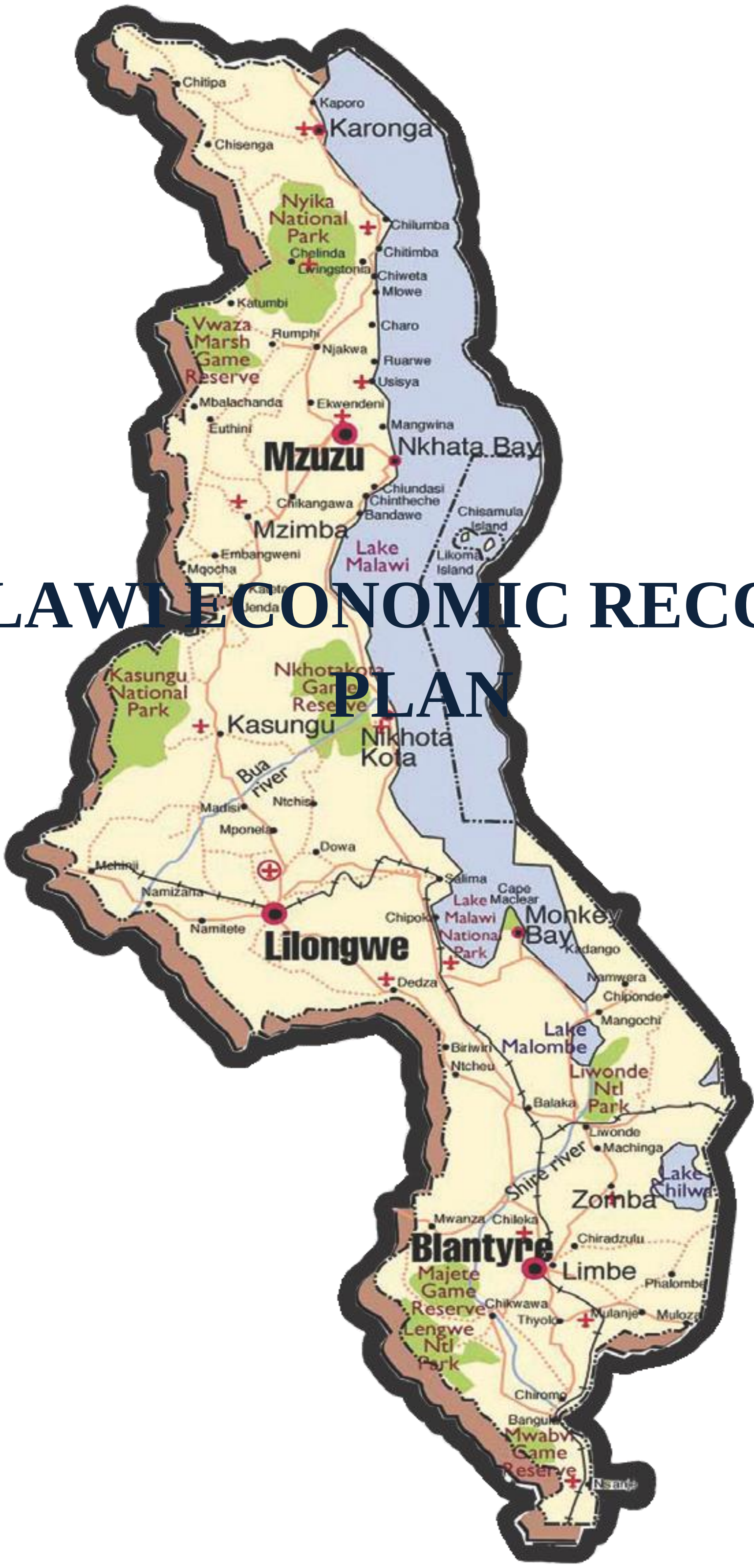
Malawi Government



MALAWI ECONOMIC RECOVERY PLAN

HER EXCELLENCY MRS. JOYCE BANDA
PRESIDENT OF THE REPUBLIC OF MALAWI

Presidential Statement

When I took over the office of President of the Republic of Malawi, on April 7th, 2012 the country was facing serious challenges such as shortage of foreign reserves, scarcity of fuel and essential drugs in hospitals. Some industries were operating below capacity due to inadequate imported raw materials and others literary closed down. In my State of the Nation Address delivered during the state opening of the 2012/2013 National Budget, I highlighted these challenges.

To forestall these problems, my Government formulated and is implementing an Economic Recovery Plan to ensure that our country returns on track to prosperity. The recovery plan identifies areas for intervention in the immediate, short and medium term. Some of the measures including the devaluation of the Malawi Kwacha, setting a market determined exchange rate, restoration of bilateral and multilateral relations and the repealing of punitive laws in our country have already been implemented.

The Conference on the National Dialogue on the Economy which took place at Sunbird Nkopola Lodge, Mangochi solicited views from a wide range of experts on restoring the country's economy in order to strengthen the road map for economic recovery.

The conference acknowledged that the MGDS II remains the overarching single reference document for the country's development agenda. However, it observed that MGDS II, which was formulated prior to the coming in of my Government had too many priorities, and that, there was a need to focus on few priorities that are pro-growth, represent quick wins, and are highly effective. The Conference identified diversified commercial agriculture, tourism, energy, mining and infrastructure development as sectors that can achieve this goal.

The Recovery Plan outlines the way forward for the country to achieve quick development results in the short and medium term.

My vision is to eradicate poverty through economic growth and wealth creation. I, therefore, urge all stakeholders to support the recovery plan to ensure that the goals and targets that have been set are achieved within the time period of its implementation.

May God bless our country.

Mrs. Joyce Banda

PRESIDENT OF THE REPUBLIC OF MALAWI

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ACRONYMS

APM	Automatic Pricing Mechanism
CPI	Consumer Price Index
ECF	Extended Credit Facility
ESCOM	Electricity Supply Corporation of Malawi
FISP	Farm Input Subsidy Programme
GDP	Gross Domestic Product
ICT	Information Communication Technology
IMF	International Monetary Fund
IPS	Integrated Production System
LIPWP	Labour Intensive Public Works Programme
M&E	Monitoring and Evaluation
MACRA	Malawi Communication Regulatory Authority
MGDS	Malawi Growth and Development Strategy
MGDS II	Malawi Growth and Development Strategy II
MoAFS	Ministry of Agriculture and Food Security
MoEM	Ministry of Energy and Mining
MoEPD	Ministry of Economic Planning and Development
MoEST	Ministry of Education Science and Technology
MoF	Ministry of Finance
MoGCSW	Ministry of Gender, Children and Social Welfare
MoICE	Ministry of Information and Civic Education
MoIT	Ministry of Industry and Trade
MoTPW	Ministry of Transport and Public Works
MoTWC	Ministry of Tourism Wildlife and Culture
MSMEs	Micro Small and Medium Enterprises
MVAC	Malawi Vulnerability Assessment Committee
NSO	National Statistical Office
OPC	Office of the President and Cabinet
PPP	Public Private Partnerships
PSF	Price Stabilization Fund
RBM	Reserve Bank of Malawi

1.0 INTRODUCTION

The Government of Malawi implemented the first Malawi Growth and Development Strategy (MGDS) from 2006 to 2011, as its overarching medium term development framework aimed at reducing poverty through economic growth and infrastructure development. During that period, the economy registered an average growth of 7.0 per cent. It is now in the second year of implementation of MGDS II, covering the period, 2011 to 2016.

During the first year of the MGDS II implementation, Malawi faced a number of macroeconomic challenges. These challenges included reduced disposable incomes due to poor tobacco revenues, scarcity of foreign exchange, and power disruptions. Consequently, economic performance slowed down, and Gross domestic Product (GDP) grew by only 4.3 per cent compared to 6.9 percent projected in the MGDS II. The severe shortage of foreign exchange had negative impact on imports of strategic commodities including fuel and industrial raw materials. This situation was exacerbated by an overvalued official exchange rate and tight administrative regulations.

Although average inflation rate in 2011 remained at a single digit (7.6) the country started experiencing a steady rise in general price levels from early 2011, reflecting a pass-through effect from increased petroleum pump prices and continued fuel supply disruptions. Consequently, the average annual inflation rate for 2012 has been projected to accelerate to 18.4 per cent. Furthermore, the base lending/bank rate of the central bank has been on the rise leading to the cost of borrowing to go up in the country. With this, Government understands that these economic fundamentals needs stabilize by bringing inflation and interest rates down as well as improving liquidity availability in the country.

It is against the aforementioned that Cabinet directed that an Economic Recovery Plan should be developed. This Plan was enriched by Cabinet discussions and the National Dialogue on the Economy that took place in Mangochi from 29th June, 2012 to 1st July 2012. The Plan outlines reforms that have been implemented since April 2012 and are continuing being implemented to the next 18 months and beyond. The Plan is intended to improve the country’s prospects for social-economic growth and development and is focusing on quick wins for economic recovery.

Broadly, the Plan covers reforms in the areas of Economic Governance, in particular, the restoration of Multilateral and Bilateral donor relations with the International Monetary Fund (IMF) and the British Government to create space for full donor participation to the country's development agenda; and in the area of Economic Policy whereby Monetary, Fiscal and Real Sector Policy Reforms are being implemented to improve the country's macroeconomic environment for doing business with a view to increase private sector participation to the development of the country. Social economic policy reforms have also been scaled up to mitigate against the impact of some of the economic reforms on the vulnerable groups of the society.

This being the case, the successful implementation of the Plan entirely depends on the full participation of all Stakeholders in the country including the Private Sector Organisations, Bilateral and Multilateral Partners and other Stakeholders. Government will spearhead the process and create an enabling environment for the other Stakeholders to participate in the development of the country.

2.0 THE RECOVERY PLAN

Given the economic challenges outlined earlier, implementation of the Economic Recovery Plan was urgent. Thus the recovery plan embraced a set of immediate (within 3 months), short (1 year), and medium term (2-5 years) policy reforms aimed at restoring external and internal economic stability. It further proposed measures to cushion the vulnerable from the impact of any reforms particularly the exchange rate policy. In addition the plan proposed increasing resource allocation to areas that would address constraints to economic growth such as energy and to those aimed at boosting production for the export market.

2.1 Immediate Policy Reforms

A. **Exchange Rate Adjustment:** The axle for Malawi regaining macroeconomic balance is a realignment of the exchange rate regime to one that is credible to all market players and allows business to return to normal. To this end, the following reforms were implemented:

- Immediate removal of restriction on the foreign exchange bureau market as was the case before the devaluation, in August 2011, to allow them determine their own mid-rate;
- The devaluation of the Malawi Kwacha to country's major trading currencies was effected in May, 2012;
- A flexible exchange rate regime was adopted;
- Discontinuation of the pre-screening requirement of imports in excess of US$50,000 allowing importers to freely import their requirements; and
- Reversal of surrender requirements for tobacco dollars and allow tobacco proceeds to go to commercial banks.

B. **Foreign Exchange Reserve Cushion:** In order for the exchange rate reforms not to be economically and socially disruptive, there was need for some foreign exchange reserves. The foreign exchange reserves would be essential to meet the need for strategic fuel supplies, social support package, and outstanding arrears on foreign bills. To this end, the following measures were undertaken:
   - Conclusion of negotiations on the resumption of support from United Kingdom and other development partners;
   - Resolution of misunderstanding with some development partners on governance concerns, including those raised by the Millennium Challenge Corporation;
   - Conclusion of a new Extended Credit Facility (ECF) with the International Monetary Fund (IMF) which will trigger balance of payments and budget support from bilateral and multilateral partners.

It is expected that the above measures would complement the inflow of foreign exchange from exports of agriculture products such as tobacco, sugar and cotton.

C. **Fuel Pricing:** Over the past years the Government has been controlling fuel pump prices. This meant subsidizing fuel when international prices rise and thus accumulating deficits in the Price Stabilization Fund (PSF) hence posing a risk to the budget. To eliminate this risk, the country returned to Automatic Pricing Mechanism (APM).

D. Monetary Policy: The success of the proposed macroeconomic reforms hinges on implementation of monetary policy that is less expansionary and accommodating. It was imperative to tighten monetary policy by increasing the cost of credit and mopping up excess liquidity. Going forward, periodic use of interest rates, as and when market conditions dictate will be instrumental to the smooth conduct of monetary policy.

E. Fiscal Policy: Government abandoned the Zero Deficit Budget and instead introduced a budget with a fiscal anchor of No Net Domestic Financing (NNDF). To this end, Government will maintain a tight fiscal policy that will not entertain any expenditure over runs so as to achieve prudent public financial management as well as create an enabling environment for private-sector led growth.

2.2 Short Term (1 year)

A. Social Support Package: Economic reforms normally bring unintended negative socio-economic impacts on the general population which need to be mitigated. This is particularly so for the poor and vulnerable households in both rural and urban areas. Therefore as the country is implementing the reforms, it is imperative that interventions to protect the most vulnerable communities be scaled up. To this effect, Government will undertake the following programmes:

- Scaling up Labour Intensive Public Works Programme (LIPW);
- Scaling up Farm Input Subsidy Programme (FISP);
- scaling up legume seed multiplication, agro forestry and soil conservation, multiplication of cassava cuttings and sweet potato vines and extending village savings club;
- Scaling up school meals programme and vitamin A supplementation; and
- Continuing the Social Cash Transfer Programme.

B. Budget Framework: The formulation and implementation of the FY2012/13 is critical to the success of the recovery plan. The impact of some of the activities implemented within the first 3 months will flow through the financial year. To this effect, the recovery plan was crafted taking into consideration the capacity to generate domestic revenues and inflows of donor funds against expenditure pressures such as growing wage bill, the social support interventions, as well as the need to support sectors that stimulate economic growth.

Accordingly for FY2012/13, a decision was made to prioritize expenditures to sectors that would enhance economic growth, create employment, and boost production and diversification for the export market for quick foreign exchange generation. The prioritized sectors for rapid foreign exchange generation include agriculture, fisheries and tourism. To this end, efficient and reliable energy will be required to promote value addition, export diversification, and boost growth in these sectors and other potential sectors such as mining.

2.3 Medium Term Reforms (2 – 5 years)

Benefits of implementing the short term activities outlined above, would flow into the medium term. It is expected that the economic challenges the country is experiencing would stabilize in the medium term. The medium term agenda for the country is outlined in the MGDS II. However, considering the constraints and challenges the country is experiencing, the National Dialogue on the Economy proposed that priorities in the MGDS II should be reviewed and refocused for rapid economic gains.

2.3.1 Medium Term Focus Areas

Economic growth in Malawi is constrained by a number of factors including energy, transport and limited exports. To contain the situation the country will ensure that energy generation and supply, transport infrastructure and exports diversification are addressed quickly. Tourism, mining, manufacturing, commercial farming and agro-processing will be key in generating the desired foreign exchange earnings. Going forward, focus will therefore be placed on the following sectors:

- Energy;
- Tourism;
- Mining;
- Agriculture; and
- Transport Infrastructure and Information and Communication Technology (ICT).

i. Energy

The country continues to face a number of challenges in the energy sector. These include inadequate capacity to generate electricity and intermittent supply. Consequently, economic activity in areas such as mining and manufacturing are affected.

Government will therefore support investments in energy generation and supply in order to generate and distribute sufficient amount of energy to meet national socio-economic demands. It will endeavour to, among other activities do the following:

- Continue financing works at Kapichira II rehabilitation project;
- Establish new hydro stations;
- Continue pursuing the Millennium Challenge Compact with a view to widen its scope;
- Manage the demand in the industry by encouraging economic usage of electricity, including usage of energy saver bulbs;
- Encourage regional interconnectivity;
- Explore establishment of coal generated electricity;
- Enhance research in other sources of energy including wind and solar; and
- Promote Public Private Partnerships (PPP) in energy generation and distribution.

ii. Tourism

Tourism has the potential to generate revenue, employment, improve infrastructure, and promote Micro Small and Medium Enterprises (MSMEs) as well as conserve wildlife and culture. The sector has direct linkages with other sectors of the economy. However, the industry faces a number of challenges which include poor supporting infrastructure, poor service delivery, uncoordinated and insufficient marketing of tourism products and inadequate purpose-built infrastructure.

To promote the industry, Government will implement the following programmes:

a. Product development

- Develop support infrastructure (electricity, water, transport);
- Restock game reserves and national parks and protecting animals; and

- Restore and improve tourism assets, including supporting the restocking of game parks.

b. Tourism marketing and promotion

- Intensify marketing of the country as a preferred tourist destination and aggressively, put measures to increase flights to Malawi, including direct flights from Europe; and
- Enhance marketing of Malawi's tourism products.

c. Institutional reform and capacity development

- Undertake a program to train more staff, supervisors, and managers in the tourism sector;
- Simplify the system of visa issuance for tourists; and
- Improve tourism investment climate.

iii. Mining

Malawi has abundant mineral resources that can be exploited. These resources include bauxite, heavy mineral sands, monazite, coal, uranium, precious and semi-precious stones, limestone, niobium, dimension stones and rock aggregates. Growth in this sector has slowed due to inadequate availability of energy. It is, therefore, expected that with improvement in the energy sector, there will be availability of electricity, which will in turn help to develop the mining sector, and hence improve the country's foreign exchange earnings.

To derive maximum potential of the mining industry, Government will aim at increasing production and value addition of mineral resources. To achieve this, the following will be undertaken:

- Establishment of legal and institutional framework
- Updating the geological information system;
- Undertake a crash programme to train mining engineers, legal experts in mining and other related fields in the sector;
- Enhance oil exploration and capacity building initiatives in the sub sector;
- Ensure transparency in all mining contracts and close monitoring; and
- Promoting participation of local and foreign investors in the mining industry.

iv. Agriculture

Agriculture remains key to the country's economic growth, wealth creation and food security. However, the sector is still dependent on rain-fed and subsistence farming. It is characterised by low absorption of improved technologies, poor infrastructure, inadequate markets, and inadequate investment in mechanization.

The sector is dominated by tobacco and subsistence maize production hence the need for diversification and a focus on commercialization for export markets. Besides diversification of crops, the sector will also focus on animal farming and fisheries. The following actions will be undertaken:

- Diversify and upscale production of key crops that have potential for export market- including groundnuts, rice, coffee, sunflower, soya, pigeon peas, cotton cassava and sugar;
- Continue the Greenbelt Initiative with focus on irrigation farming of high value crops, aquaculture and animal farming;
- Enact and implement amendments to land legislation, including the enactment of the Land Bill;
- Review the Special Crops Act as it disadvantages some crops and brings distortions in the industry;
- Encourage large-scale commercial farming;
- Adopt Integrated Production System (IPS) which will promote contract farming;
- Support agro-processing;
- Increase cage farming in fisheries to meet local demand for export market;
- Improve animal farming; and
- Increase and improve agricultural extension services.

v. Transport Infrastructure Development and Information Communication Technology (ICT)

Poor transport infrastructure continues to impinge on domestic and international trade and therefore posing major challenge to economic growth and development. Similarly, poor information technology discourages movement of vital information that is necessary for improvement of trade. Government will therefore aim at improving infrastructure development programmes focusing on road, rail, air transportation, and Information and Communication Technology (ICT).

Rail Transport

Government will aim at reducing transport costs by making rail transport safe, efficient and competitive by undertaking the following:

- Rehabilitate and expand the railway line and related infrastructure; and
- Create linkages to ports, industrial sites and regional and international markets, focusing on those that are linked to the priority crops and clusters.

Road Transport

Considering that road transport is the dominant mode of transport in Malawi, Government will target reducing cost of high transportations costs in the country by:

- Continuing to construct, rehabilitate, and upgrade road infrastructure.;
- Improving network of feeder roads, focusing particularly on roads that support growth of selected crops such as sugar cane, groundnuts soya and sunflower for production, processing and export; and
- Developing strategic corridors that are cost-effective for international trade.

Air Transport

Government will continue to aim at improving air transport efficiency to encourage trade, tourism and investment by:

- Promoting and providing safe, efficient, reliable aviation infrastructure and services;
- Promoting a competitive and efficient air transport industry including by decisively solving the problems of Air Malawi; and
- Promoting PPPs to facilitate private investment.

ICT

Government will aim at improving usage and adoption of electronic and online services; availability of service; geographical coverage; and usage of modern broadcasting technology and reducing communication costs by:

- Improving the regulatory framework for the sector;

- Liberalizing the mobile telecommunications sector to encourage new international entrants; and
- Ensuring liberal regulatory environment regarding international ICT gateway licenses.

Annex II shows a list of prioritized projects to be implemented by these sectors.

3.0 GOVERNANCE

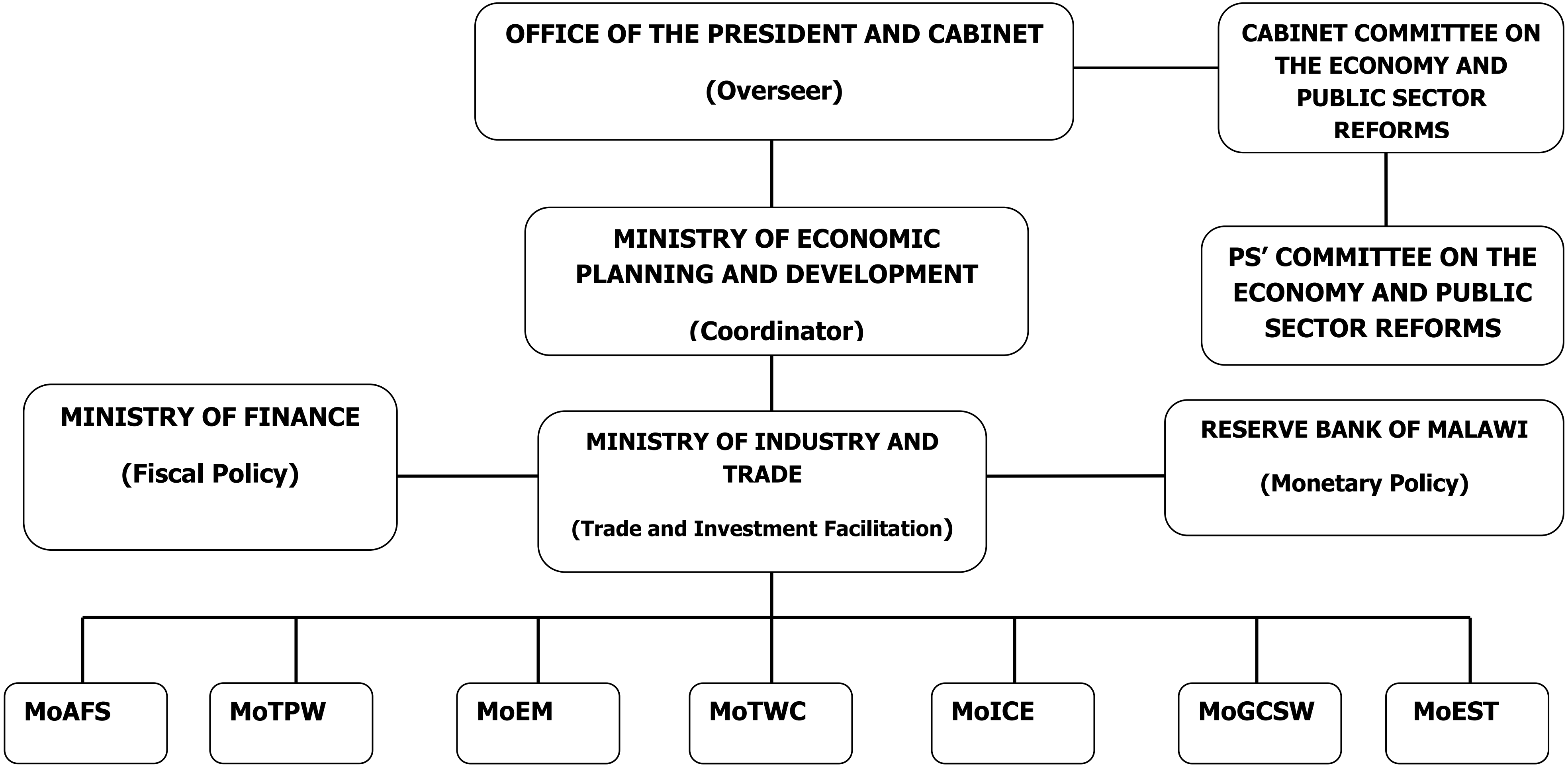
Good governance in the implementation of this plan will play a critical role in achieving social and economic development of the country. It will enhance efficiency in institutions and sustain a stable economic and political environment necessary for economic growth and effective functioning of public services. It will also promote rule of law, human rights, and guarantee property and personal rights which attract private sector investment.

3.1 Implementation Framework

Evidence shows that programme implementation in Malawi has to some extent not been successful due to a number of factors ranging from lack of institutional capacity to coordination challenges. The success of the recovery plan will, therefore, hinge on strong institutional arrangements and coordination of various activities in the Plan.

In this regard, the Ministry of Economic Planning and Development (MoEPD), in its mandate to provide strategic direction for the economy through designing and formulating long and medium term national development strategies, will coordinate the implementation of this recovery plan. This coordination role will be strengthened and supported by the Office of the President and Cabinet (OPC). OPC will provide overall oversight and supervisory function to ensure that the Recovery Plan is implemented. The Ministry of Finance (MoF) will provide resources to the sectors that will be implementing the plan. Furthermore, it will prioritise expenditure to these growth enhancing sectors. To this end, Fiscal policy will therefore aim at spurring fiscal consolidation, reinforcing resilience to shocks and supporting private sector led growth. The Reserve Bank of Malawi (RBM) is expected to pursue prudent monetary policy, through restrained monetary aggregate growth, to contain aggregate demand and inflation pressures and shift demand toward domestic output. The Ministry of Industry and Trade will facilitate trade and investment. Line ministries in the various sectors mentioned herein will spearhead the implementation. They will provide coordination roles and functions at sector level. The Civil society and private sector are expected to implement specific activities and provide oversight and accountability functions. Donors and cooperating partners are expected to provide technical and financial support for the implementation of the recovery plan to ensure the country moves on to prosperity.

INSTITIONAL ARRANGEMENT FOR IMPLEMENTATION[1]



[1] MoAFS (Ministry of Agriculture and Food Security); MoTPW (Ministry of Transport and Public Works); MoEM (Ministry of Energy and Mining); MoTWC (Ministry of Tourism, Wildlife and Culture); MoICE (Ministry of Information and Civic Education); MoGCSW (Ministry of Gender, Children and Social Welfare); MoEST (Ministry of Education, Science and Technology)

3.2 Monitoring and Evaluation

All development endeavors will run well if they are cited on a good Monitoring and Evaluation (M&E) framework. Supervision of the process and monitoring of results is thus critical for achieving the set objectives and outcomes. In this regard, the recovery Plan will be subjected to a quarterly review by the Cabinet or the Cabinet Committee on the Economy and Public Sector Reforms to assess progress made towards the implementation of the Plan. MoEPD and OPC as the coordinating and overseeing institutions for the Recovery Plan will serve as the Secretariat in the implementation of the Plan by ensuring that information is available for decision making. The Plan has also assigned responsibilities and timeframes for implementation. The success and effective implementation will hence not only depend on MoEPD and OPC at central level but also lead Ministries at sectoral levels. It is imperative, therefore, that all institutions actively and effectively execute their roles and responsibilities.

Annex I: Matrix of Recovery Plan Policies

Focus Areas	Objective	Time frame	Lead Institution
Exchange rate adjustment	To move towards a market determined Exchange Rate	Immediate	Reserve Bank of Malawi
Foreign Exchange Reserve Cushion	Cushion Forex availability	Immediate	Reserve Bank of Malawi
Fuel Pricing	Reduce Pressure on Budget	Immediate	Energy Pricing Committee
Fiscal Policy	To improve mobilization of and efficient utilization of resources	Immediate to Short Term	Ministry of Finance
Monetary Policy	To anchor price dynamics in order to maintain low and stable inflation	Short Term	Reserve Bank of Malawi
Sectoral Resource Allocation	To prioritize expenditure to sectors that would enhance economic growth	Short Term	Ministry of Finance
Mining	To improve foreign exchange earnings and employment creation	Short to medium Term	Ministry of Energy and Mining
Energy	To generate and distribute sufficient amount of energy to meet national demand	Short to medium Term	Ministry of Energy and Mining
Tourism	To improve foreign exchange and employment creation	Short to medium Term	Ministry of Tourism and Culture
Agriculture	To improve agriculture	Short to medium Term	Ministry of Agriculture and Food Security

	commercialization for export diversification		
Social Support	Mitigate unintended socio-economic impacts of the recovery plan	Short to Medium Term	Ministry of Economic Planning and Development, Ministry of Education, Science and Technology, Ministry of Gender, Children and Social Welfare, Ministry of Agriculture and Food Security, Ministry of Local Government and Rural Development
Transport Infrastructure and ICT	improving the movement of goods and services, and the sharing of information to facilitate trade	Medium Term	Ministry of Transport and Infrastructure Development, Ministry of Information and Civic Education, Office of the President and Cabinet (E-government)
Trade and Industry	Trade and investment Facilitation	Short to Medium Term	Ministry of Trade and Industry

Annex II: List of Prioritized Projects by sector[2]

SECTOR	PROJECT
Energy	i. Kholombidzo Hydro-Electric
	ii. Thermal Power (coal generation)
	iii. Regional Power Interconnection
Mining	i. Mining Governance and Growth Support
	ii. Remapping the Geology of Malawi
	iii. Support for Small Scale Mineral Production
Tourism	i. Kasungu National Park Restocking and Infrastructure Development
	ii. Construction of a Five Star Hotel at Cape Maclear
	iii. Construction of a tourism Training School in Lilongwe
Information Communication Technology	i. E-Government
	ii. National College of Information Technology (NACIT) Enhancement
	iii. Digital TV Broadcasting Migration
Transport Sector	i. Rehabilitation of the Beira/Sena and Nacala Railway Lines
	ii. Construction of Biriwiri-Tsangano-Neno-Mwanza, Rumphi-Nyika-Chitipa, Lilongwe Old Airport-Kasiya-Santhe and Lirangwe-Changalume-Machinga roads
	iii. Construction of an Airport in Mangochi

[2] Details of the prioritized projects are contained in Appendix I (not attached)

Agriculture	i. Promotion of Legume Production and Marketing
	ii. Presidential Initiative on Small Stock Production
	iii. Promotion of Cotton Production and Marketing
Industry and Trade	i. Enabling Investment and Business Environment
	ii. Investment, Trade and Exports
	iii. Micro, Small and Medium Scale Enterprises (MSMEs) Development