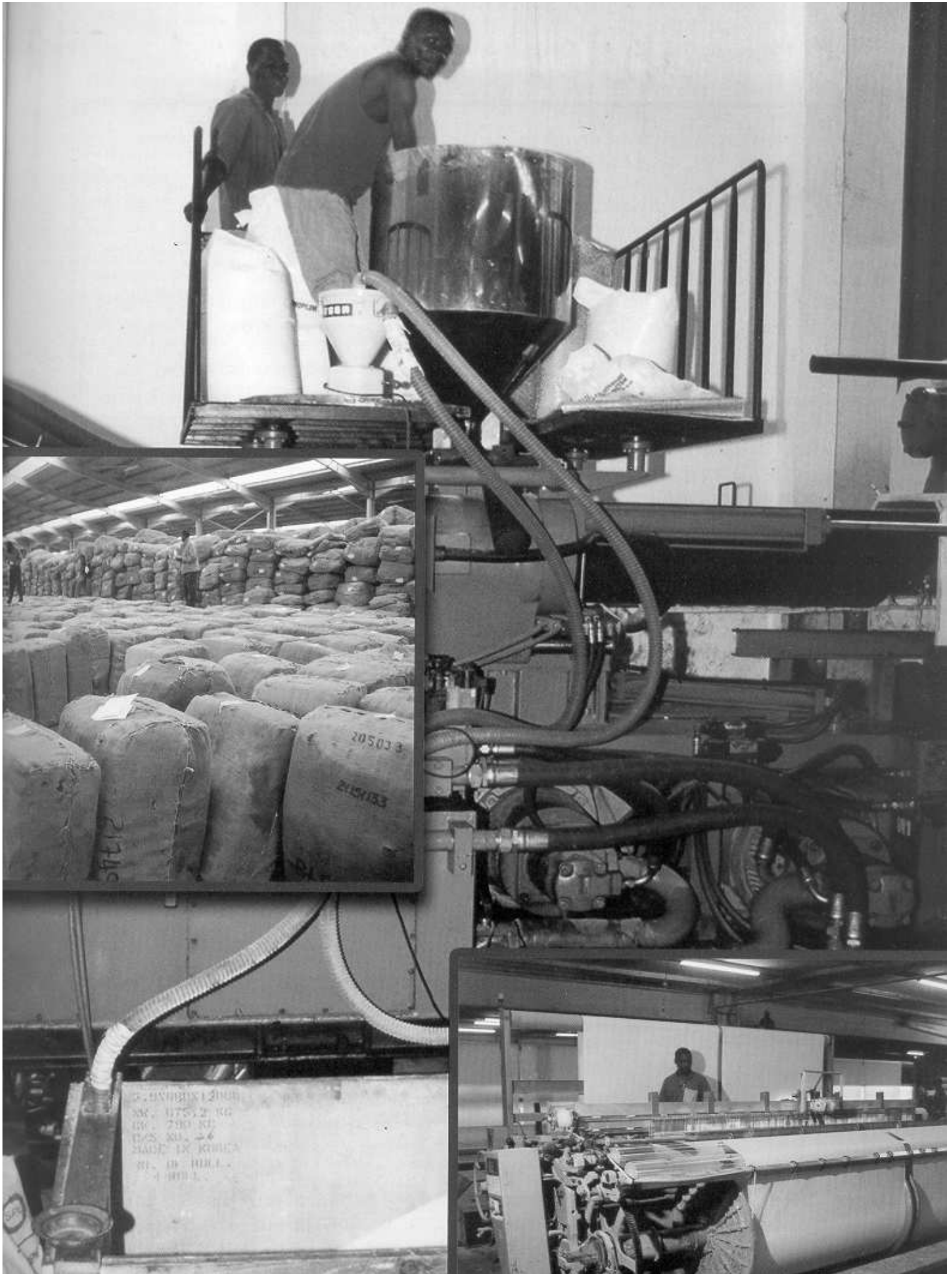




---

**FOCUSING ON  
ECONOMIC  
PROSPERITY**



## 6. Focusing on Economic Prosperity

### OUR AIM

*To maintain pro-poor growth, the UDF government wants to promote housing development and jumpstart the construction sector. The UDF has observed that most Malawians do not own houses. Employed people live in institutional houses throughout their employment. Low and middle income families often rent houses in high density areas. The UDF government will assist poor families own a home by selling, at concession price, government houses to tenants that have occupied a house for more than 20 years. Companies that introduce staff housing schemes will get appropriate tax breaks. The UDF will increase mortgage lending at low repayment rates.*

*As a component of its growth strategy, the UDF government wants to achieve a GDP growth rate of at least 6 percent per annum. To accomplish this goal the UDF government will foster the growth of small and large scale businesses and encourage cross border trade and investment. The private sector will be involved in managing public infrastructure and projects in order to attain fiscal savings on capital and recurrent costs.*

### WHAT WE PLEDGED

The UDF pledged to achieve stable economic growth with low inflation and to create a dynamic and competitive private sector. We promised to diversify agricultural exports and expand the manufacturing sector for both domestic and export markets. The UDF pledged to implement policies that would ensure equitable distribution of income and wealth, to maintain macro-economic stability and reduce interest rates and prices. The UDF government promised to privatise loss making private enterprises and reduce state control over business activities in order to foster efficiency, increase competition and reduce monopoly.

### OUR ACHIEVEMENTS:

- The gross Domestic product (GDP) has averaged a growth rate of 3.0 per cent per annum. Inflation has reduced drastically from 9.9 percent to 9.0 percent in 2003. Fiscal deficit has moved from 15 percent in 1994 to 4.6 in 2003.
- Since 1994, the economy has experienced a pick up in the rate of foreign investment in the financial sector, trading, and commercial farming.
- The liberalization of growing and marketing of tobacco through the intermediate buyer scheme opened up the tobacco industry to competition.
- More than 40% of tobacco is grown by small holder farmers, who have been exposed to the challenge of participating on the market, and given bidding power on the auction floors.
- Financial policy by government has been transformed to favour the efficient utilisation of capital and as a result parastatal usage of credit has been rationalised in favour of the private sector.
- The UDF government has unleashed the potential of our economy which was constrained because of regulation. The role of the state in

the economy has been significantly curtailed.

- During the past 9 years, the UDF government has restructured the economy to bring the ordinary citizens into the mainstream of economy.
- Women in business have been an important factor in the restructuring process.
- The pattern of exchange rate management has been transformed to favour export production.
- The UDF has created a financial sector reform program which has enhanced opportunities for participation in mobilization of savings and lending to the private sector. Financial liberalization brought about a multiplicity of financial institutions. For example, in 1994, there were 2 major banks, 1 building society, 1 investment bank, and 1 savings bank. During the 9 years under the UDF government, the country now has 8 major banks, 2 discount houses and a savings bank which has been fully restructured.
- Malawi has maintained revenue collection at 18 percent of GDP and reduced inflation from 88.3 percent in 1994 to 8.5 by mid 2003. It has stabilized the exchange rate and maintained the rate of exchange at below 50 percent.
- Initiatives to empower people have included the housing scheme and urban farming program for civil servants.
- The current budget demonstrates dramatic shifts of expenditure to social sectors of the economy including education and health.
- The UDF government established the Malawi Revenue Authority (MRA), which has introduced efficiencies in revenue collection.
- The UDF government has initiated a reform program on the basis of which major improvements in agricultural efficiency will be attained. The Land Reform program is a complement to agricultural liberalization.
- The Establishment of the Privatisation Commission has set the pace for a transparent and irreversible process of rationalizing the role of the state in the economy.
- 25 state owned enterprises have been privatized and about K840 million realised from the sale. Over 10,000 Malawian stakeholders and investors have been created.
- The UDF government introduced a Special Privatisation Fund, managed by Inde Bank to assist Malawian nationals with loans of over K30 million for the purpose of participating in the privatization programme. This move has resulted in 13 million shares being bought by Malawians.
- In an attempt to make Press Trust beneficial to all Malawians, 20% of Press Corporation shares will be distributed to Malawians of majority age.

## THE CHALLENGES

- Poverty can only be reduced if the country achieves a GDP growth rate of 6 percent or better.
- The low income among Malawians is inhibiting their full participation in the privatisation process.
- The economy has a narrow tax base that is not able to capture the informal sector.
- The small holder agriculture sector needs to be revived in response to liberalisation.
- The export capacity of the country needs to be regenerated.
- There is need to increase the role of the financial sector in providing credit to the private sector

## OUR COMMITMENT

The UDF government's economic policy is to be guided by five strategic pillars:

- Sound economic governance aimed at achieving low and stable inflation, appropriate interest rates, stable exchange rates and a production-oriented tax policy;
- Structural transformation aimed at unleashing the full potential of the private sector;
- Rapid strides in financial sector development aimed at anchoring the private sector as the engine for economic growth;
- Empowering the people through sustained pro-poor growth and

developing a middle class in Malawi;

- Human capital development, cutting across primary and tertiary education and vocational skills development.

## OUR PLEDGES

### Growth Strategy

- The next UDF government will capitalize on the pivotal role of domestic and international trade and domestic and foreign direct investment as the key mechanisms for achieving growth. Domestically, the UDF will aim to unleash the potential for business growth within Malawi by putting in place the right conditions to support domestic and cross border trade and investment.
- Internationally, the UDF government will aim to capitalise on the many trade agreements that have been concluded as well as tapping into the Africa Growth and Opportunities Act (AGOA) of the United States in order to build a truly trade-driven growth of the economy.
- The UDF government will promote investment in support sectors of the economy including Utilities, Finance, Transportation and Distribution. In addition to relying on the three core sectors (tobacco, tea and sugar) the UDF government will accord high priority to the development of Cotton, Textiles and Garments, Mining, Agro-Processing and Tourism to make major contributions to fiscal revenues. These sectors have the potential to





deliver high rates of growth in excess of 6% per year which is substantial enough to have an impact on the overall reduction of poverty.

### **Economic Empowerment Programmes**

- In order to ensure equitable distribution of the benefits of growth, the UDF government will complete the preparation of the Economic Empowerment Programme to enable Malawians champion private enterprise development in order to increase their participation in the ownership of medium and large-scale enterprises.
- Specifically, the UDF government will introduce new initiatives for empowerment such as mentoring programmes, revitalization of "dead capital" through shared real estate development and Mortgage Insurance Relief At Source (MIRAS).

### **Macroeconomic Environment**

In seeking to achieve high growth and distributive equity, the UDF government will aim to promote economic stability by maximising the potential derived from existing agricultural and irrigation capability, relatively low labour costs, potential for linkages between smallholders and large exporters, and membership of international trade bodies/agreements.

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

- Consolidating and improving fiscal discipline;

- Strengthening policies relating to revenue mobilisation;
- Accelerating the privatisation programme to reduce state subventions;
- Mobilizing further donor funding for budget and project support;
- Seriously renegotiating debt relief and capitalizing on all available facilities aiming to eliminate fiscal pressures arising from debt service;
- Promoting export led growth to stimulate domestic demand and consequently fiscal revenues from indirect tax;
- Integrating informal sectors of business into the mainstream of economic activity thus consequently widening the tax base;
- Deploying adequate resources to productive food security programmes with a view to eliminating food-cost driven inflationary pressures, and;
- Inviting the private sector to undertake and/or manage public infrastructure /services projects, and consequently fiscal savings on capital and recurrent costs.

### **National Housing Project**

- Having laid foundations for a reformed market orientated economy, the UDF will aim to make the reforms work through the promotion of housing development across all income groups with a view to leverage improvements in

the quality of life and also jump-starting the construction sector.

- The UDF will underwrite capital market development finance for deployment to the mortgage-financing sector for onward lending to middle income groups across civil service and private sector employment. The UDF will implement major legal changes to incentives for the mortgage-financing sector as well as specifically reward companies involved in Staff Housing schemes with appropriate tax breaks.
- The UDF government will also establish a Backstop Mortgage Fund to cover mortgage-financing activity, and also manage returns from the scheme to finance an Integrated Rural National Housing Scheme (INRHS) for the benefit of rural revitalisation and improvement in national housing conditions among the poor.
- The UDF government will assist poor families own a home by selling at a concession price dwelling houses to any tenant who has occupied the house for more than 20 years.

#### **Public-Private-Donor Dialogue**

- Drawing from the experience of ten years in government, the UDF will, under this manifesto, aim to improve upon the tripartite dialogue between government, private sector and donors. The UDF government will also implement more joint initiatives through dialogue between government and the private sector at all levels, and

provide support to linkages between smallholders and export oriented firms. A tripartite commission will also be established as a mechanism for dialogue between all government, private sector and donor institutions.

#### **Human Resource Development**

- Drawing from its experience of 10 years in government, the UDF will also aim to improve the human resource base, particularly through skills development, a more co-ordinated approach to HIV/AIDS and changes towards results orientated management in the private and public sectors. Among other things, the UDF government will improve incentives for skills development in private companies through tax credits for training, and also review Technical and Vocational Training Authority (TEVETA) performance and the TEVET levy to ensure adequate mobilisation of resources for vocational training.
- Taking cognisance of the impact of HIV/AIDS on the country's workforce, the UDF government will seek to ensure better co-ordination and dialogue on matters relating to HIV/AIDS, and develop incentives for promoting quality, innovation and research & development.

The UDF will also develop an education process to improve leadership and management in the private sector. The Bakili Muluzi Institute has set the pace for leadership development in Malawi.

## Refocusing of Parastatal Institutions

- In line with efforts to promote private sector development, the UDF intends to strengthen parastatal institutions that support, monitor or regulate business in Malawi. The UDF government will proceed with the planned merger of Malawi Export Promotion Council (MEPC) and Malawi Investment Promotion Agency (MIPA) and subsequently enhance the capacity and effectiveness of the merged organisation.
- Under this manifesto, the UDF will also review the role and functions of the Malawian Entrepreneurs Development Institute (MEDI) and Malawi Industrial Research and Technology Development Centre (MIRTDC) to ensure that they are fully effective in their support of the private sector. The capacity of the Malawi Bureau of Standards (MBS) will also be reviewed and strengthened so that it protects Malawian industry and consumers.
- The UDF government recognises that, as a public institution, the Malawi Revenue Authority (MRA) has made the most desirable impact on the private sector. However, the pressure for collections on an ever-narrowing tax base is creating apprehension within legitimate businesses. Under this manifesto, the UDF government will refocus the activities of MRA on businesses that are evading tax and officials involved in corrupt practices.
- In addition, the UDF will establish the office of a Tax Ombudsman, as there are many areas of discretion and lack of clarity in the legislation

and regulations that are subject to wide interpretation by the MRA. This would significantly address the need for greater accountability of the MRA. The MRA will be reformed to eliminate any possible disincentive to trade and investment by legitimate businesses in Malawi.

- INDE Fund will be reviewed to ensure that it is delivering development finance, while the roles of the Small Enterprise Development Organization of Malawi (SEDOM) and Development of Malawian Entrepreneurs Trust (DEMAT) will be clarified within their mandates in order to eliminate existing overlapping roles. The Malawi Rural Finance Company (MRFC) will be revitalised to deliver agricultural credit in rural areas on a commercial basis, while Malawi Savings Bank (MSB) will be maintained on a track to commercialisation.
- Performance of publicly funded Micro-finance Institutions will also be reviewed and reforms will be implemented to conform to best practice around the world, in preference to specialist Micro-finance Institutions in the private sector.
- Under this manifesto, the UDF will undertake a fundamental review of public sector credit and savings providers to review performance and reduce overlap and clarify roles. This will generally be aimed at linking such roles to a strategy of overall deepening of the financial services sub-sector.