4.0 ECONOMIC GROWTH AND DEVELOPMENT

Despite tremendous macro-economic successes that the country registered immediately after independence, Malawi is characteristically poor; its economy is still not diversified,

uncompetitive and excessively dependent on agriculture. The present state of the economy makes it extremely vulnerable to external shocks such as drought, changes in terms of trade and technological advances. Against this background, the MCP is committed to the proposed structural reforms and stabilisation policies seen as the recipe for economic recovery. In fact, there is little doubt that our economy needs to be substantially restructured to adequately provide for the ever-growing population. The MCP will, in close collaboration with our partners in development, implement the economic reforms in a way that does not jeopardise the welfare of the people of Malawi. We need to become self reliant, competitive and able to manage our public and private sectors diligently.

The overall goal of the MCP administration will be to uplift the general living standards of the people. Since 1994, the standards of living have plummeted dramatically. In particular, the MCP will work to narrow down the rift between the richest and the poorest in the country. Even though the overriding concern is to resuscitate rapid economic growth, the MCP fully recognises that the benefits of growth do not automatically trickle down to everyone for the full satisfaction of basic needs and a prosperous life. Thus the development regime will be specifically designed to achieve equitable development, which ensures that all groups in society enjoy the fruits of development, not just the few at the top. The MCP administration will therefore negotiate for safety valve policy packages to be specifically targeted at the vulnerable groups so as to enable them participate in the mainstream of the development process. To achieve growth and development, the MCP will endeavour to create a policy environment that is favourable to rapid economic growth within the context of viable balance of payments positions and relative price stability. Private sector involvement in economic activities will be specifically encouraged within a sound fiscal, monetary and investment policy framework.

4.1 Fiscal Policy

The MCP's fiscal policy will be based on the realisation that the revenue base is very small and has drastically shrunk over the past ten years since 1994. Despite this tantalizingly weak revenue base the UDF has been very excessive in its expenditure spree with little or no regard to observing the expenditure control measures put in place through the cash budget system. The UDF has failed to use fiscal policy to support long-run economic growth concentrating instead on short-run revenue collection than removing disincentives to growth

and investment promotion. The UDF government expenditure has focused on items totally unrelated to implementing identified government policies and strategies. Executive domestic and foreign trips and money handouts by the President have been the main areas of expenditure rather than addressing real issues of poverty eradication. No wonder the poverty situation has worsened over the past ten years.

The MCP government will aim for a growth oriented fiscal policy focussing on providing an enabling environment for economic growth, trade and investment. A balanced budget is sine quo nom for accelerated growth and development. Budget deficits will be a thing of the past as the MCP government will restore fiscal discipline and ensure transparency and accountability in handling government finances. To ensure that growth and development takes place the MCP government will remove UDF's myopic approach to expenditure management by balancing expenditures on both social and economic services. Fiscal discipline will be ensured through the following policy measures:

(a) Reducing the number of cabinet positions by merging a number of related ministries and departments.

(b) Priority in both capital and recurrent expenditure will be given to social sectors such health and education. Every attempt will be made to ensure that the allocation of public resources is not based on any other consideration other than justifiable economic and social needs.

(c) Reviewing fiscal policies that unnecessarily constrain entrepreneurship.

(d) Strengthening the administrative and operational capacity of all revenue collecting bodies including the Malawi Revenue Authority. The emphasis of an MCP government will be on promotion of voluntary compliance by applying rates that the tax paying community will consider reasonable.

(e) Formulation of the budget in consultation with wider sections of the civil society to streamline the budget session in Parliament.

(f) Strengthening the expenditure control process in the public service as well as review allocation priorities in order to minimise government borrowing from the central and commercial banks. Excessive government borrowing from domestic financial institutions, as has been the case with the UDF government, clouds out private sector investment and is a sure recipe of high inflation.

(g) Encouraging private sector involvement in spheres such as health, education and transport, which are traditionally considered as the government's domain so as to ease pressure on increasingly limited government budgets. And

(h) Retiring public sector local debt.

The MCP government will further use the new Public Financial Management Act to ensure discipline, transparency and prudent management of public resources. In matters of fiscal management the MCP administration will foster great cooperation with all our cooperating partners. Malawi is part of the global village and can therefore not prosper without the assistance from our cooperating partners. The MCP will therefore woo back all our cooperating partners (including the Danish Government) in a relationship cemented by mutual trust and confidence. Most of all, the MCP Government will make use of the valued advice from the international organisations like the International Monetary Fund [IMF] the World Bank and the United Nations. Bilateral Donors will receive due gratitude and cooperation from an MCP Government that believes in "contact and dialogue".

Taxation

At the time when MCP was administering this country before the 1994 wave of political change, Malawi had a tax reform programme, which was championed by consultants from Harvard International School of Business. Our target at that time was to move the top tax rate to be at 30%. In the next MCP administration we will ensure that this tax rate is considered for implementation.

For the sake of equity the MCP administration will not discriminate between individual tax-payers and corporate citizens. As it is now, individuals are being taxed at higher rates of 40% as opposed to companies which are being taxed a lower rate of 30%, a shameful thing to do which is retrogressive. The MCP, in realization of the terrible loss of value of the Malawi Kwacha will increase the poverty threshold from the little MK3000 per month at which it is now to a realistic value.

Customs rates are prohibitive in all senses. They make people of Malawi miserable, it is the intention of MCP administration to have a tax structure that can wear a human face. In simple language rates will be revised downwards; the rebate amount of MK10, 000 will be revised to take into account the reality of the Kwacha, which has miserably lost its value.

4.2 Monetary Policy

Operations of the central bank are the roots of an economy. Monetary policies are geared to control price levels and to maintain the Malawi Kwacha at a reasonable and acceptable exchange rate as driven by market forces. In a healthy economy, it is the monetary policy that drives the fiscal policy. Unfortunately, in Malawi it is the fiscal policy that has been driving the monetary policy. The Government has allowed itself the privilege of borrowing beyond the statutory limits as laid by the Reserve Bank of Malawi Act and by the Public Financial Management Act. This tends to create too much money into circulation and becomes inflationary. It is not surprising that companies are closing down because financing through the bank is just too expensive for any profitable business. One of the biggest mistakes of the UDF administration has been that of diluting the independence of the central bank by dictating to the monetary authorities.

The MCP administration pledges that it will safeguard the independence of the central bank. It will revise the Reserve Bank of Malawi Act to make it more poignant and more restrictive for Government to run a loose monetary policy. The MCP will revitalise the Loans Board responsible for ensuring that Government sticks to the statutory limits of borrowing. The Loans Board was there before but the UDF administration made it defunct because they wanted to have it the easy way.

4.3 Investment and Savings Growth

Private sector investment has been the key factor in fuelling economic growth and development in many countries. Regrettably, since 1994, Malawi has suffered dwindling levels of investment and has registered negative growth rates over the same period. Evidently insufficient and declining levels of private sector investment have been experienced in all sectors but more importantly in manufacturing the key tool for economic transformation. Structural and institutional weaknesses have contributed to the near demise of the private sector. Malawi has become uncompetitive and is now more of a vendor economy.

Economic policy has emphasized demand management rather than enhancing supply side policies consequently productivity has drastically gone down thereby eroding the revenue base for the government. The UDF government has therefore heavily depended on donor finance and heavy borrowing at the expense of crowding out the private sector. High interest and inflation rates, and a weak and unstable Malawi Kwacha have been the order of the UDF government.

Poor macroeconomic environment under the UDF administration has failed to provide the required social and economic infrastructure such as dependable supply of utilities, factory shells and roads for the private sector to flourish. Lack of transparency in the issuance of investment incentives, no well defined legal and regulatory framework for investment, weak human resource base in all spheres of investment promotion, low savings and lack of a well defined public-private sector institution to promote constructive and productive dialogue between the two sectors have had negative effects on the growth of the private sector. It is clear from the above that the UDF government has lacked capacity and vision to define and implement policy that would enhance the productivity of the Malawi economy through the private sector.

The MCP has identified these problems and realises that investment can only be possible if the economy generates sufficient savings and provides the necessary incentives for both domestic and foreign investors. The MCP is therefore well positioned to reverse all these ills and bring back the glory that the private sector used to enjoy during MCP's rule. After all it is the MCP that established the Malawi Investment Promotion Agency with the specific mandate to attract, promote and facilitate both foreign and domestic investment in Malawi. It is also the MCP that established the Malawi Export Promotion Council to promote Malawi exports abroad but unfortunately, the UDF crippled these very important institutions by deliberately under funding them and have even decided to merge them ignoring their vital economic and developmental roles that they have been playing. The MCP will not allow these two institutions to be tempered with rather will ensure that they are sufficiently strengthened and empowered to carry out their respective mandates for the proper functioning of the private sector.

The MCP fully recognises that to complement the low domestic savings Malawi must attract substantial foreign direct investment. Furthermore the MCP realises that both foreign and domestic investors require a sound, functioning and predictable policy environment, an energetic and enterprising people to improve labour productivity, improved conditions of both social and economic infrastructure and a viable financial sector supportive of private sector development efforts that the MCP will put in place and implement. In order to fully realise the potential benefits arising from the above referred to reforms, the MCP will implement the following measures:

a) Give the Malawi Investment Promotion Agency the necessary support to fully discharge its mandate of attracting, promoting and facilitating investment. Turn MIPA into a fully-fledged one-stop investment centre and review its mandates to make it more autonomous. Relocate MIPA to OPC or Ministry of Economic Planning and Development.

b) Provide economic infrastructure, develop and implement rehabilitation and maintenance programmes for economic infrastructure, including roads, telecommunications, utilities and provision of factory shells.

c) Develop transparent guidelines for the provision of investment incentives to both foreign and domestic investors to ensure the maintenance of a competitive investment destination.

d) Re-orient and link MIPA with our foreign missions for aggressive investment and export promotion and marketing.

e) Invest in human resources development and maintain robust financial markets.

f) Secure investors confidence through political stability and maintaining a predictable economic policy environment.

g) Implement sound fiscal policies avoiding fiscal deficits and reviewing the level of both foreign and domestic debt that impact negatively on the environment and raise the cost of financing private sector investment.

h) Encourage cross-border investment particularly in the SADC/COMESA region as a strategy for export promotion of our traditional exports.

i) Encourage the creation of an institution to enhance public/private sector dialogue at the highest level. Where applicable this institution would be co-chaired by the MCP President and a prominent businessperson.

In general the MCP is ready to revitalise the private sector and will pursue strategies aimed at attracting, promoting and facilitating both foreign and domestic investment. This will of necessity involve the development of the existing market base, identifying additional growth sectors, targeting new modes of investment and developing competitive investment incentive packages. The MCP therefore stands ready to work the private sector and to help it in the best possible way so that together we can contribute to the uplifting of the lives of the people of Malawi.

4.4 Budget and Aid Management

The MCP notes that, inter alia, the country's economy has performed dismally because of the poor management of the budget and aid flows. It is particularly important that we put in place sound aid management mechanisms especially that evidence thus far posit a positive relationship between aid management and economic growth. This is not to say that the MCP supports the culture of dependency that accompanies aid driven development but that to progressively wean ourselves from heavy reliance on aid flows, we need to make good use of them in order to spur sustainable economic growth. If, for instance, aid is targeted at less viable pr9jects and pocketed by public officers, we cannot expect to climb out of the present economic problems. We therefore need institutional, political and economic reforms that will ensure that the aid flows are put to productive use. The MCP realises that o achieve economic prosperity in the present economic climate, prudent budget and aid management is exceedingly crucial. To improve the management of the budget and foreign aid flows, an MCP government will:-

(a) Create a Debt Management Agency to monitor borrowing levels, deficits and manage the existing debt.

(b) Create an aid co-ordination and management office responsible for loans and grants. The office will also ensure good and efficient economic governance.

(c) Timely present and publish the budget for the public to comment on.

(d) Introduce value for money audits.

(e) Publish quarterly government accounts.

(f) Strengthening the role of the Public Accounts Committee.

(g) Aim at balancing the budget.

(h) Reduce the size of the cabinet by merging a number of related ministries and departments

Undertake to carry out wide pre-budget consultations with the civil society and other stakeholders

4.5 Labour and Employment

Acute land shortage in an agro-based economy like Malawi inevitably calls for concerted action on the part of the state to create abundant of farm employment opportunities. The rising poverty levels make it a matter of urgency. To achieve laudable economic growth and prosperity, an elected MCP government will create jobs and employment opportunities to cater for an ever-growing labour force. For instance, the size of the country's labour force was projected to exceed 5 million by the year 2000. Measures envisaged by the MCP include:-

(a) Reorganising the activities of Labour Offices in order to adequately meet the growing demands of an ever-expanding labour force.

(b) Supporting small and medium enterprises to generate employment particularly in the rural areas.

(c) Offering attractive incentives to private sector companies that expand and create more job openings without necessarily compromising productivity

(d) Encouraging links between training institutions and industry to assist in the periodic reviews of curriculum and identification of skills gap.

(e) Supporting free mobility of labour throughout the country

(f) Periodically review Temporary Employment Permit (TEP) guidelines in consultation with the major stakeholders such as the Malawi Chamber of Commerce and Industry. Labour Unions and Employers.

(g) Legislating against Striker Replacement in the public sector

Introduce legislation to protect HIV/AIDS victims in work places from unfair treatment