Final Draft

A GROWTH STRATEGY FOR MALAWI

Strengthening Co-operation Between Public and Private Sectors

EXECUTIVE SUMMARY

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Introduction (Section 1)

The need for this Growth Strategy was identified by both the Government of Malawi (GoM) and the Private Sector. His Excellency, the President, Dr. Bakili Muluzi launched the Malawi Poverty Reduction Strategy (MPRS) in April 2002 as Malawi's response to the Poverty situation facing the country. The first 'pillar' of the MPRS calls for the implementation of a **Pro-Poor Growth Strategy** that stimulates private sector growth in ways that directly attack poverty. In addition, the Private Sector through the National Action Group (NAG) proposed that a **Business Plan for Malawi** be developed to stimulate private sector growth. This document brings together the shared aims of the Public and Private Sectors in a **Growth Strategy for Malawi** ('Growth Strategy') that focuses on stimulating Private Sector growth and ensuring that the Poor are key participants and beneficiaries of that growth.

The **overall objectives** of the Growth Strategy are:

1. To create an overall macro-economic environment conducive to broad based growth of at least 6% p.a. that is maintained over the long-term
2. To ensure wide participation in and sharing of the benefits from higher economic growth

A Programme for Economic Empowerment is being developed to complement this Growth Strategy to ensure that Malawians are both participants in and beneficiaries of economic growth.

The **Ministry of Economic Planning and Development** (MEPD) was given the role of co-ordinating the development of the Growth Strategy and a **Taskforce** was established drawing on key economic Ministries and Agencies and supported by the **National Action Group Secretariat**. There has been a series of consultation activities with the private sector and other key public sector organisations, including face-to-face meetings, National Events and Sub-sector working groups.

Growth Strategy Framework (Section 2)

A **Growth Strategy Framework** for delivering Growth was developed that focuses on the pivotal role of domestic and international **Trade** and domestic and foreign direct **Investment** as the key mechanisms for achieving growth. Ultimately it is the Private Sector that will deliver growth by deciding to invest in productive capacity to enable it to engage in domestic and international trade. There is potential for business growth in Malawi that could be unlocked if the right conditions are put in place to support domestic and cross border trade and investment. The Growth Strategy therefore seeks to **stimulate private sector investment and facilitate domestic and international trade in order to create sustained economic growth**.

Political Will and **Leadership** are essential to the success of this Growth Strategy to ensure that the right **Macro-economic Conditions** and **Legal and Regulatory Environment** exist within which the Private Sector has the confidence, incentives and the opportunities to invest and trade. GoM has the central role in setting **Policies** and channelling **Resources** to ensure the overall macro-environment for doing business is attractive enough to stimulate the individual investment and trading decisions that actually create the inter and intra-sectoral linkages and add real value along the value-chains to deliver significant growth. This prioritisation will be reflected in the **Public Sector Investment Programme** in addition to the annual macro-economic frameworks and their implementation.

Private Sector can be segmented according to the main **Sectors** of the economy, namely Agriculture, Natural Resources, Manufacturing and Service supported by Utilities, Finance, Transportation and Distribution. Five high **Growth Potential Sub-sectors *(Cotton, Textiles and Garments, Mining, Agro-Processing*** *and* ***Tourism)*** have been identified that can achieve high rates of growth in excess of 6% per year and that are substantial enough to have an impact on the overall economy.[1] These sectors will be the focus of efforts to stimulate growth and will receive attractive incentives for investment as well as a reallocation of government resources and supporting changes in policies and the legal/regulatory framework that specifically affects their performance.

In the short to medium term three **Core Sub-sectors (*Tobacco, Tea*** and ***Sugar)*** will continue to provide the bulk of Malawi's exports and a major contribution to GoM revenues. These *Core Sub-sectors* also have potential to increase added value through targeted investment and trade activities that will contribute to overall growth in the economy. These sub-sectors will not attract direct support from GoM, but there will be selective incentives for investment that increase added value and growth as well as changes to policies and procedures that currently inhibit added value.

International Development Partners also have a key role to play in supporting GoM to make changes that create the right conditions for growth and by supporting the different sectors of the economy directly or indirectly.

Given limitations on resources, the Growth Strategy is based on a realistic assessment of the resources available and focuses on strategies and actions that do not require substantial additional spending by GoM. The Growth Strategy can be achieved through refocusing of existing resources to the economic sectors *and* by developing a more conducive set of policies that will stimulate businesses to invest and trade, thereby utilising Private Sector resources.

Overview of the Malawi Economy (Section 3)

The overall conditions and the performance of the Malawi economy have not been conducive to trade and investment in absolute terms or relative to regional competitors. The **Growth Rate** fell to 0.8% in 2000, minus 4.1% in 2001 and is at 1.6% for 2002. **Inflation** has been very high and unstable, the **Exchange Rate** has been volatile and unpredictable, but the most damaging factor has been high **Real Interest Rates** currently at over 30%, resulting in few businesses borrowing for investment. Some exporters can borrow in hard currency but they have to pay a premium that reflects the risk status of Malawi. As a result private sector investment has declined dramatically and has affected trade and growth negatively.

The underlying problem is GoM's **Budget Deficit** and its consequent need to borrow significant amounts, forcing up real interest rates. Despite significantly increased revenue collected from businesses in 2002, **Domestic Debt** increased from K.21 billion at end 2001 to K.42 billion by end 2002. This is partly due to the maize problem but primarily the withdrawal of budgetary support by donors and the subsequent failure by GoM to

[1] Constituting at least 1% of GDP

reduce expenditure sufficiently. The result is that **Domestic Debt Servicing** takes up 24.7% of Government Revenue and 4.5% of GDP as at December 2002. The trend is upward and unsustainable. **External debt** has already risen to 191.4% of GDP as at the end of 2001.

In terms of Sectoral performance, **Agriculture** represents 38.6% of GDP, which is broadly stable as a share of the economy. **Distribution and Trading** still accounts for over 22% of GDP whilst **Services** represents 19.5%. The most worrying trend has been the decline in **Manufacturing** from 17% of GDP in 1994 to 11.6% in 2001. This decline represents the major challenge for Malawi's policy stance.

Agriculture continues to account for the vast majority of Malawi's **Exports** at 82.7% by value and **Employment** at 84.5% of employment. Within these totals three crops dominate with tobacco, tea and sugar accounting for 78.5% of all exports by value, representing the main source of Forex.

Cross-cutting Constraints to Business Growth (Section 4)

Businesses and other stakeholders identified 28 cross-cutting constraints affecting the majority of businesses that fall into six main categories:

1. Weak **macro-economic** conditions
2. High burden of **business taxation**
3. Weaknesses in the **legal and regulatory framework**
4. Weaknesses in the **infrastructure** that supports the economy
5. Weak **dialogue and co-operation** between private and public sectors
6. Weaknesses in the **Human Resource** base and skills

Under weak **Macro-economic conditions,** the identified cross cutting **constraints are**: Cost and access to finance, relatively high inflation, exchange rate instability and weak domestic demand.

Under high burden of **Business Taxation,** the identified cross cutting **constraints are:** a heavy burden of tax on legitimate businesses, poor administration of the tax system with a heavy and the poor implementation of Surtax.

Under weaknesses in the **Legal and Regulatory** framework the identified cross cutting **constraints are**: costly regulatory and other procedures, inefficient Public Sector services, weak package and incentives to invest, weak process for investment, uncertainty of incentives, inconsistently pro-business policies and weak implementation, inefficient/ineffective commercial legal system, weak trade negotiating capacity, uncompetitiveness of markets, lack of commercial management of Public Enterprises with poor services and cost of insecurity.

Under weaknesses in the **Infrastructure** the identified cross cutting **constraints are**: weak transport infrastructure, high transportation costs, unreliable/expensive utilities and weak information and technology capacity.

Under weak **Dialogue and Co-operation** the identified cross cutting **constraints are**: weak public:private dialogue, weak inter and intra-sectoral linkages and weak dialogue between donors and the private sector.

Under weak **Human Resource base** the identified cross cutting **constraints are**: inadequate skills development, inadequate response by private sector to HIV/AIDS and weak management in the private sectors, which result in weak overall human resource capacity.

Strategy to Improve the Macro-environment for Business Growth (Section 5)

There are several factors that Malawi can take advantage of in seeking growth such as its agricultural and irrigation potential, relatively low labour costs, potential for linkages between smallholders and large exporters, and membership of international trade bodies/agreements (Section 5.1).

The **Strategies** to address the cross-cutting constraints, categorised into immediate, short term and medium term (Section 5.2) are:

Improving the macro-economic conditions requires (Section 5.2.1) GoM to:

- **Make significant immediate reductions in public sector expenditure**
- **Accelerate the privatisation programme** to reduce expenditures, realise revenue from capital sales and create improved income streams in the medium term
- **Reach an agreement with the IMF in the immediate future** so that donor funding for budget support can be unlocked
- **Stop the growth in domestic and external debt**, negotiate refinancing of it to bring the debt down in real terms year by year and as a proportion of government revenues
- **Stimulate export led investment** and sub-sectors to stimulate domestic demand

With the aim of creating the economic conditions that are conducive to private sector growth to enable:

- **Cost of finance for businesses to be reduced** in nominal and real terms to competitive levels
- **Inflation to fall below 10% and greater price stability** to be achieved making cost and pricing decisions more predictable
- **Exchange rate fluctuations to be reduced** increasing predictability and international competitiveness

Reducing the burden of business taxation (Section 5.2.2) **requires**:

- **Review the taxation of businesses**, particularly Surtax, and reducing the burden that is placed on legitimate formal sector businesses that will also encourage compliance by those other businesses that are evading tax
- **Focus revenue collection on those businesses that are evading tax** and apply a lighter touch to those that are complying or genuinely seeking to comply
- **Review the implementation and scope of Surtax** and make improvements in the near future

Improving the legal and regulatory environment would make Malawi a more **attractive place to operate** (Section 5.3.3). Steps must be taken to:

- **Improve the incentives for investment** to be at least equal to the most competitive neighbouring countries
- **Improve the process** for making investment, including Investor Certificates recognised throughout GoM that guarantee incentives granted and a more comprehensive investor package as part of an Investment Strategy (see Section 7 for more details)
- **Improve the administrative procedures** and regulations at national and local authority level to support private sector activity

- **Review the operation of Public Services** that impact on businesses and improve their quality and efficiency
- Make significant **improvements in the productivity** of the **Civil Service** and **parastatals**
- Consistently **follow pro-business policies** and undertake an education programme that brings about a more constructive attitude towards businesses
- **Strengthen trade negotiating capacity** as part of a wider Trade Strategy (see Section 6)
- **Liberalise and strengthen** the **commercial legal system**
- Review, analyse and **address the lack of competitiveness of some domestic markets.**

Improving the infrastructure that supports the economy: There needs to be a fundamental improvement in the infrastructure that enables businesses to trade, particularly transport infrastructure and utilities/communications (Section 5.2.4). The main areas of action are:

- Review the **competitiveness and functioning** of the transport sector
- Complete the **privatisation of key utilities** in communications and transport with a focus on improving reliability and competitiveness and improve the performance of others to ensure commercial orientation and better service
- Identify further **under-utilised or neglected assets in the public sector** and set a process for disposal
- Create the institutional arrangements for **effective regulation of utilities** to ensure business and consumer interests are protected
- Negotiate further **funding for infrastructure development** and ensure proper management of the infrastructure investment
- Engage in **effective dialogue with trans-shipment countries** to ensure the free flow of Malawi's goods into and out of the country
- Improve **Information, Technology and Communication infrastructure** and identify how greater use of ITC can be encouraged in the private and public sectors

Improving the dialogue between government, private sector and donors: The dialogue between government and the private sector needs to be more effective (Section 5.2.5). There also needs to be more joint initiatives, for example in relation to developing smallholders

- **More engaging dialogue** between government and the private sector at all levels
- Improve and support **linkages between smallholders and export oriented firms**
- **Mechanisms created for dialogue** between all government, private sector and donors

Improving the human resource base includes skills development, a more co-ordinated approach to HIV/AIDS and changes to management in the private and public sectors (Section 5.2.6)

- **Improved incentives through tax credits** for training
- Review of **TEVETA performance and the TEVET levy**
- Better **co-ordination and dialogue on HIV/AIDS**
- **Develop incentives for promoting quality, innovation and research & development**

- Develop an **education process to improve leadership and management** in private sector

Trade Strategy (Section 6)

Increasing Domestic and International Trade is central to the Growth Strategy. Some of the trade issues are covered in the Macro-Environment Strategy (Section 5) and integrated into the specific sub-sector strategies. Malawi is highly dependent on external and internal Trade and therefore mechanisms are needed to improve the functioning of trade in the economy and overcome the identified constraints. The Trade Strategy is supportive of and supported by the Diagnostic Trade Integration Study that was conducted by World Bank and Ministry of Commerce and Industry.

The Trade Strategy involves six components:

1. Development of an effective trade policy,
2. Provision of supportive trade infrastructure,
3. Expanding export markets and export product potential,
4. Maintaining and strengthening preferential and non-reciprocal agreements,
5. Negotiating new agreements,
6. Creating competitive domestic markets

Private Sector Investment Strategy (Section 7)

In addition to Trade, Public and Private Sector Investment is the other key mechanism for delivering growth. Public Sector investment is covered in the section on the Public Sector Investment Programme. The cross-cutting constraints that limit private sector investment are set out in Section 4 and in the sub-sector strategies. Malawi needs to improve its relative attractiveness as a country to do business/invest in.

The incentives for investment can be strengthened relative to regional and international competitive offers by offering a range of incentives targeting capital expenditure investment through enhanced initial allowances, enhanced capital allowances and targeted investment allowances, **without GoM losing current revenue**. There will also be sub-sector specific investment incentives to encourage investment that will add value and create revenue streams. Targeting investment allowances in this way ensures that GoM does not lose current revenue and creates additional revenue streams in the immediate future, some of which are shared with the investor to persuade them to make the initial investment.

The whole process for investment will be reviewed to speed it up and make it more certain. This requires offering a much more comprehensive package of investment support of the type offered by other countries in the region and the institution of some mechanism that guarantees the incentives granted to the individual investor. The latter will ensure incentives granted are recognised through all arms of Government.

Investment promotion needs to be strengthened by building the capacity of MIPA to deliver these changes and facilitate a much higher level of foreign and domestic investment. A revised Investment Act is required.

There are a range of initiatives that are already supportive of the development and implementation of an investment strategy, particularly from UNIDO/UNDP. These will be built upon and further developed, in conjunction with all relevant stakeholders.

Refocusing of Public Sector Institutions (Section 8)

There are many public sector institutions that support, monitor or regulate the private sector. The planned merger of **MEPC and MIPA** needs to go ahead quickly and the capacity and effectiveness of the merged organisation needs to be strengthened with adequate funding provided. There also needs to be a review of the role and function of **MEDI** and **MIRTDC** to ensure that they are fully effective in their support of the private sector. The capacity of the **Malawi Bureau of Standards (MBS)** needs to be reviewed and strengthened.

The **MRA** is the public institution that has most impact on the private sector. The creation of a single revenue organisation made sense, but the pressure for collections and the way penalties are being applied on legitimate businesses is currently causing problems.

MRA needs to focus on businesses that are evading tax and to deal effectively with corrupt practices by individual officers. There is also need for a Tax Ombudsman as there are many areas of discretion and lack of clarity in the legislation and regulations that are being widely interpreted by MRA. This would partly address the need for greater accountability of the MRA, which needs clarifying further. Repayment periods of amounts due by MRA need to be symmetrical with the periods imposed on business and probably best achieved though offsets and transferable tax credits. There is no question that the MRA has a legitimate function to play and that taxes due must be collected, but the way the method of undertaking these tasks is creating a further disincentive to trade and investment by legitimate businesses in Malawi.

Malawi Development Corporation (MDC) needs to be returned to its original mandate and to dispose of its mature investments to the Private Sector. The role of **INDEFund** also needs review to ensure that it is effectively delivering development finance and whether or not that role should change. **SEDOM** and **DEMAT** are fulfilling overlapping roles and this needs to be reviewed and resolved as does the overall effectiveness of these two organisations. **Malawi Rural Finance Company (MRFC)** has struggled to deliver agricultural credit in rural areas on a commercial basis. Its performance needs to be reviewed. **Malawi Savings Bank (MSB)** is also on a track to commercialisation, which needs monitoring to ensure it continues to stay on track. The performance of publicly funded Micro-finance Institutions has been poor and needs urgent review. Based on best practice around the world, such functions are now provided by specialist Micro-finance Institutions in the private sector.

There is therefore a need for a fundamental review of public sector credit and savings providers to review performance, reduce overlap and clarify roles. This should be linked to a strategy for overall deepening of the financial services sub-sector. In many countries, such institutions are moving towards wholesaling functions of funds to private sector specialist micro-finance institutions to retail.

Implementation of the Growth Strategy (Section 9)

All stakeholders have emphasised that implementation is critical. This Growth Strategy is multi-dimensional and complex, setting the direction for the Malawi economy for the next 3-5 years. Given that the future is dynamic and inherently unpredictable, the Implementation Plan must be responsive to change, thereby ensuring that it is a ‘living document’. This will necessitate regular updates by those who are closest to events on the ground. To achieve this, there needs to be a strong, flexible and responsive implementation process.

This strategy is also different from previous strategies in that it is based on a more substantial dialogue between the Private Sector and GoM and its implementation requires a genuine partnership between businesses, Government and Donors. Central to the Growth Strategy is Political Will from the very top. Therefore it is recommended that the overall champion for the Growth Strategy for Malawi should be the Presidency and supported by the Cabinet. The Cabinet Committee on the Economy plays an important linking role with the Public Sector Institutions responsible for public sector implementation and MEPD with its critical co-ordinating and monitoring role.
There is no parallel structure to Government in the Private Sector. However, the Private Sector will be essential to the success of the implementation process and it will be the main driver of growth through investing and trading. The mechanism to engage the

private sector is the establishment of 12 Working Groups that include the main public, private and donor stakeholders. These 12 Working Groups are based around the 12 Sub-strategies as follows:

- The Macro-environment Strategy
- The Trade Strategy
- The Private Sector Investment Strategy
- The Public Sector Support Institutions Strategy
- The five priority Growth Sub-sector Strategies and three Core Sub-Sector Strategies

These Working Groups are developing detailed action plans (see **Part 3**) and will implement those plans in partnership with each other and the wider stakeholders. This mechanism creates much greater ownership and commitment as well as ensuring that the implementation plan is realistic about capabilities and makes the right choices based on an intimate knowledge of the particular problem to be addressed. It also means that the implementation can be more flexible and responsive to new circumstances.

This process of implementation has already begun as the enhanced dialogue has stimulated action where that can be dealt with by the stakeholders themselves, both between Private:Private and Public:Private organisations. Issues that cannot be dealt with in the implementation by the particular stakeholders for each of the 12 Sub-strategies will be referred either up the Public Sector structure and/or to the National Action Group, which also contains the main Economic Ministries and Public Sector Agencies, for discussion and resolution.

Part 2 of the Growth Strategy

This contains an overview of the Agriculture, Natural Resources, Manufacturing and Services Sectors and the Strategies for the Growth and Core Sub-sectors.

Agriculture Sector (Part 2 Section 1)

A **Strategy** for the **Ministry of Agriculture and Irrigation** has recently been prepared. The broad goals are to improve linkages in commodity value-chains, diversify production and increase productivity.

Agriculture is the biggest sector of the economy and is dominated by smallholder subsistence farmers. Its overall contribution to GDP rose in the late 1990s, partly through slow growth of the other sectors and the decline in Manufacturing GDP. Tobacco, tea and sugar are the main export crops, particularly tobacco with over 60% of all exports by value. Maize and cassava are the dominant subsistence crops though marketable surpluses of these are also sold. Only tobacco, tea, sugar, maize, cassava and groundnuts make significant contributions to GDP and only tobacco, tea, sugar, cotton, nuts and coffee are substantial export crops.

Based on potential for widespread impact on growth and poverty, the main export crops of **tobacco, tea** and **sugar** have been identified as the core sub-sectors of the economy, with **cotton** identified as a priority growth sub-sector within this Growth Strategy. Detailed sub-sector strategies for these four crops have been developed by the relevant stakeholders, set out in sections 1.1 to 1.4.

Tobacco Sub-sector Strategy (Part 2 Section 1.1)

Malawi is a **market leader in Burley Tobacco**, but faces problems of quality and poor prices. Around 375,000 smallholders depend for cash incomes on tobacco, which means that tobacco's success or not has a major impact on rural incomes and livelihoods.

The main **constraints** facing the industry relate to environmental issues, growers and productivity, sustainability of production and marketing. Threats to the industry come from the anti-smoking lobby, regional competition, cross border trade, genetically modified tobacco, access to finance, child labour, HIV/AIDS and gender issues. However, there is potential to bring about an improvement in smallholder yields and quality and become a regional centre for upcoming neighbouring producers, resulting in considerable growth in value for the sub-sector and revenue for GoM.

The main strategies include reforms that reduce transport and fertiliser costs, capacity building of the industry institutions, revamping grower registration, reviewing the levies and charges and reviewing the rules regarding direct export of tobacco. The industry would also like clear rules on contract growing, a review of taxation, a return to a publicised exchange conversion rate, amendments to legislation to reflect current reality and better consultation between public and private sectors.

Tea Sub-sector Strategy (Part 2 Section 1.2)

Around 40,000 tonnes of tea are exported representing around 9% of all Malawi's exports by value. There has been a gradual improvement in underlying production and productivity over recent years, however world prices have been low for the last 3-4 years impacting negatively on profitability and funds available for re-investment. The sub-sector could improve its output, quality and medium term profitability by **investing in irrigation, factory refurbishment and replanting with clonal teas**. However at the current cost of capital and with poor profitability over the last three years there are limited resources for investment.

Smallholders have faced difficulties with the virtual collapse of the Smallholder Tea Authority and MATECO resulting in long periods to get paid. The shift to more collaborative arrangements with the estates has benefited many smallholders, but there is an urgent need to revitalise the smallholder sector by supporting the new **Smallholder Tea Company (STC)** for the long-term health of the Smallholder sector.

The key strategies address the cost of capital for investment, seek a revision to the maximum demand tariff, review incentives for investment, improve the arrangements for smallholders and proper funding of the new STC and address ethical standards and the HIV/AIDS issue.

Sugar Sub-sector Strategy (Part 2 Section 1.3)

The sugar industry in Malawi has seen a resurgence since the purchase of SUCOMA by Illovo and the subsequent investments made. Production has increased as has sugar's share of Malawi's exports by value making it the second main cash crop behind tobacco.

The growth potential of the industry could be further enhanced by negotiating better trade agreements for preferential quotas and access to developed country markets for speciality and other sugars. The cost of domestic finance also constrains investment and has also made the otherwise viable Kasinthula smallholder scheme vulnerable because of the large accumulated debt, despite its world-class performance as a grower of sugar cane.

The Kasinthula situation must be resolved urgently as it impacts on the viability of the whole industry if it were to fail. Steps will be taken to improve productivity at Dwangwa and improve its operation.

Controls will be maintained on imported sugar, particularly where the price advantage stems from parallel markets. The cost of importing spare parts needs to be reduced through reducing the unnecessarily lengthy procedure that results in a major loss to the industry and reduces GoM revenues due to interest payments to foreign suppliers. Theft of pipes and the extra costs of distributing sugar due to poor infrastructure will be addressed. Finally the maximum demand tariff should be reformed as it penalises large users and irrigation.

Cotton Sub-sector Strategy (Part 2 Section 1.4)

Cotton has seen a major decline since the late 1980s as the arrangements serving the industry began to breakdown, though production has stabilised over the last two years at 20% of its peak levels. Historically low prices have also had an impact on the incentive to grow cotton, but the main factor is poor smallholder productivity,[2] which is below regional competitors and well below potential even without inputs.

However, the recent **investment by two international cotton ginners** has given fresh impetus to the industry and their investment will stimulate smallholder production in the short to medium term. The key issues around **smallholder productivity** can be addressed through introducing better seed varieties, improving seed distribution, pre-treatment of seed, improving access to credit, improving organisation of farmers, better husbandry and better extension support. In addition the marketing arrangements in the industry need improving, including access to buying points and addressing the issue of traders.

A **key part** of the overall Growth Strategy is the **revitalisation of the Textile Industry to reconnect the Cotton value chain with Textiles**. This will increase domestic market potential and underpin prices and volumes of cotton. In order to achieve these measures, there is a need to improve co-ordination in the industry and strengthen its voice through establishing the Cotton Council.

Natural Resources Sector (Part 2 Section 2)

Within Natural Resources, **Mining** is the main contributor to GDP (1.6%) and has been identified as having the highest **growth potential**. This growth will come from exports and import substitution, based on known deposits and exploration/mining licences already issued.

There is a need to support **small-scale mining** that includes gemstone, stone aggregates, sand, lime production and salt. This will require access to better equipment and working capital, more value adding, better safety measures and measures to control smuggling based on a better regulatory framework and resources for their implementation.

For the **medium to large scale mining**, the development of the sub-sector requires a new Mining Policy and Act to give investors protection and incentives for investment.

[2] There are no estate producers of cotton

Steps also need to be taken to include mining in international protocols, invest in support infrastructure and guard against the risk of environmental damage.

Finally, there need to be better linkages and better marketing of investment and trading opportunities, all supported by a strengthened Dept. of Mines.

Manufacturing (Part 2 Section 3)

Manufacturing has been in steady and relentless decline over the last decade from 17.0% of GDP in 1994 to 11.5% of GDP in 2001. There has been very little new investment coupled with considerable dis-investment due to the difficult conditions in Malawi for manufacturers even though there are incentives and policies aimed at promoting the sector. The main reasons for the decline relate to the macro-environment conditions and the liberalisation of imported consumer goods, which has hit manufacturers hard, given the structural uncompetitiveness of the Malawi economy.

There is a need to improve the incentives for manufacturing businesses to encourage manufacturing investment, particularly that which is export and employment oriented. The two identified growth potential sub-sectors for manufacturing are **Textiles and Garments** and **Agro/Food-Processing**.

Textiles and Garments Sub-sector Strategy (Part 2 Section 3.1)

Cotton, Textiles and Garments is no longer an integrated value-chain in Malawi as most of the cotton lint produced is exported for use in South Africa's spinning and textile industry, whilst little of the textiles produced by David Whiteheads (DWS) were used in the Garment industry. However, if DWS can be revitalised as a spinner and supplier of textiles and other spinners, weavers and dyers can be encouraged to locate in Malawi, then this will provide a valuable potential outlet for Malawi's cotton industry and act as a supplier to the garment industry that **must** find local supplies to meet the local content rules post 2004. The development of an integrated Cotton/Textiles/Garment chain is a key component of this Growth Strategy.

The Garment industry has been badly hit by the collapse of the bilateral agreement with South Africa leading to a series of closures in 2000, as access to the South African market had been one of the main driving forces for firms to locate in Malawi.

The Textile and Garment industry depends on access to markets and good tax incentives, as it is relatively mobile internationally. Therefore what is critical for the growth of the industry is effective trade negotiations by well-informed negotiators supported by industry expertise. This requires a significant strengthening of negotiating capacity in Malawi, leading to better opportunities for the industry, which will attract more investment. AGOA and the SACU Free Trade Agreement have created new opportunities, but further work is required to maximise the benefits of these agreements. On incentives, whilst nearly all firms using EPZ status are garment manufacturers, the EPZ operation needs to be improved through supporting EPZs by dedicated and experienced MRA staff to ensure that firms actually get the benefits to which they are nominally entitled. The rules for EPZs need to be loosened to make them more attractive to potential investors.

Agro / Food-Processing (Part 2 Section 3.2)

Different sub-sectors in Agro / Food Processing have often been specified as having growth potential. A significant proportion of Agro / Food-processing GDP relates to production of beverages, whilst processing of tea, tobacco and sugar already accounts for around 15% of all manufacturing. The areas of proposed potential are **processing fruits and vegetables**, **processing rice**, **processing Macadamia nuts** and particularly **production of starch from Cassava**. The latter has been a key focal area of the MoAI in recent times and has potential for production of glue, animal feeds, ethanol, use in the garment industry and for incorporation into food products.

Aside from cassava and the existing processors of traditional crops, most of these ideas are at a relatively early stage and potential investors would have to be found. Therefore the strategy will focus on more investigation of constraints and opportunities, viability studies and promotion of viable opportunities to potential investors.

Service Sector (Part 2 Section 4)

The Service Sector accounts for 20% of the economy, made up of financial and professional services (8.0%), private community services (2.4%) and government services (9.6%). There is scope for further investigation of the development of the services sector, particularly opportunities for deepening financial services. **Tourism** is not separately identified in the national data, so it has to be extracted from data on other sub-sectors. The best estimates suggest that Tourism contributes around 2% of GDP.

Tourism Sub-Sector Strategy (Part 2 Section 4.1)

Tourism was growing prior to 2001, but then saw a decline in that year from 2.3% to 1.8 % of GDP (effectively a drop of 20-25% in business for tourism firms).[3] Malawi needs to attract more visitors through better international access, reducing the costs of getting to Malawi, more effective destination marketing, better products, improved infrastructure and better human resource development. Strategies have been proposed to address these existing constraints.

The key strategy is to develop Malawi into a competitive Eco-tourism destination in the region, aiming at attracting high yielding tourists in a way that is environmentally, socially and economically viable. To support this strategy, several other strategies will be implemented including creating a very competitive incentive regime for investment in the Tourism sub-sector, creation of a Tourism Investment Fund to stimulate investment, implementation of a comprehensive human resource development programme and ensuring implementation of a successful destination marketing programme.

Part 3 contains the detailed **Action Plans** for the 12 component Strategies.

[3] Partly attributable to the September 11th attack, but not wholly.