforms

Energy

a) Electricity Sub-Sector

50. Government will continue with efforts aimed at increasing the reliability, security and efficient utilisation of power and fuels. This focus is in line with MGDS which recognises the importance of energy in the development of the country. This will be achieved by improving and expanding electricity generation, supply and

distribution systems and improving the production and distribution of hydrocarbons.

- 51. Understanding that it will take time for Malawi to generate all the electricity it needs, Malawi will explore drawing power from the Southern Africa Power Pool** through Malawi-Mozambique and Malawi-Zambia Interconnectors. The feasibility studies for this will be conducted in 2015/16. If accomplished, this will not only increase Malawi's productive capacity but also give Malawi enough time to develop domestic supply at less hurried pace.
- 52. In 2015/16 FY, the Government with financial support from the World Bank will continue to implement Energy Sector Support Project (ESSP).** This five year project (2011 to 2016) aims at increasing the reliability and quality of electricity supply in the major load centres in Malawi. The project is also working to improve the demand side management (DSM) and energy efficiency measures in the existing Electricity Supply Corporation of Malawi (ESCOM) grid while building capacity and providing technical assistance to the sector.
- 53. In order to increase energy generation and distribution, Government will intensify the issuing of licenses to Independent Power Producers (IPP) based on the provisions of the energy policy, strategies and laws of 2004.** This will be supported by negotiations of power purchase agreements between ESCOM and IPPs. At the moment ESCOM operates in all three areas of the electricity market structure, namely generation, transmission and distribution. The Government will finalise the review of the country's energy policy and commence the review of energy laws to make them more responsive to changes taking place.
- 54. In 2015/16 FY, the Government will also continue implementing a 300 MW Kam'mwamba Coal Fired Power Plant Project and start determining the likelihood** of establishing a coal powered generation plant near the Northern Coal Fields under Coal Fired Power Generation Project (CFPGP). The project is expected to contribute to the reliability and quality of power in Malawi.

Currently, the feasibility study and Environmental and Social Impact Assessment for Kam'mwamba have been completed. Furthermore, in its quest to expand access to electricity, the Government will implement MAREP Phase VIII. In 2015/16 financial year, 81 trading centres are targeted to be electrified.

55. Lastly, the Government realises that intervening in the pricing of electricity has rendered Electricity Supply Commission of Malawi (ESCOM) inefficient and non-competitive regionally. In this regard government has also replaced the old pricing mechanism with an automatic electricity tariff adjustment system that will see the electricity tariff adjust in response to the market forces. In this endeavour, the Government will continue implementing electricity cost effective tariffs in the financial year 2015/16.

b) Fuel Sub-Sector

56. Government realises that interventions in the fuel pricing have rendered the oil companies inefficient and non-competitive in the SADC region. The Government will therefore continue the implementation of automatic fuel pricing adjustment system and allow the In-bond Landed Cost (IBLC) of petroleum products to be reflective of international prices and movements in exchange rate.

57. As a medium term measure, the Government has constructed three strategic fuel reserves, one in each Region. This will increase the country's fuel reserve capacity to a minimum 60 days. In the 2015/16 financial year, the Government will commission three additional strategic fuel reserves which will be followed up by pre feasibility studies for their construction in order to meet the international standard of 90 days cover. The Government will also continue to mobilize financial resources from the bilateral and multilateral partners to increase fuel imports into the country to cushion the country from social and economic impact brought about by fuel shortages.

Mining

- 58. The Mining sector has the potential to generate significant economic benefits for Malawi.** Its contribution to the Gross Domestic Product (GDP) has increased from 1% before 2009 to 6% in 2010 with an estimated output value of MK 22 billion. In 2015/16 FY, the Government plans to implement various policies, strategies, programmes and projects through the Mining Governance and Growth Support Project (MGGSP) which aims at improving governance of the mining sector and its contribution to sustainable economic growth. The Government will also launch the country-wide Geological Mapping and Mineral Assessment Project (GEMMAP) in 2015/16 FY.
- 59. The Government will continue to implement the Geochemical Survey Project in selected areas of Malawi.** The new data collected from this project will assist in the promotion of the mining sector of the country. The sector will also finalise the reviews of the Mines and Minerals Act (1981) and the mining fiscal regime.
- 60. The Government recognises that enhancing human and infrastructure capacity is critical for the development of the mining sector.** In this regard, the Government has planned to build capacity in both human and infrastructure within the mining sector. This will include, among others the procurement of modern geological mapping and mineral exploration equipment; mineral processing and inspection equipment; rehabilitation of mineral laboratories and introducing specialised geological and mining courses in tertiary institutions and training of officers at various levels in mining related courses.
- 61. The Government recognises the role Artisanal and Small-Scale Mining (ASM) play in the economic growth and poverty reduction in Malawi.** Currently, ASM focuses on industrial minerals, gemstones and quarry. In 2015/16 financial year, Government will continue implementing support to Small-Scale Mineral Production Project which aims at developing capacity of staff and ASM in lime, graphite, glass sands and salt production. Specifically, the project is expected to

promote value addition in artisanal and small-scale mining and to increase their access to soft loans from the lending institutions. Under this project, ASM Cooperatives will be established. In addition, training in appropriate technology, environmental management and occupational health and safety standards will be provided. The Government also plans to establish a robust monitoring mechanism to curb smuggling of precious and semiprecious stones in the sector. The Government will continue drafting the ASM Policy which will ultimately help regularise ASM activities.

Climate Change, Natural Resources and Environmental Management

- 62. The Government recognises the role that climate change, natural resources and environment play in the economic development of Malawi.** It is for this reason that in 2015/16 Fiscal Year, the Government will undertake a number of activities and programmes including assessment of development projects for Environmental Impact Assessment (EIA) compliance, implement Polluter Pays Principal and enforcement of ban on the use of thin plastics. The Government also intends to prepare the National State of Environment and Outlook Report as well as the 3rd Communication to United Nations Framework Convention on Climate Change.
- 63. The Government also plans to develop a concept and a road map on ecosystem based management of Lake Malawi catchment area** and operationalisation of Atomic Energy Regulatory Authority (AERA). The Government also plans to enact Environmental Management Act of 2015 which will lead to the creation of Malawi Environmental Protection Agency in order to strengthen regulatory framework in natural resources and environmental management.
- 64. Furthermore, the Government plans to implement the National Biodiversity Strategy and Action Plan (2015-2025) which will guide biodiversity management** activities in Malawi. The Government also intends to implement integrated waste

management program in order to ensure safe disposal of wastes in our towns and cities. Lastly, the Government plans to develop the National adaptation Plans, operationalise the National Climate Change Investment Plan and its fund.

Forestry sub-sector

65. The government recognises that forests contribute to the economic growth of the nation. Hence the Government plans to continue protecting and managing of forestry resources through creation of forestry reserves, protection of catchment, establishment of forestry plantation and promotion of tree planting. To achieve this, government intends to develop the Reduced Emissions for forest degradation and deforestation (REDD+) Strategy, protect and develop 90,000 hectares of forest plantations, enforce the existing forest management legislation to protect the endangered forest reserves, and raise and plant 60 million tree seedlings in collaboration with different stakeholders. The Government also plans to protect and conserve 1 million hectares of forest reserves and customary estates.

Meteorological sub-sector

66. The Government recognises that climate and weather contribute significantly to the performance of the agriculture, transport, health sectors among others. As such the Government will continue to increase the number of automatic weather and climate monitoring stations, mainstream weather, climate and climate change science in school curriculum, produce and disseminate the 2015/16 seasonal rainfall forecast to the general public, finalise the requirements for qualification for ISO 9001:2008 certification to international airport standards and automate the remaining weather forecasting stations.

67. The Government also plans to strengthen the mandate of the Environmental Affairs Department (EAD) by establishing the Malawi Environmental Protection Agency. Among other things, Government will promote Eco Health needs and media and civil society participation in environmental issues. The Government

also plans to intensify its promotion activities of the environmental awareness and understanding by involving influential partners such as faith community.

Agriculture

68. In recognition of the importance the agriculture to the economy of Malawi the Ministry of Agriculture, Irrigation and Water Development seeks to transform the

agriculture sector to effectively continue contributing to the sustainable economic growth of Malawi. It is envisioned that this can be achieved through the development of the National Agriculture Policy. The goal of the policy is to foster sector transformation that will result in significant increases in incomes, food security and nutritional status of all Malawians especially those whose primary occupation is in farming. It is envisaged that the sector will be commercialised, competitive globally and profitable based on sustainable production by commercially oriented smallholder and medium scale farmers; and that there will be significant greater value addition in the value chains.

69. To improve production and productivity the Ministry will endeavour to increase

access to affordable and high quality inputs in the crop sub-sector seeing that it makes up for the bulk of activities in rural livelihoods and contributes greatly to the country's GDP. It is in this regard that the Seed Policy is being revised. The aim of the review is to establish clear guidelines for the development and promotion of the seed industry as a means of sustainably availing adequate and high quality seed and planting materials to all users in the country.

70. In order to formalise and guide the implementation of contractual arrangements in the production and marketing of agricultural commodities in Malawi the

Ministry has developed the National Contract Farming Strategy. Contract farming is a means by which low productivity, stagnant yields, low uptake of improved farms inputs, low profitability of smallholder agriculture, among other challenges, can be addressed. The Contract farming will organise the delivery of appropriate extension messages, credit, transport, markets and processing for

value adding that will enable smallholder farmers in the country to overcome the constraints and improve production and productivity.

71. The Ministry has also revised the National Fisheries and Aquaculture Policy. The review was necessitated by issues pertaining to over-exploitation of commercially valuable fish species, low fish production from aquaculture arising from poor quality feed and fingerlings, and weak private sector participation. The Policy has prioritised development of capture and aquaculture fisheries, fish quality, value addition, social development and decent employment. It is expected that the implementation of the policy will result in improved operational efficiency and effectiveness in the sub-sector.

Tourism

72. Taking into consideration the high potential of the Tourism sector to generate foreign exchange and create jobs in the country the Government remains committed to boosting tourism development, both formal and informal through various programmes and projects. In this regard, the Government is set to develop human capital skills and infrastructure and intensify enforcement of minimum standards to support the sector's growth. Major on-going work in the sector includes the construction of Malawi Institute of Tourism, and infrastructure development and maintenance works in national parks and wildlife reserves. Furthermore, the Government has embarked on a development and review process of a number of sectoral policies and bills in order to create an enabling environment for the tourism industry.

73. The Government will continue to diversify the tourism product base so as to boost other forms of tourism including conference and cultural tourism for socio-economic development. The Government has so far developed tourism products such as the Bingu International Conference Centre (BICC), the President Hotel and Presidential Village in Lilongwe to stimulate conference and business tourism segments. The Government is also rehabilitating Blantyre Cultural

Centre (formerly French Cultural Centre), developing Chongoni World Art Heritage Centre and encouraging participation of local communities in tourism through community-based initiatives.

- 74. The Government will continue intensifying tourism marketing and promotion of Malawi as a tourist destination as a way of creating awareness in both domestic and international markets.** Therefore, the Government has put in place a number of tourism marketing initiatives in strategic source markets including travel trade workshops, road shows, educational tours, sales calls, advertising in both print and electronic media, e-marketing, website presence and social media.

Industry and Trade

- 75. In the 2014/15 budget had resources to undertake various efforts including development of National Industrial Policy (NIP).** This policy is critical for Malawi's economic development in order to attain the goals of Vision 2020, the Malawi Growth and Development Strategy II (MGDS II), and the National Export Strategy (NES) through the industrialisation of the economy. NIP will therefore ensure that industries are able to maximise their potential thereby creating employment for the locals. The draft policy is ready and awaits submission to PSs Committee and Cabinet for endorsement and approval.
- 76. The Government with support from UNDP has drafted Trade Policy which is ready for review.** The draft policy builds on efforts being made under the NES and Industrial Policy to advance structural transformation of the productive sector through supporting and managing integration in regional and global markets and value chains thereby contributing to the target of doubling exports by 2019.
- 77. The Government will also continue to intensify its effort to create a conducive and competitive business environment for private sector to flourish.** In order to realise this objective, the Government has initiated the establishment of the One Stop Shop Service Centre (OSSC). The first phase of operationalisation of OSSC has already taken place, with all relevant officers (MRA, Immigration, Lands and

Registrar of Companies) stationed within Malawi Investment and Trade Centre (MITC) offices. The second phase will involve integrating other crucial institutions such as Ministry of Labour, Environmental Affairs and ESCOM within MITC undertaking some business process engineering to keep on improving the systems. The Government has also developed a Compendium of Investments which provides a comprehensive list of potential areas/sectors for investment in Malawi.

- 78. With respect to enhancing participation of Malawians in economic activities, the Government has introduced innovative lending instruments with support from African Development Bank (AfDB) for small and medium enterprises (SMEs) under the Matching Grants Scheme (MGS).** The scheme has been designed for financial institutions to formulate innovative lending instruments for MSMEs in Malawi. The scheme focuses on small scale producers involved in non-traditional agricultural products such as pigeon peas and soya beans.
- 79. Additionally, the Government has also signed a Memorandum of Understanding (MoU) with the Southern Africa Trade Hub which will enable Malawi receive** technical assistance towards the implementation of aspects under the National Single Window (NSW). The Government has also developed a project document to access resources under COMESA Adjustment Facility (CAF) and/ Regional Integration Support Mechanism (RISM). Through this project Malawi is expected to benefit €1.02 million for implementation of trade related activities in the country.
- 80. On rural industrialisation, the Government will continue to promote efforts aimed at developing various industries to create decent employment for rural masses.** In an effort to promote non-traditional products, the Government has developed leather value strategy which will give a roadmap to the establishment of the leather sub-sector in Malawi.

81. In promoting the export sector, has identified non traditional potential markets for Malawian products including the United Arab Emirates (UAE). The potential products that would be exported to that region include: pigeon and chicken peas, rice, white kidney beans, green gram, groundnuts and soya beans. These export products have the potential to improve the foreign exchange earnings of the country.

82. The Government has also introduced policy measures and interventions aimed at building Malawi's productive capacity, improving the reliability of infrastructure services, reforming the policy and regulatory framework and rationalising business taxes. The objective of these measures is to improve policy predictability which is vital in ensuring a strong private sector response in the market. The Government has also finalised the development of a consolidated Trade Facilitation Action Plan. The Action Plan seeks to enhance activities aimed at making it easy to conduct trade.

Transport infrastructure and ICT

a. Road Transport Sub-sector

83. The Government is committed to ensure increased funding towards road infrastructure maintenance. Through the road sector programme which is drawn annually, the Government will continue to make provisions for improvement of urban roads, where traffic volumes have increased. The Government also intends to devolve some of the functions in the road sub-sector to Local Authorities in order to efficiently improve rural road infrastructure condition.

84. On road safety, through the Directorate of Road Traffic and Safety Services (DRTSS), the Government has taken a 'Safe System' approach, under which the National Road Traffic and Safety Strategy has been developed to guide provision of road traffic and safety services. The approach looks across the entire

transport system — roads and roadsides, vehicles, speeds and users — to deliver greater levels of safety. The Government through DRTSS is also at an advance stage of upgrading the Malawi Traffic Information System (MaltIS) in order to improve service delivery.

b. Water Transport

85. The Government will continue engaging cooperating partners like SADC, COMESA and African development Bank (AfDB) to ensure re-opening of the Shire-Zambezi Water Way. The Government will also continue monitoring the implementation of ports and water transport concession with Mota Engil.

86. Furthermore, the Government is committed to finalise review of the inland shipping Act and development of subsidiary regulations. The Government is also committed to address gender gaps in the maritime profession by designing deliberative interventions to ensure that more females are drafted in the profession.

c. Air Transport Sub-sector

87. In order to consolidate recent gains made in the air transport sub-sector, the Government intends to establish an autonomous Civil Aviation Authority which will facilitate Public Private Participation (PPP) in management of Aviation issues. Furthermore, the Government will review operations and management of the Malawi Cargo Centres Limited, rehabilitate Chileka International Airport, and finalise revision of the Civil Aviation Act in order to improve service delivery in the sub-sector.

d. Rail Transport Sub-sector

88. Government of Malawi signed a concession agreement with VALE Logistics a Brazilian mining company. The company is mining coal in Moatize, Mozambique and plans to transport the coal through Malawi. Through the concession agreement, VALE has constructed a railway line from Chapananga passing through Mwanza and Neno to join the existing railway line at Nkaya. In addition

the private investor will be rehabilitating and upgrading the existing railway line from Liwonde to Nkaya.

89. In view of the above, the Government will continue monitoring Railway Concession with CEAR and VALE Logistics. The Government is committed to ensure safety of community members living along the new rail line. The Government also plans to finalize the review of the rail ways Act and development of subsidiary legislations.

Other Policy Directions on Transport Sector

90. In order to enhance regional interconnection and facilitate inter-country trade, the Government will facilitate activities towards the construction of one border post at Mchinji and Chiponde border posts. The Government also plans to develop the National Transport Master Plan to guide the sustainable development of an integrated Multimodal transport sector over the period of 2015 to 2035 with support from World Bank.

91. The Government also plan to redefine the mandate of Ministry of Transport with regard to Public Works. The Government also plan to recapitalise the Plant and Vehicle Hire and Engineering Services (PVHES) and to commercialise Central Materials Laboratory. Lastly, the Government is committed to ensure mainstreaming of gender, HIV and AIDS issues in all sectors of the economy including transport Sub-Sectors.

VI. CONCLUSION

92. In summary, the Government will continue providing a consistent and coherent economic policy framework to underpin its development objectives as outlined in the MGDS II. The emphasis will be on enhancing the sustainability of growth and development through policies that consolidate economic stability, reinforce

resilience to shocks, further improve public financial management, and support private sector led growth.