

**2010/11 BUDGET STATEMENT**

**DELIVERED IN THE**

**NATIONAL ASSEMBLY OF THE REPUBLIC OF MALAWI**

**BY**

**THE MINISTER OF FINANCE  
HONOURABLE KEN E. KANDODO, MP**

**AT**

**THE NEW PARLIAMENT BUILDING**

**IN**

**LILONGWE**

**ON**

**28<sup>TH</sup> MAY 2010**

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## **MOTION**

1. Mr. Speaker, Sir, I beg to move that the motion of the Recurrent and Development Accounts for the 2010/11 budget be referred to the Committee of the Whole House, to be considered Vote by Vote, and thereafter, be adopted.

## **INTRODUCTION**

2. Mr. Speaker Sir, I am profoundly honoured to present to this August House the budget that will run from 1<sup>st</sup> July this year to 30<sup>th</sup> June next year. Mr. Speaker, Sir, a time has come when we must account to the people of Malawi what we have achieved since I presented the 2009/10 budget to this August House. As traditionally is the case, it is expected of me, therefore, to provide some highlights of what has been achieved to date since 1<sup>st</sup> July last year in the area of economic and public finance management.

3. Let me mention, at the outset, that I am equally honoured and delighted to go on record as the first Finance Minister to present the National Budget in this new purpose-built and state-of-the-art building of the National Assembly. Mr. Speaker, Sir, let me take this opportunity to echo sentiments already expressed by my Colleagues throughout

this week. His Excellency the State President has shown that he is a man of great vision, determination and courage. Some of us were here for the groundbreaking ceremony for the Parliament Project in 2005. Within a few years, the face of Capital Hill has been transformed. Once the Five Star Hotel and International Conference Centre Complex is completed within 2 years, the city of Lilongwe will never be the same again. It is therefore fitting that members from both side of the House should express collective gratitude to His Excellency, the State President Ngwazi Professor Bingu wa Mutharika for a job well done. The works of His Hands are truly speaking for him.

4. Mr. Speaker, Sir, let me also join His Excellency the State President in thanking the People's Republic of China for the technical and financial support rendered to the Malawi Government and in particular, for constructing this magnificent building for us. In the same vein, let me also join you, Mr. Speaker, Sir, in paying tribute to His Excellency the State President, for providing a home to the National Assembly since 2004 and throughout the years that these premises were under construction. We are truly thankful to Him.

5. Mr. Speaker, Sir, as some of the Honourable Members are aware, between 1<sup>st</sup> and 16<sup>th</sup> April 2010, I undertook budget consultations with people from all walks of life in Malawi regarding their

aspirations for the 2010/11 budget that I am about to present. I visited Mzuzu in the North, Lilongwe in the Centre, Zomba in the Eastern Region and Blantyre in the South. These consultations provided me with an opportunity to meet a cross section of the Business Community, Students, Academic and Support Staff of Mzuzu University and University of Malawi; members of the Civil Society Organizations, Non-Governmental Organizations, Faith-Based Organizations, and Members of the Budget and Finance Committee of this House. I also met members of the bilateral and multilateral cooperating partners.

6. I wish to acknowledge that in all these consultations, I received a lot of useful ideas and contributions that were helpful in finalizing the budget and I am grateful for all the contributions made by the various stakeholders. I am pleased to report that we have taken on board many of the proposals that we received from the various contributors. However, I must point out that, in view of the nature of some of the contributions, it was not possible to incorporate everything in this year's budget. As a Ministry, we will however, be considering some of these proposals in future budgets.

7. Let me also pay tribute to officials from my Ministry and those of other Ministries and Government Departments who worked tirelessly in consolidating the 2010/11 budget. My gratitude also goes to the

Cooperating Partners, both bilateral and multilateral institutions, for continuously supporting us through technical and financial assistance. Their support has been invaluable and has made a difference in the lives of our people over the years. To them we say, our success is also your success.

8. Mr. Speaker, Sir, let me preface my statement by outlining the highlights of some of the achievements made by this Government since May last year when His Excellency the State President, and the Democratic Progressive Party, were given another mandate to lead this country. As is traditionally the case, further details of these achievements are provided in the budget documents which will be circulated to members shortly.

9. Mr. Speaker, Sir, guided by the requirement to grow by at least 6 percent per annum as stipulated in the Malawi Growth and Development Strategy, I am pleased to report to the Honourable House that, since 2004 when His Excellency the State President took over the mantle of leadership of this country, the Malawi economy has continued to register very high economic growth rates. Growth in real Gross Domestic Product – GDP – has remained above the 6 percent mark needed to reduce poverty. Indeed, GDP has averaged 7.5% over the past 6 years since 2004 and in fact reached as high as 9.7% in 2008.

The rate of inflation has remained in single digits since 2007 which has allowed the Bank rate to stabilize at 15 percent since November 2007. As a result, we have managed to keep the kwacha exchange rate relatively stable despite the challenges resulting from the global financial and economic turmoil.

10. As Honourable members may be aware, the success of our macroeconomic management has not happened by mere chance or coincidence, it has come as a result of pursuing focussed policies and prudent fiscal and economic management. All these, Mr. Speaker, Sir, have been possible because of the visionary leadership of our State President, His Excellency, Ngwazi Professor Bingu wa Mutharika to whom I am so grateful. No wonder, therefore, that the President has been receiving awards and recognition from the International Community, the most recent being the awarding of the Professorship in Economics by a Chinese University in recognition of his excellent track record in economic management of this country. The visit to Malawi by high Level International Dignitaries such as the United Nations Secretary General, Mr. Ban Ki-moon who is arriving tomorrow, and the Food and Agricultural Organisation, Dr. Jacques Diouf is also a clear demonstration that our Head of State is highly regarded by the International Community precisely because of what he has managed to achieve in a very short time and against tremendous odds.

11. As a result of this recognition, Mr. Speaker, Sir, the International Community including the World Bank, the International Monetary Fund, the African Development Bank, the European Union and the bilateral donors have since scaled up their financial assistance to Malawi. Indeed, reflecting confidence in how our economy is being managed, the IMF Executive Board, on February 19 this year, approved our economic program for three years to 2012. This program is called the Extended Credit Facility. This is the fourth IMF program that the Bingu Administration has successfully negotiated with the Fund since coming into power in 2004.

12. First, was the IMF Staff Monitored Program that was successfully implemented between August 2004 and June 2005. This led to the Fund's approval of the new three year Poverty Reduction and Growth Facility Programme (PRGF) in August 2005. After only one year of successful implementation of the PRGF Programme, multilateral and bilateral donors were satisfied that Malawi was on course with its economic management program and therefore accorded us the HIPC completion point status at end-August 2006. As we all know, this led to the cancellation of most of our foreign debt. Indeed, true to the expectations of our donors and the Malawi people at large, Government continued to successfully implement its programs up to

December 2008. Upon expiry of the PRGF Program, the Fund approved another program for Malawi, the Exogenous Shock Facility – ESF – that ran for a year to December 2009.

13. Mr Speaker, Sir, what is most pleasing from this record of macroeconomic management, is that, this progress is being reflected in the general improvement in the welfare of the people of this country. As the recent MDGS review shows, the country has been transformed from being a perpetually food deficit nation to a food surplus one; the number of people living below the poverty line fell from 52 percent in 2004 to 40 percent by 2008 while both maternal and infant mortality rates have equally been reducing. In addition, we have successfully brought the HIV/AIDS pandemic under control with over 250,000 people living with HIV/AIDS receiving free ARVs.

14. On infrastructure development, we have constructed more roads, schools, hospitals and clinics which have improved the quality of life of the ordinary people. It is for this reason that Malawi is now referred to as a success story and many countries are trying to learn from us. No wonder, in recent times, Malawi has been labelled as one of the world's fastest growing economies.

## **FISCAL REFORMS AND THE BUDGET**

15. Mr. Speaker Sir, there are a number of reforms that government has been implementing since the 2008/09 financial year to further improve fiscal management. These include the following: the implementation of a five-year program of Public Financial and Economic Management – PFEM – reforms, which amongst other things cover the linking of government strategies to budget processes; the improvement of domestic and donor resource management; the rolling out of the Integrated Financial Management and Information Systems - IFMIS to local Councils; the promotion of an effective and efficient procurement system; and the improvement in financial reporting as well as timeliness and quality of auditing processes.

16. I am pleased to report to the Honourable House, Mr. Speaker, Sir, that as a result of these reforms, Government has managed to reduce the backlog of audited government accounts. I am pleased to report that during the current financial year, I have presented to this house audit reports for the years 2004/2005, 2005/2006 and 2006/2007. I will, during the course of this sitting, be submitting the 2007/08 audited accounts for House approval. Auditing of the 2008/09 accounts is progressing well and I expect to submit the 2008/09 audit report during the next sitting of parliament. This means, Mr. Speaker, Sir, that we

are on our way to clearing the backlog of audit reports and becoming current. As I have said before, our focus is not only on the money spent but also on the value it brings to government service delivery.

17. Mr. Speaker Sir, government has established sector working groups to implement programs using a concept known as “Sector-Wide Approach (SWAp)” to development planning, implementation, monitoring and evaluation. The first was the Health Sector-Wide approach – the Health SWAp – which has been in operation since 2004. Following the positive results from the implementation of the Health SWAp, government in collaboration with a number of donors is now extending the program to the Education Sector under the Education SWAp beginning in the 2010/11 Financial Year.

18. Honourable members are well aware that the education system in Malawi has been facing a number of challenges arising from the increased enrolment in primary school following the introduction of free primary education in 1994. This policy has had a huge knock on effect on both the secondary and tertiary education subsectors. The influx of pupils witnessed in our primary schools since 1994 is clearly clogging up secondary schools and universities. Many deserving students are unable to go to our universities because there is simply not enough space. The existing infrastructure at all levels of the education system

is inadequate. In order to overcome these challenges, Government with the support of its development partners, came up with a National Education Sector Plan – NESP.

19. The NESP will be financed by the Government of Malawi, the Department for International Development (DFID), Canadian International Development Agency - CIDA, the German Development Cooperation - GDC, the United Nations Children's Fund - UNICEF and the International Development Association - IDA of the World Bank. In addition, Government will benefit from the Education for All Fast Track Initiative - EFTI by accessing US\$90 million to help Malawi meet the MDG goal on education by 2015. The education sector will also benefit from other discrete donors such as the African Development Fund - JICA, USAID, WFP, BADEA and the Saudi Fund for Development through stand alone project funding.

20. Mr. Speaker Sir, this brings me to the issue of training of medical personnel, particularly nurses in both Government and Christian Hospitals Association of Malawi (CHAM) schools. I would like to inform the House what happened on the financing of nurses training in the current financial year.

21. Realizing the increasing demand for nurses and other medical personnel in the country, Government had decided in 2004 to partner with CHAM institutions in training health personnel under the Emergency Human Resource Programme. This enabled government to increase the intake for health personnel students. Financing for the additional intake of students was through the Health SWAp which was agreed with participating donors. The first Health SWAp arrangement run for six years from 2004 to 2010. As a successor SWAp arrangement was yet to be negotiated, a financing gap was created for the 2009/10 intake and as a result, first year students were required to pay the full cost of their training which turned out to be exorbitantly high and unaffordable to many deserving students. I will later explain how we will deal with this problem.

## **FOREIGN EXCHANGE MANAGEMENT**

22. Mr. Speaker, Sir, as I did mention during the Mid Year Budget Review, the first half of the 2009/10 Financial Year was very challenging, particularly in the area of foreign exchange management. Gross official reserves fell to less than one month of import cover as at the end-December 2009 which is below the required three months of import cover. As a result, we found it difficult to pay for some of our strategic imports. How did this happen?

23. Mr. Speaker, Sir, Honourable Members may wish to be reminded that towards the end of 2007 and early 2008, the global economy saw unprecedented increases in prices for food and fuel. While the increase in food prices did not affect us because we had produced enough food of our own, the rise in fuel prices affected us very much. Unfortunately, the rise in fuel prices coincided with an increase in international prices for fertilizers. As a net importer of both fuel and fertilizer, there was no way in which we could have cushioned ourselves against the rise in prices for these essential commodities.

24. Furthermore, with intermittent power supply, the growing economy needed complimentary sources of energy such as generators which use fuel. This meant that our fuel import bill rose on account of two key factors: namely, the rise in the volume of fuel imported into the country, as well as the increase in the global fuel prices.

25. As a result of these developments, our fuel import bill rose from US\$8 million a month in 2007 to over US\$20 million per month by February, 2008. Fertilizer prices, as has been mentioned before, rose from an average of US\$750 per metric tonne to about US\$1,600 per metric tonne as was explained in my 2009/10 Budget Statement. Consequently, although the country had realized higher volumes of

tobacco dollars in the 2007/08 growing season on account of the rise in tobacco auction prices, the benefits did not lead to improved foreign exchange position in the aftermath.

26. Mr Speaker, Sir, also worth noting is that as the economy has experienced tremendous growth, so has the demand for imported goods and services. This manifested itself in excess demand for foreign exchange in 2009 leading to queues for foreign exchange. The foreign exchange situation was made worse by delayed disbursements of programmed budget support as most of our budget support donors awaited the endorsement of our new macroeconomic program with the International Monetary Fund.

27. Mr. Speaker, Sir, the IMF approved Malawi's 3-year economic program in February this year. Following the approval, donors who were not sure about the sustainability of Malawi's economic progress have since received the assurance that they needed, and as a result, they have disbursed what they withheld in budget support. Not only has the IMF approval of Malawi's program unlocked the disbursements by our key donors, the approval has also given our traditional donors enough reason to scale up their assistance to Malawi and indeed some of them have done so as you will observe in the budget documents.

28. I am therefore pleased to report to the Honourable House that the foreign exchange situation has since improved such that gross official reserves as at end of March 2010 had risen to 1.6 months of imports cover compared to 0.8 months in January. With the tobacco marketing season under way, coupled with the disbursement of aid by our budget support donors, the foreign exchange situation should continue to improve. We are actually planning for at least 3 months of import cover by end-December this year.

29. Mr. Speaker, Sir, at this juncture, I would like to request the Private Sector and the general public to assist Government in preserving our scarce foreign exchange resources by, amongst other things, by supporting the “buy Malawian” campaign program as encouraged by His Excellency, The State President, during the opening of this year’s International Trade Fair. We will deliberately promote export oriented production. We expect the commercial banks to give priority to the importation of necessities such as medical drugs, fertilizers, and essential raw materials when allocating forex. In the same vein, I would like to urge public institutions to exercise fiscal prudence in order to reduce wastage as public spending tends to consume forex.

## **ENERGY SUPPLY**

30. Another challenge that we faced during the 2009/10 financial year is the availability of reliable energy. The challenges in the energy sector are not new. It is a known fact that power outages have adversely affected the operations of the business community in this country. The lack of access to reliable and quality power is often cited as a major constraint to economic growth.

31. For a start, let me begin by providing some background to the power generation and supply issue in this country.

32. Mr. Speaker, Sir, over 98% of Malawi's electricity is obtained from hydro power plants located on the Shire River, with the exception of the Wovwe mini Hydro plant which is located in Karonga in the Northern Region. Although the country's hydro potential is estimated at over 1,000 MW, to date, the country's generation capacity is only at 285 MW. Malawi's first power plant, Nkula A, was commissioned in 1966 produces 24 MW. This was followed by the commissioning of the 20 MW and Tedzani I in 1973 and the 20 MW Tedzani II in 1977. Nkula B, with a total of 100 MW was commissioned in phases between 1980 and 1992. Tedzani III and Wovwe mini hydro plants were commissioned in

1996 and 1995, respectively, while Kapichira I was commissioned in 2000.

33. It is a fact, therefore, Mr Speaker, Sir, that some of these stations, whose life span is estimated to be around 25 years only, have technically out-lived their useful life and are in need of major rehabilitation. Unfortunately, for a long time no major rehabilitation work was undertaken on these power plants until recently. Consequently, since 1995, the performance of power generation has deteriorated resulting in reduced electricity output. This has been exacerbated by the environmental degradation of the catchment areas along the Shire River that has led to serious soil erosion and siltation of the Shire River.

34. Mr. Speaker, Sir, we have been told by experts that the turbines on the Shire River have suffered from increased siltation in the waterways. This has reduced the life-span of the machines and has increased maintenance expenditures. Both Tedzani I and II power stations went out of service in December 2001 due to damage to the intake screens that were caused by debris during a flood. Unfortunately, repair works did not start until early 2007. The power stations were only re-commissioned in August 2008, which added

some 20 MW to the grid. The remaining works were completed during the second half of last year giving us an additional 20 MW.

35. Nkula B power plant was completely flooded in March 2003 because of a faulty valve. Although ESCOM rehabilitated the plant and brought it to life within 4 months, the life span of the components has been adversely affected. In addition, Nkula A has been having problems since February 2009 when the intake screens were damaged by weeds and other debris. The repair works have since been concluded but, as Honourable Members will appreciate, being old machines, their reliability can not be optimal.

36. That said, I would like to appraise the Honourable house on what Government is doing to address the power shortage problem in the country.

37. I wish to inform the Honourable House that while in Washington DC attending Spring Meetings of the IMF and the World Bank, I met with senior officials and management of the World Bank to discuss our energy needs. I was assured that the World Bank is still committed to assisting us in the energy sector.

38. In particular, we are discussing with the World Bank on the following measures:

- i) Undertaking feasibility studies for small to medium scale hydro power stations on Bua, Shire, Ruo, Songwe and other Rivers in Malawi; and
- ii) Managing the demand of electricity by promoting the use of Compact Fluorescent Lamps i.e. low energy bulbs. The Bank and other Donors have shown a willingness to procure a substantial consignment of these bulbs within a few months for distribution to electricity consumers in Malawi. It is believed that this would result in significant energy savings.

39. Mr. Speaker, Sir, the Government is also planning to construct Kapichira 2 hydro power plant through resources from Exim Bank of China. The World Bank has also shown willingness to consider financing this project. Once the power station is developed, it will generate an additional 64 MW which will significantly improve the power generation capacity of this country.

40. Mr. Speaker, Sir, in addition to these efforts, Government is working with the Millennium Challenge Corporation (MCC), a US Government Foreign Aid Agency, to address the power constraint through the following projects:

- a) the rehabilitation and modernisation of Nkula A and B power stations; the rehabilitation and modernization of substations across the country; the upgrading and strengthening of the Chintheche-Bwengu transmission line; and weed and siltation management along the Shire River;
- b) increasing peri-urban access to power supply and the implementation of a renewable energy project in selected rural communities; and
- c) institutional strengthening and capacity building of ESCOM, MERA and the Department of Energy to improve service delivery in the energy sector.

41. Mr. Speaker, Sir, the total cost of these projects will be determined by a feasibility study that will be completed in August of this year; however, we expect that Malawi will benefit from an investment of approximately US\$300 million from the Millennium Challenge

Corporation. We recognise that this will not solve all the problems in the power sector, but this will go a long way towards preparing the sector for future investment. In this regard, Government is in the process of creating a conducive environment for private sector participation through the Independent Power Producers. Therefore, we call upon all our partners in the private sector, including financial institutions, to take up this challenge and help Government to address the problems by increasing the country's generation capacity.

## **FOREST MANAGEMENT**

42. Mr. Speaker, Sir, one of the concerns raised by Malawians during our budget consultative meetings was the management of forest reserves, especially Chikangawa forest in Mzimba, Mulanje Forest and others in Blantyre, Zomba, Machinga and other places.

43. Mr. Speaker, Sir, Government recognizes the fact that deforestation is an acute problem in Malawi and therefore requires urgent attention. It is for this reason that under the dynamic leadership of His Excellency the State President, Government has intensified the tree planting exercise by extending it over a period of five months from December to April.

44. Our challenges in forestry are characterized by rising demand for fuel wood as a result of the growing population and increasing demand for timber and other forest products both within and outside Malawi. Specifically to the Chikangawa Plantation, many of those licensed to operate in the forest reserve are mostly ill-equipped to efficiently harvest and extract timber to required standards. Furthermore, our forest reserves are faced with the problem of forest fires. The House may recall that fires destroyed large areas of forests in 2005 and 2008. This is not a welcome development, particularly given that these fires seem to have been deliberately started by our fellow Malawians. In dealing with the problem of extraction, one therefore, has to also look at ways of dealing with the problems of forest fires as well.

45. The responsible Ministry, through the Department of Forestry, is developing strategies that will ensure an efficient utilisation of our forests. This includes ensuring that – as is the case with all other extractive industries – the benefits from forest extractions also accrue to local inhabitants. This is the case at Kayerekera and should be true for all other extractive industries in Malawi. We hope that we can achieve this and I am thankful to our cooperating partners who have pledged to support us in this area. In particular, I would like to thank the Japanese Government for giving us a grant amounting to K3 billion for forest management. This, Mr. Speaker, Sir, will enable Government

undertake extensive afforestation programmes in some of our forest reserves.

46. In order to better manage our forest reserves as well as to enable replenishment of the forests, through extensive replanting of seedlings, Government will also set up a Forestry Management Fund which I will talk about later.

## **ASSUMPTIONS UNDERLYING THE 2010/11 BUDGET**

47. Now let me turn to the major assumptions underpinning the 2010/11 Fiscal Budget. I will start with the Global Economic Outlook as reported by the International Monetary Fund in their April 2010 World Economic Outlook entitled “Rebalancing Growth”.

## **THE GLOBAL ECONOMIC OUTLOOK**

48. Mr. Speaker Sir, according to a recent report by the International Monetary Fund, the global recovery is proceeding at a pace faster than expected, particularly in emerging and developing economies. The World economy is now expected to grow by 4.3 percent in 2010 compared to a 0.5 percent contraction in 2009. Growing at 3.1 percent in 2010, the United States of America is better poised than Japan and Europe at 1.9 percent and 1.0 percent, respectively. Developing Asia,

at 8.7 percent, led by China, is leading the recovery among the emerging economies.

49. Risks to global financial stability have eased as the economic recovery has gained momentum. Financial stability is nonetheless not yet assured. Although debt write-downs, in advanced economies hardest hit by the economic crisis have been reduced, there still remain some pockets within the global economy that are characterized by shortages of capital, high risks of further asset deterioration and chronically weak profitability.

## **SUB-SAHARAN AFRICA REGION**

50. Mr. Speaker, Sir, closer to home, information coming out of Sub-Saharan Africa is that the region has weathered the global economic crisis relatively well and its recovery from the slowdown in 2009 is expected to be stronger than earlier projections. The region is expected to grow by 4.7 percent this year compared to a modest growth of 2.1 percent in 2009. The quick recovery reflects, amongst other things, the relatively limited integration of most low income economies with the global economy. Furthermore, the reduction in remittances and official aid flows due to the effects of the recession in developed economies has been smaller than was initially feared. The

Region's banking sector has generally proved to be resilient and private capital flows have resumed into the region's more integrated economies.

51. The risks to the economic outlook in the region are varied. Higher than expected energy prices would tend to benefit oil exporting African countries but would dampen growth and raise inflation in the oil importing countries. In addition, the outlook for official aid flows to the region as a whole may fall as a result of decline in output in major donor economies as well as heightened fiscal pressures particularly in European economies.

52. Mr. Speaker, Sir, combating unemployment is increasingly becoming a big challenge, not only in countries hardest hit by the global economic crisis but also in Africa as was noted by African Ministers of Finance, Planning and Economy during their meeting at Crossroads Hotel in Lilongwe in March this year. It was agreed therefore that beyond pursuing macroeconomic policies that support recovery in the short term, and financial sector policies that restore the well being of the banking sector, specific labour market policies such as in education and training should be pursued to help reintegrate the unemployed into the labour market.

## **DEVELOPMENTS IN THE MALAWI ECONOMY**

53. Turning to the Malawi economy, Mr. Speaker Sir, the familiar record of unprecedented economic growth rates that has characterized this Administration since 2004, persisted throughout the entire period of the global economic recession. The Malawi economy grew by 7.6 percent in 2009 after yet another remarkable performance in 2008 when the economy grew by 9.7 percent. Led by strong performances in the agriculture, retail trade and mining sectors, the Malawi economy is projected to continue growing faster than the region's average growth rate in 2010 and 2011, respectively. The strong performance will further be enhanced by sectors such as financial services as well as the telecommunications industry.

54. Mr. Speaker, Sir, in line with the strong economic performance, the rate of inflation is expected to remain at an average of approximately 8 percent in 2010. The continued stability in the rate of inflation is premised on the stable macroeconomic objectives that we envisage to achieve, coupled with better than expected maize production this year.

55. Mr. Speaker Sir, the country has continued to maintain an impressive record of debt sustainability levels for some time now.

Central government foreign debt, which was unsustainably high at US\$3.1 billion in 2004, has fallen to US\$667.7 million this year and is considered to be highly sustainable by any standards. For example, our external debt service obligations as a percentage of our exports stood at an estimated 23.5 percent in 2003, but is projected to be only 1.8 percent in 2010, according to the IMF. In the same vein, central government net domestic debt, which at one time was as high as 25 percent of GDP, stood at 16 percent of GDP at the height of the crisis in 2009 and is estimated at 10.4 percent of GDP in 2010.

## **MONETARY PERFORMANCE**

56. Mr. Speaker, Sir, Monetary policy in 2009 was successful in maintaining single digit inflation and providing a conducive environment for economic growth and financial intermediation. During the year, however, the country experienced exogenous shocks which posed a serious challenge to the conduct of monetary policy. The global recession experienced between 2008 and 2009 worsened Malawi's terms of trade, resulting in the re-alignment of the Malawi kwacha. In order to mitigate the impact of the global recession on the Malawi economy, the Reserve Bank of Malawi among other things, maintained the bank rate at 15.0 percent and issued repurchase "REPO" instruments to combat inflationary pressures arising from the

movement in the exchange rate. Consequently, growth in money supply decelerated to 24.4 percent at the close of 2009 from 33.1 percent recorded in 2008. Growth in money supply declined further to 15.1 percent by March 2010. Consistent with the monetary policy objective of providing a conducive environment for economic growth, credit to the private sector increased by 39.5 percent in 2009.

57. Mr. Speaker, Sir, Monetary policy in 2010 and 2011 will be geared towards containing monetary growth in order to ensure low and stable inflation rates, while providing room for sufficient credit growth to the private sector and supporting the build up of external reserves. Mr. Speaker, Sir, Government intends to sign a currency repatriation agreement with Tanzania, Mozambique and Zambia. This agreement will allow the four countries to accept each others currency around the borders to facilitate trading of goods and services. This measure will help to safeguard the country's foreign exchange reserves and encourage cross border trading.

58. Furthermore, the recent enactment of the Credit Reference Bureau law should assist banks in bringing down their cost of doing business, as the new law will enable banks conduct proper assessment of credit worthiness of their clients. Government hopes that the benefits accruing to the banks from the introduction of this law will

trickle down to bank customers through narrowing of the interest rate spread between lending and deposit rates.

59. Mr. Speaker, Sir, the Reserve Bank of Malawi is also drafting a regulation that will stop the malpractice of unfair pricing arrangements of fees and charges relating to financial services and products. This will allow fairness, encourage competition and eliminate exploitation by financial institutions.

60. The Reserve Bank of Malawi will also be sensitizing micro-finance institutions and money lenders on the need to observe legal limits on loan repayments by borrowers whose main source of income is monthly emoluments or salaries. Government has noted with concern that some money lenders have left borrowers with a take-home pay falling below what is legally acceptable under the Employment Act.

61. Mr Speaker, Sir, in order to further improve the operations of the financial sector in the country, I will be bringing to the House during this sitting a number of financial bills including the Pensions Bill and the Financial Services Bill. The aim is to improve the robustness of our financial services sector. Three financial bills have already been passed by this house during the current financial year: Banking,

Insurance and Credit Reference Bureau. Two bills are still under consideration by the House: Microfinance Bill and Security Bill.

## **FISCAL PERFORMANCE FOR THE 2009/10 BUDGET**

62. Mr. Speaker, Sir, let me now turn to the fiscal performance of the 2009/10 budget. As is the tradition in this August House, supporting and detailed documents for the 2009/10 budget implementation will be circulated to all Honourable Members after my presentation. Let me also point out that my Cabinet Colleagues and I will avail ourselves to answer any questions and issues that the Honourable Members may wish to raise pertaining to the 2009/10 budget implementation.

## **REVENUES AND GRANTS**

63. Mr. Speaker, Sir, during the last Budget Session, the House approved the budget for the 2009/10 financial year which comprised revenues and grants amounting to K244 billion. Out of this sum, revenues amounted to K163 billion, representing 67 percent of the total resources, while grants were K81 billion or 33 percent of the total resource envelope for the Financial Year. Honourable Members will recall that these figures were revised upwards in January this year during the Mid Year Budget Review. The reasons that I gave for the revisions were that performance of these budget lines had been so

impressive during the year to December and therefore justified the revisions I had proposed.

64. Mr. Speaker, Sir, domestic revenues during the 2009/10 FY have performed exceedingly well and as was mentioned during the Mid-Year Budget review, they are projected at K171 billion, for the year, almost K8 billion more than the K163 billion approved in June. This good performance, Mr. Speaker, Sir, is mainly attributed to two factors: an improvement in tax administration by the Malawi Revenue Authority (MRA) and an increase in tax compliance, by tax payers.

65. Non-tax revenues are estimated at K31.1 billion; about K7.8 billion more than what was initially approved in June. The improvement is explained by departmental receipts which totalled K11.58 billion against an initial estimate of K9 billion made in June and payment of K2.3 billion Dividend from the RBM to the central government.

66. Mr Speaker, Sir, as I did mention during my presentation of the Mid-Year 2009/10 Budget Review, grants from donors were also revised upwards and this was on account of increased pledges by our cooperating partners. As Honourable Members are aware, total grants for the 2009/10 FY were estimated at K81.1 billion during the June Budget Session. In the light of increased pledges, however, the figure

was adjusted to K92.1 billion. Notable additional pledges were made by the European Union from K9.1 billion pledged at the beginning of the financial year to K17.2 billion; while the German Government have provided €10 million upon joining the Common Approach to Budget Support donor group; and the World Bank have increased their support by US\$14 million to US\$54 million in the 2009/10 Budget. Additional resources of €3.2 million also came from the Irish Government in support of the farm input subsidy program.

67. What is most pleasing, Mr. Speaker, Sir, is that not only did our cooperating partners pledged to increase their financial support to the Government of Malawi in the 2009/10 financial year, they also met their commitments by disbursing their pledged resources. This underscores the confidence that our cooperating partners have in this Government and its Administration. May I, therefore, request the Honourable Members of this House to join me in thanking all our cooperating partners for living up to their commitments and for continuously supporting us.

## **EXPENDITURE IN THE 2009/10 FINANCIAL YEAR**

68. Mr. Speaker, Sir, let me now turn to expenditures for 2009/10 financial year. The House approved a total expenditure budget

including net lending, of K256.8 billion in June last year. Of this amount, K188 billion were for Recurrent Expenditures, including Wages and Salaries, while K67 billion were expenditure estimates on development programs and projects. About K2 billion was set aside for lending through the Youth Enterprise Development Fund (YEDF).

69. Owing to the upward adjustments in revenues and grants, a revision was also made on two main items to take into account increased expenditure requirements at the Mid Year Budget Review in January. These areas were interest on debt and the development budget. As the Honourable Members may recall, domestic interest payments were revised from an initial estimate of K18.6 billion to K20.5 billion during the Mid-Year Budget Review. This was done in order to take into account increased interest payment requirements that arose from carryover debt stock due to payments for additional fertilisers in the 2008/09 financial year. Further to that, an additional K650 million was provided to the National Assembly for fixtures and fittings, furnishings and landscaping of the New Parliament Building. An amount equal to K1.27 billion was also added to the Vote for unforeseen expenditures.

70. I am pleased to report to this Honourable House, Mr. Speaker, Sir, that despite these revisions, our fiscal position at the end of the

financial year is expected to be much healthier. We now expect to end the financial year with a lower overall fiscal deficit of K5.1 billion compared to K12.5 billion in the original budget. This, therefore, Mr Speaker, Sir, underscores our commitment to repay domestic debt and release financial resources for private sector investment.

71. Mr Speaker, Sir, a further K5.1 billion was allocated to the development budget at the Mid Year Budget Review in light of increased demand for development projects. This brought the allocation to the development budget to K72 billion up from K67 billion. Projects that benefited from these additional resources were largely related to infrastructure development such as road improvement projects.

## **PERSPECTIVES FOR THE 2010/11 BUDGET**

72. Mr Speaker, Sir, I now turn to the perspectives and estimates for the 2010/11 Budget. Let me state from the outset that these projections and expectations emanate from the vision laid out in the State of the Nation Address delivered by His Excellency the State President, Ngwazi Professor Bingu wa Mutharika, during the opening of the Budget session of this House on 24<sup>th</sup> May, 2010. What the 2010/11 budget has done is to translate the President's vision into

actionable budgeted activities in line with the key priority areas of His Government.

73. Mr Speaker, Sir, the 2010/11 budget is a forward looking budget and is to be used as an instrument to stimulate further economic growth and development. Consequently, the 2010/11 fiscal framework has been prepared to guarantee a sound macro-economic environment where both public and private sector organisations should thrive. The framework is designed to ensure that economic growth targets are met while inflation is maintained in single digits which should support a further reduction in the Bank Rate.

74. Mr Speaker, Sir, while the budget will ensure that the key sectors of the economy are supported in order to sustain high economic growth, the social sectors will be adequately provided for, so that the well-being of the population is enhanced. In this regard, the proposed budget has been designed to provide sufficient fiscal space for sustainable poverty reduction.

75. Consistent with our macroeconomic objectives, the budget is targeting a modest overall budget deficit of not more than 1.2 percent of GDP which will primarily be financed through foreign borrowing. This is done to avoid crowding out of the private sector if this financing were to

be done through domestic borrowing. If fully implemented, government should be able to make a domestic repayment of 1.5 percent of GDP as agreed with the IMF. Honourable Members should therefore be made aware that Government stands steadfast to introduce budget cuts in the middle of the budget implementation should resources fall short.

76. Let me close this section by mentioning that the budget will also be rolled out as an instrument for anchoring further reforms in the public sector spending in order to improve value for money. This will include the strengthening of external auditing of public entities, improving the efficiency of public procurement mechanisms and reducing the contingent liabilities of parastatal organizations.

## **REVENUES AND GRANTS FOR THE 2010/11 BUDGET**

77. Mr Speaker, Sir, I will now begin presenting the details of the 2010/11 budget. Total revenues and grants in the 2010/11 FY are projected at K287 billion. This represents an increase of 9 percent over the 2009/10 revised revenue estimates. Domestic revenues are expected to total just over K201 billion, representing around 70% of the total resource envelope for the 2010/11 budget. The increase in domestic revenue generation is expected to arise from a number of tax

policy measures and tax administration mechanisms which I will announce shortly.

78. Mr Speaker, Sir, Malawi expects to get K85 billion in grants from our cooperating partners in the 2010/11 Financial Year, representing 30 percent of the total resource envelope. In comparison to the K92 billion grants in the Revised 2009/10 budget, the 2010/11 grants figure may seem to be substantially lower. Honourable members may, however, wish to be reminded that the K92 billion figure was attained after a number of donors had scaled up their support for the 2009/10 financial year partly to mitigate against the effects of the global economic crisis in 2009. In 2010/11, I am sure that the donors will, as they have usually done before, come to us with additional pledges to support our development agenda. This is particularly so because our cooperating partners have shown willingness to increase support to economies that are working and ours is one such shining example.

## **EXPENDITURES AND NET LENDING FOR THE 2010/11 BUDGET**

79. Mr Speaker, Sir, consistent with the Malawi Growth and Development Strategy (MGDS) and to accelerate poverty reduction in our country, significant resources of the budget will be directed towards achieving the nine key priority areas of the MGDS.

80. Mr Speaker, Sir, total expenditures and net lending for the 2010/11 budget are projected at K297 billion. This represents an increase of K29 billion (or 11 percent) from the 2009/10 revised expenditure estimates. Recurrent Expenditures are projected at K217 billion, up from K195 billion in the revised estimates of 2009/10. The development budget is estimated at K78 billion, up from K67 billion approved in the 2009/10 Budget.

81. Mr. Speaker, Sir, let me summarise the budget framework by mentioning that we are anticipating a budget deficit of K9.9 billion or 1.2% of GDP and domestic debt repayment of K11.9 billion, or 1.5% of GDP. Both indicators are consistent with the performance targets set out in the ECF Program agreed between Government and the IMF.

### **KEY ALLOCATIONS IN THE 2010/11 BUDGET**

82. Mr Speaker, Sir, let me now turn to the key allocations for the 2010/11 budget.

## **Civil Service Reform**

83. Mr Speaker, Sir, in line with the President's vision of increasing the efficiency of the public sector workers, I wish to announce that the 2010/11 budget has an average salary increase for the public sector workers, including Members of Parliament of 15% with effect from 1<sup>st</sup> July 2010. What this means, Mr Speaker, Sir, is that since 2004, when his Excellency the President took over the leadership of this country, salaries and wages for employees in the public sector have gone up by more than 186% on average. Furthermore, the current proposed pay rise is almost double the level of inflation and therefore represents a significant improvement in public servants real incomes, which should in turn lead to improved welfare and well being of all public sector workers. However, we would like this gesture by Government to be matched by a substantial increase in productivity in the Civil Service.

84. Mr Speaker, Sir, in addition to the salary increase, the 2010/11 budget also provides for resources of an additional K2.5 billion for the recruitment of public sector workers in essential service delivery sectors such as agriculture, health, education, forestry and security services. This Mr Speaker, Sir, will ensure that our schools, hospitals,

police units, forest reserves and other public service front line officers, especially those in rural areas, are adequately staffed. It should also be mentioned that in all these recruitments, the focus will be to get quality public sector workers for our essential front line services in the rural areas of the country.

### **Agriculture and Food Security**

85. Mr Speaker, Sir, a total of K32 billion has been allocated to the Agriculture and Food Security sector, representing 11 percent of the National Budget. About K19.7 billion of these resources have been allocated towards the implementation of the 2010/11 input subsidy program. As the Honourable Members are aware, following the introduction of the agriculture input subsidy program in this country, as envisioned and directed by His Excellency the State President, the country has been turned from a perpetual recipient of food aid and humanitarian assistance to a food sufficient nation. In fact, it is on account of the continued input subsidy program that despite the dry spells in some parts of the country in the 2009/10 growing season, the country has still managed to achieve a grain surplus of over 800,000 metric tones. The subsidy program has undoubtedly proven to be a success story and arguments for its continuation are therefore, justified. It is on this basis, Mr Speaker, Sir, that the subsidy program will

continue in the 2010/11 budget. It is envisaged that a total of 160,000 metric tonnes of fertilizers will again be procured this year and will be distributed to over 1.6 million smallholder maize farmers at a standard subsidised price of K500 per 50kg bag for both basal and top dressing fertilizers. The Ministry of Agriculture and Food Security has worked out the specific details will be distribution modalities and schedules, including participation of the private sector, to ensure that the distribution is timely and without any irregularities.

86. Mr Speaker, Sir, the agriculture budget also includes an allocation of K1.9 billion for the purchase of maize. As already mentioned, the country has a surplus maize production in excess of 800,000 metric tonnes. Government will buy maize through the National Food Reserve Agency (NFRA) and private sector buyers are expected to bid in an open tender system and supply the maize to the NFRA at a competitive price. It is our hope that these competitive prices will trickle down to the smallholder farmers.

87. The budget also has an allocation of K1.3 billion for agricultural research and extension services. These resources are intended to ensure that the country's agricultural system continues to improve technologies for both crop and animal husbandry and to ensure that the uptake of these new technologies by farmers is high. Through the

Agriculture Sector Wide Approach (ASWAp), which was launched a few weeks ago, more resources from donors will also be committed to complement Government resources to ensure that productivity of our farming sector, which is predominantly smallholder led, will be improved.

88. Mr. Speaker, Sir, an additional K620 million in the coming budget has been earmarked for the purchase of chemicals to be used in the storage of grain. Once procured, these chemicals will be distributed to the smallholder maize farmers to ensure that maize can be properly stored for a long time. In addition, Mr Speaker, Sir, about K100 million has been allocated for the construction of small metallic grain silos to reduce post-harvest losses. As the Honourable Members are aware, this Administration has been constructing additional grain silos in Mzuzu, Mangochi, and Luchenza with a total capacity of 60,000 metric tonnes bringing the total national grain storage capacity to 240,000 metric tonnes. Work on the construction of silos in Mzuzu and at Luchenza is now complete. They new silos are undergoing mechanical testing in readiness for hand over to Government. The 2010/11 budget allows for the completion of all remaining works related to these silos.

## **The Green Belt Irrigation and Water Development**

89. Mr Speaker, Sir, the 2010/11 budget has a total budget allocation of K7 billion for the Green Belt Initiative and other Irrigation and Water Development activities. Of the K7 billion, K2 billion is for kick-starting the Green Belt Irrigation Initiative while K4.9 billion is for water development initiatives mainly through the National Water Development Program (NWDP). As the Honourable members are aware, the aim of the Green Belt initiative is to transform the entire strip of the low lying arable land along Lake Malawi and along major rivers of this country, into an all year round crop production sites. This initiative will consolidate the gains from the subsidy program and various other measures. In the 2009/10 budget, K100 million was provided for the initial works of the green belt initiative and this money was mainly used for the rehabilitation of existing schemes. However, the K2 billion in the 2010/11 budget will mainly cater for the civil and construction works of 42,000 hectare`s of the Shire Valley Irrigation project.

90. Mr Speaker, Sir, the allocation of K4.2 billion meant for water development is expected to improve the supply of water by our water boards in the country and also to ensure that dams and other water supply points, such as boreholes, are constructed and maintained. On

dam construction, Luchenza medium dam is at an advance stage while 2 other dams, Livuwo in Nkhatabay and Luvwere in Mzimba are almost complete. A further K105 million has been set aside for construction of boreholes in the 2010/11 financial year.

## **Education, Science and Technology**

91. Mr Speaker, Sir, in the 2010/11 budget, the education sector has been allocated K46.8 billion when adjusted with proposed changes to salaries. This will represent 20 percent of the total recurrent budget. Comparing with the 2009/10 revised allocation of K37.3 billion, the current allocation represents an increase of 26 percent on last year's approved allocation. This implies that substantial resources of the government budget will go towards the education sector. Of the total sum, K17.5 billion has been allocated for wages and salaries of teachers and other education sector workers. Currently, the sector has over 48,000 primary and secondary school teachers. An extra 4,000 primary and 800 secondary school teachers are expected to graduate from various training colleges during the 2010/11 fiscal year and will be absorbed into the teaching service.

92. Owing to the fact that availability of teachers in rural areas is lower than in urban areas, in the 2010/11, government has decided to introduce a rural teacher allowance. This is expected to improve the

livelihood of rural teachers thereby improving the pupil: teacher ratio in rural schools which should improve the quality of education. Government has therefore set aside K2.5 billion for this initiative. Rural teachers will be getting an additional K5,000 per month over and above their normal salary. This is meant to encourage more teachers to go and work in rural areas and the definition of 'rural schools' is as defined by the Ministry of Education, Science and Technology.

93. Mr Speaker, Sir, the other significant allocation to the education sector is the subvention to two public universities, the University of Malawi and Mzuzu University. Mr Speaker, Sir, the quality of teaching and learning materials in these universities has drastically deteriorated. Our public universities also rank poorly because they are unable to conduct any meaningful research, coupled with poor and inadequate infrastructure currently in use. In total, the two public universities have been allocated K7 billion. On top of this allocation, Government intends to inject another K10 billion through a special purpose vehicle for infrastructure development at the learning infrastructure for the two public universities. It is envisaged that once these expansions are made, enrolment to public Universities will be increased significantly and will help solve the shortage of space in our public universities.

94. Mr Speaker, Sir, in the 2010/11 budget, the allocation for teaching and learning materials has been raised to K3.4 billion from K2 billion in 2009/10 financial year. This has been done in order to further improve the availability of teaching and learning materials in all primary and secondary schools. Apart from increasing this allocation, part of the resources will be channelled directly to local authorities in line with the decentralized system of government.

95. Mr. Speaker, Sir, another innovation to be extended in the 2010/11 financial year in the education sector is the double shifting initiative. This initiative was introduced on a pilot basis in 2009/10 financial year with an allocation of K76 million. In the 2010/11 financial year, the initiative will be allocated K100 million.

96. The other area to be supported in the education sector is that of teacher training. In 2009/10, K758 million was allocated for teacher training in order to increase the number of teachers in schools especially in rural areas. The budget for 2009/10 supported the training for over 4,800 teachers. In the 2010/11 budget, resources for teacher training have been increased to K1.275 billion in order to enrol over 6,000 student teachers in various teacher training colleges. Mr Speaker, Sir, this sharp increase in teacher intake will be made possible because of the completion of the Liwonde Teacher Training

College and the introduction of non-residential teacher training program. The aim is to improve availability of teachers in our schools.

97. Mr Speaker, Sir, let me now turn to the development budget of the education sector. As the Honourable Members are already aware, in 2009/10 budget, a total of K5.4 billion was allocated to various education sector projects, including the construction of girls hostels, construction and rehabilitation of community day secondary schools, rehabilitation of conventional secondary schools, rehabilitation of Technical Colleges and rehabilitation of the University of Malawi and the University of Mzuzu infrastructure. I am pleased to report to this Honourable House that significant progress has been made in many of these projects. A total of 20 Community Day Secondary Schools have been rehabilitated in partnership with the African Development Bank, 3 Conventional Secondary Schools, namely, Thyolo, Mulanje and Masongola have been rehabilitated, the Liwonde Teacher Training College has been completed with support from the World Bank, construction of girls' hostels is work-in-progress in over 17 Secondary Schools and construction of 1,000 primary school teachers' houses is also underway in most districts.

98. In the 2010/11 budget, Government will continue with the rehabilitation of existing education infrastructure in the country and

embark on new construction projects. The total budget for development initiatives is estimated at K4.5 billion. Projects to be implemented include, the construction and rehabilitation of Community Day Secondary Schools to the tune of K905 million, the rehabilitation and expansion of Teacher Training Colleges at a cost of K896 million, the construction of primary school class rooms at K820 million, the construction of girls hostels to the tune of K450 million and the rehabilitation of conventional secondary schools to the tune of K400 million.

99. Mr Speaker, Sir, in order to improve the speed at which most of these infrastructure development projects are delivered, a special unit known as the Project Implementation Unit has been set up at the Ministry of Education. It is envisaged that this unit will oversee and fast track the implementation of infrastructure developments in the education sector.

100. I wish to conclude this section, Mr. Speaker, Sir, by announcing that in line with the State President's Nation's Address, the 2010/11 budget has an allocation of K500 million for the construction of additional hostels, lecture theatres and classrooms for the new Lilongwe University of Agriculture and Natural Resources. As was the announcement, this University will involve upgrading and transforming

Bunda College of Agriculture, Natural Resources College, Chitedze Research Centre and the Agricultural Research and Extension Trust (ARET) into new fully fledged University. The K500 million is therefore meant to kickstart the process of establishing this University and providing some of the infrastructure and institutional requirements of the new University.

101. As for the Malawi University of Science and Technology to be based in Thyolo, funding has already been sourced from the People's Republic of China as was announced by His Excellency, the President. We expect that construction work on this project will commence in the course of the fiscal year. This Mr. Speaker, Sir, shows that within the 2010/11 financial year, Government will begin in earnest implementation of its landmark plan of establishing five additional Universities in the country.

### **Transport Infrastructure and Nsanje World Inland Port Development**

102. I now turn, Mr. Speaker, Sir, to the area of transport infrastructure and the development of the Nsanje World Inland Port. Since 2004, this Administration has been allocating significant resources towards the improvement of transport infrastructure. Road Infrastructure

developments across the country and works at Nsanje port are a clear testimony of these investments. Furthermore, the Presidential way in Lilongwe is being beautifully elevated from a single lane to a dual carriage way. Similarly, Phase I of the Masauko Chipembere Highway in Blantyre has also been completed and Phase II is to commence very soon as the signing ceremony for the grant funding of this project is to be done next week with the representatives of the Japanese Government. Once completed, this is also going to further improve the outlook of the City of Blantyre. There has also been a remarkable progress in the rehabilitation of many other urban roads. Worth mentioning are roads in Area 18, 10, 43, 47, Area 3, Kawale and Chilinde in Lilongwe where residents are now travelling on better roads. Similar works are taking place in the cities of Blantyre and Mzuzu and other urban centres across the country.

103. In the 2010/11 budget, the transport sector has been allocated K40 billion representing 13.2 percent of the total budget. Of this amount, K37 billion has been allocated to the improvement of road infrastructure. Notable roads on which these resources will be utilised include the Rumphi-Nyika-Chitipa road (K1.7 billion); Jenda-Edingeni Road (K4.3 billion); Msulira-Nkhotakota road (K330 million); Lilongwe City by-pass (K1 billion); Lumbadzi, Dowa-Ntchisi and Salima Spur (K1.2 billion); Lilongwe –Dedza-Msipe road (K980 million), Ntcheu-

Tsangano Road (K170 million); Bunda-Mitundu road (K300 million); Liwonde-Naminga road (K1.3 billion); Zomba-Jali-Kamwendo Road (K2.7 billion); Chiradzulu-Chiringa road (K1.2 billion); Zomba-Blantyre road (K3.5 billion), Nchalo-Bangula road (K1.9 billion); Bangula-Nsanje road (K1.3 billion) and other feeder roads. Government also intends to finish the construction of the Limbe Blantyre Dual Carriage way and initiate the construction of a dual carriage way in Lilongwe from the Old Town to Kanengo during the 2010/11 financial year. These road construction projects should considerably reduce traffic congestion in the two major cities.

104. In addition, government with support from BADEA and OPEC Fund is rehabilitating Kamuzu International Airport at a cost of US\$13.4 million. Chileka airport is also being rehabilitated using government's own resources.

### **Integrated Rural Development**

105. Consistent with Government's wish of developing the rural areas, Government is carrying out construction works for rural growth centres and markets. Several rural growth centres are under construction in Neno, Nambuma and Nthalire. About K350 million was allocated for this initiative in the 2009/10 budget and K300 million was allocated for

the construction of markets which are currently near completion. These markets are located in Thyolo in the South, Erukweni and Ekwendeni in Mzimba district in the North, Dwangwa in Nkhotakota district in the Centre and Matawale in Zomba in the Eastern Region.

### **Public Health, Sanitation and HIV/AIDS Management**

106. Mr Speaker, Sir a healthy nation is a prosperous nation and vice-versa. Through increased government funding – and contributions from donors – Government has significantly improved the health status of the nation. Fewer mothers are now dying during childbirth, and more children are growing up healthy and strong past the age of five. We are also providing free ARVs to over 250,000 people and we have significantly improved our ability to train, recruit and retain medical staff in our clinics and hospitals.

107. Mr Speaker, in the 2010/11 budget, K10 billion has been allocated for salaries and wages for health sector workers in the country. This allocation has been substantially increased from its 2009/10 allocation in order to take into account the salaries of 5,386 Health Surveillance Assistants who were being paid from Other Recurrent Transactions (ORT) and will now be paid from the Personal Emoluments budget.

108. Mr Speaker Sir, in 2009/10 financial year, the allocation to the health sector has enabled the sector to implement a number of programmes and projects. Government supported training of medical and other health workers, including continuing nursing students in CHAM and Government institutions. Infrastructure developments included projects such as the expansion of the Zomba Central Hospital, upgrading of Balaka District Hospital, refurbishment of 7 labs in district hospitals and construction of 250 staff houses in rural areas.

109. In the 2010/11 financial year, the health sector has been allocated a total of K45 billion representing 15.5% of the total budget. Of this, a sum total of K11.7 billion has been allocated to National Aids Commission to combat HIV/AIDS pandemic. An allocation of K9.2 billion has been made to district hospitals in order to run the various district level health programmes. In the area of infrastructure development, K500 million has been allocated for the construction of the Nkhata Bay District Hospital. Another K500 million has been allocated for the Phalombe District Hospital. The 2010/11 budget also has K500 million for the construction of health personnel houses under the Umoyo Housing project, and K150 million has been allocated for the construction of 23 laboratories to improve provision of diagnostic services, while K250 million has been allocated for the rehabilitation of Zomba central hospital.

110. Mr Speaker, Sir, recognising the growing problem of cancer in the country and the costly treatment associated with the disease, government has allocated K100 million in the 2010/11 budget to start the construction of a cancer specialist unit. In the long run, this is expected to improve the delivery of cancer treatment services locally.

111. Mr Speaker, Sir, let me return to the issue of training of nurses and other medical workers. In order to address the problem currently faced by students who cannot afford to pay for training at CHAM and other private health colleges, Government has allocated a sum of K395 million for this purpose. Mr Speaker, Sir, this will help to ensure that the country continues to produce adequate numbers of nurses and other medical professionals. These resources will enable 1,200 medical students to get scholarships under a loan scheme, which will allow them to enrol at the CHAM institutions and at School for Health Sciences in the next academic year.

### **Youth Development and Empowerment**

112. Mr Speaker, Sir, in the area of Youth Development and Empowerment, the 2010/11 budget has made an allocation of K1.7 billion for the sector. Notable projects and programmes to be

implemented with these resources include a provision of K800 million to the Youth Enterprise Development Fund. Mr Speaker, Sir, the recapitalisation of the YEDF is in addition to the K2.2 billion that was allocated to the project in the 2009/10 budget bringing the total investment to K3 billion. Additional resources include; K150 million for the Integrated Youth Development Initiative, K150 million for the construction of an Indoor Sports Complex in Lilongwe, K180 million for the rehabilitation of Kamuzu Stadium, and K30 million for the construction of Mzuzu Youth Centre.

### **Energy, Mining and Industrial Development**

113. Mr Speaker, Sir, in the area of industrial development, the budget has an allocation of K1.5 billion for the setting up of the Malawi Development Bank. Government has decided to set up a Development Bank in order to strengthen the capacity of our financial sector to provide long-term financing which is not readily available from the traditional retail banking sector. Honourable Members may be aware that our capital market is not yet robust enough to address the long term investment needs that our country requires. It is in this regard that Government has decided to support the creation of a development bank to provide venture capital for our entrepreneurs. However, this

bank will be a joint venture with private sector institutions and will be operated on sound banking principles.

114. In the area of energy generation and supply, the budget has an allocation of K200 million for feasibility studies into the setting up of a coal fired plant. Mr Speaker, Sir, as has already been highlighted, 98 percent of our energy supply comes from hydro power plants. In order to balance our energy mix, it is important that the country explores alternative energy sources. In this regard, the feasibility study into the coal fired plant would inform us whether the country has sufficient deposits that could lead to the establishment of a coal fired plant.

115. In addition, the Millennium Challenge Corporation is providing \$300 million for the rehabilitation of our current generation and distribution hydro-power stations. Government is also discussing with other donors to finalise the construction of hydro-electric power stations, including the development of Kapichira II and other mini hydros. Furthermore, the MCC will support us in the energy mapping of the country which will help us investigate many renewable energy sources including wind, solar and thermal power. Let me also mention that in the short term, we have made an additional allocation of K100 million in the budget for the procurement of compact fluorescent lamps

– these are the energy saver bulbs. A number of cooperating partners have also shown interest in supporting us further in this project.

116. In the mining sector, as the Honourable Members are aware, in 2009, Government commissioned the Kayelekera uranium mine. I am pleased to inform the Honourable House that production has progressed well, and that exports of the yellow-cake began in August 2009. It is envisaged that the contribution of mining to our GDP and to our foreign exchange earnings is going to be significant in the medium to long-term. In addition to Kayelekera, there are prospects for the commissioning of a niobium and uranium mine in northern Kasungu and south Mzimba Districts. It is expected that once these resources are exploited, the mining sector will contribute significantly to the strengthening of our foreign exchange position. The French government has also committed to providing funds for the geo-mapping of the entire country which would determine our country's mining potential.

### **Constituency Development Fund (CDF)**

117. Mr. Speaker, Sir, as was the case in the previous two budgets, we have made a provision for the Constituency Development Fund-(CDF). Honourable Members will recall that we have in the past

balanced expenditure on general constituency development between this Fund and the resources available to Local Councils, then Assemblies, through the Local Development Fund (LDF). In order to further promote development at the local level, we are increasing the Constituency Development Fund by K1 million per constituency, bringing the total to K3 million kwacha for each constituency. I trust that my honourable colleagues here will use this money wisely and prudently for the benefit of the people we serve. As I mentioned during the presentation of the 2009/10 budget, this Fund will continually be subjected to scrutiny and any form of abuse will automatically lead to cuts. It is my duty as responsible Minister to ensure that these funds are used for the intended purpose as agreed at Constituency Development Committees.

## **Governance Sector**

118. Mr Speaker, Sir, in the area of Judiciary, I wish to bring to the attention of the Honourable House that there are critical shortages of office space. To address this problem, Government has embarked on the construction and rehabilitation of Magistrate Courts countrywide. At present, Blantyre Magistrate Court is almost complete and will be occupied shortly. Government has spent a total of K1.2 billion on this project. At the same time, Government also rehabilitated 100 other

Courts across the country. In the 2010/11 budget, Government has made a provision of K80 million for the same. The budget also has a further K100 million for the construction of a Commercial Court in Blantyre.

119. Mr Speaker, Sir, as the Honourable Members are aware, the Malawi Electoral Commission has announced the dates for Local Government elections. According to the Malawi Electoral Commission, the total budget is K3.2 billion. I wish to inform the Honourable House that we have provided in the budget a sum of K2.0 billion for undertaking these elections. It is expected that development partners will complement our efforts and contribute generously towards the holding of these elections.

### **Local Development Fund (LDF)**

120. Mr Speaker Sir, let me now turn to the issue of the Local Development Fund (LDF). As the Honourable House is aware, Government established the Local Development Fund as a nationwide, standardized and transparent development financing mechanism for local Councils. The Fund is the only source of discretionary public development grant financing to the local Councils and its establishment is in line with the Paris Declaration on Aid Effectiveness and the Accra

Agenda for Action. The LDF has resources for the following development windows: Community; Local; Urban and Performance level. These resources are drawn from both government and its cooperating partners.

121. On its part, and as part of the LDF, Government contributed K1.2 billion for the construction of approximately 1,000 primary school teacher houses in rural areas to improve recruitment and retention of teachers. I am pleased to report to the Honourable house that despite the initial hurdles in setting-up the project due to delays in opening bank accounts at local level and in community mobilisation, the project is now up and running. Construction of teachers houses is now underway in all the districts across the country. In the 2010/11 budget, a further K1.2 billion has been set aside for completion of the houses that are under construction and also start construction of new ones.

122. Mr Speaker, Sir, the World Bank also contributed \$14 million to the LDF mechanism by earmarking its funding through the community, local authority and performance windows. I am delighted to report that the World Bank has expressed interest to provide additional financing to scale up this program. The African Development Fund has committed to provide US\$22 million to support the Urban and Performance windows. The German Government through KfW has

pledged to support the Urban window with a grant of €4 million. The Government is also talking to other partners who have expressed interest to support the LDF. Mr. Speaker, Sir, Honourable Members, all these resources will go along way towards bringing development to all parts of the country. Government is determined to ensure that the LDF project succeeds.

## **PARASTATAL REFORMS**

123. Mr. Speaker, Sir, let me now turn to the issue of public enterprises. As the Honourable House is aware, in order to ensure that certain services of our economy are provided, Government established public entities through which such services are being provided. The intention of the Government however was that these services should be provided efficiently, effectively and sustainably.

124. As the Honourable House is aware, despite various measures the government has undertaken in the past to achieve these objectives, a number of entities have remained inefficient and ineffective. In order to improve the delivery of public goods and services of these entities within the 2010/11 Financial Year, Government has decided to streamline and rationalize the sub-vented organisations as follows:

- The Malawi Export Promotion Council (MEPC) and Malawi Investment Promotion Agency (MIPA) will be dissolved and their functions merged into a new entity called the Malawi Trade and Investment Centre.
- Small Enterprise Development Organisation of Malawi (SEDOM), Malawi Entrepreneurs Development Institute (MEDI) and the Development of Malawi Traders' Trust (DEMAT) will be dissolved and their functions merged into a new entity called the Small and Medium Enterprise Board.
- The Malawi Rural Development Fund (MARDEF) and Youth Enterprise Development Fund will also be dissolved and their functions merged into the Malawi Rural and Youth Enterprise Development Fund.
- The Lilongwe University of Science and Technology (LUSTEC) and Malawi Research and Industrial Technology Development Centre (MIRTDC) will be dissolved and their functions assumed by the Malawi University of Science and Technology once it becomes operational.

- The Public University Student Loan Trust will be dissolved and its functions will be carried out by the Malawi Savings Bank.
- The Medical Council of Malawi, Nurses and Midwives Council of Malawi and Pharmacies, Medicines and Poisons Board will be dissolved and their functions will be merged into the Malawi Health Services Regulatory Authority.
- The Malawi College of Health Sciences will be dissolved and its functions will be assumed by the College of Medicine of the University of Malawi.
- The Lilongwe Water Board and the Central Region Water Board will be dissolved and their functions will be taken up by a new Central Region Water Board.
- The Malawi Television Limited will be dissolved and its functions will be integrated into the Malawi Broadcasting Corporation.
- The National Road Safety Council of Malawi will be dissolved and its functions incorporated into the Road Traffic Directorate as a Government Department which will be known as the Road Traffic

and Safety Directorate under Ministry of Transport and Public Infrastructure.

- The Copyright Society of Malawi will be privatized.
- The National Herbarium and Botanical Gardens of Malawi will be dissolved and its functions will be integrated into the Forestry Institute of Malawi which will be known as the National Research Institute of Malawi as a Government Department.
- The Malawi Censorship Board will be dissolved and its functions be performed by the Department of Culture under the Ministry of Tourism, Wildlife and Culture.
- The National Youth Council of Malawi will be dissolved and its functions will be performed by the Department of Youth in the Ministry of Youth and Sports.
- The National Gaming Board will be dissolved and its functions absorbed into the National Lottery Board which will be renamed as the National Lottery and Gaming Board.

125. I wish to end my remarks on this issue, Mr. Speaker, Sir, by pointing out that while indeed restructuring is associated with job losses as some posts are dropped in the new structures, this process will be managed in such a way that as many people as possible will be absorbed into the new structures. Besides, there are many vacancies in Government and other Public institutions where people can be re-deployed. I therefore wish to emphasize that there is no cause for alarm or panic for those working in these organisations. At the end of the restructuring exercise, we expect to reduce the number of parastatal organisations from 65 to 41. The remaining parastatals will be expected to strive for profitability and that we will introduce a dividend policy to obligate them to pay dividends to Government.

## **REVENUE MEASURES FOR 2010/11**

126. Mr. Speaker, Sir, let me now turn to the tax and non-tax measures underpinning the domestic revenues which will finance the 2010/11 budget. The Customs and Excise tax measures will be effective from midnight tonight whereas the Value Added Tax (VAT) and other Taxation measures will become effective on 1<sup>st</sup> July, 2010.

127. Mr. Speaker, Sir, Honourable Members, the revenue measures for the 2010/11 budget are designed to achieve five key objectives, namely;

- i) To address the emerging environmental challenges of forest degradation and therefore ensure sustainable forest management;
- ii) To reform the indirect taxes so as to prepare Malawi to meet its international trade protocol obligations since we have ratified both the SADC Free Trade Area and the COMESA Customs Union.
- iii) To broaden the tax base while at the same time removing distortions and complexity in the economy in order to provide for a lower corporate tax rate in the medium term which would benefit all corporate businesses and make Malawi internationally competitive; and
- iv) To rationalize the withholding tax regime so as to simplify the tax system for small businesses and encourage businesses in the informal sector to move to the formal sector, whilst protecting Government revenues; and

- v) To encourage local production and hence improving the country's export base improve.

## **NON TAX MEASURES**

128. Mr. Speaker, Sir, as the Honourable House may recall, in the past, Government used to operate a Forestry Management Fund and the money was used for re-forestation programs, training of forestry management officers as well as forestry extension related activities. It is through this fund that many of our forest reserves in this country were developed, managed and preserved. However, in the 1990's, the fund collapsed and as a result, no new major developments in forest reserves have been undertaken in recent years. In addition, the already developed forest reserves have been disappearing at an alarming rate. For instance, the Chikangawa forest is fast being depleted; the Ndirande, Chilomoni and Bangwe hills in Blantyre and many others have all been depleted of trees.

129. To address the situation, Mr. Speaker, Sir, Government has decided to re-introduce the Forestry Management Fund to begin conserving and developing our forest reserves. From 1<sup>st</sup> July this year, Government will be charging a fee of K10,000 per cubic meter for all forestry products sold across the country. This is an increase from the

current fee of K1,500 per cubic metre. The new price is comparable to prices obtaining in the region, for example South Africa, (K12,000), Tanzania and Kenya, (K11,250). This increase Mr. Speaker, Sir, is likely to stop the influx of the foreign operators at Chikangawa who were coming here because our timber was too cheap.

130. Mr. Speaker, Sir, with the increase in forestry fees, Government will be able to generate adequate resources that will be used to undertake forestry re-forestation programs. In addition, the Ministry of Natural Resources, Energy and Environment will be reviewing criteria for granting and renewing licences for the exploitation of our forestry reserves.

## **TAX MEASURES**

131. Mr. Speaker, Sir, in the area of taxation, a number of tax policy measures will be introduced:

### **SADC and COMESA Tariffs Alignment Program**

132. Mr. Speaker, Sir, In line with our commitments to the Common Market for Eastern and Southern Africa (COMESA) Customs Union and the Southern African Development Community (SADC) Free Trade

Area (FTA), I wish to announce that there will be tariff changes on many products imported from the SADC and COMESA trade blocs. Some products, mostly raw materials, required by our industries will have their tariffs reduced to zero while others, especially intermediate and finished products will have their tariffs raised to 10 percent or 25 percent respectively as per the COMESA and SADC agreements. This measure is envisaged to boost local production by our domestic industries and to encourage regional trade. The full list of products on which tariffs have been changed will be published by the Malawi Revenue Authority (MRA) and copies will be available at the MRA offices, customs borders and on the MRA internet website.

### **Industrial Rebate Scheme**

133. Mr. Speaker, Sir, the other tax measure relates to the industrial rebate scheme. As the Honourable House is aware, until this year, government has been implementing an Industrial Tax Rebate Scheme whereby manufacturers of different products in the country were allowed to clear their imported raw materials duty free. The main purpose of the scheme was to encourage and promote value addition by domestic industries.

134. I wish to inform the Honourable House that to a large extent, the objective of the scheme has not been met. Instead of the scheme benefiting manufacturing companies as was envisaged, other players such as trading companies have joined the scheme. As a result, the scheme appears to be promoting importation of finished products which is causing other problems such as loss of domestic production, as well as inefficient utilization of our hard earned foreign exchange.

135. Mr. Speaker, Sir, considering that Government will be removing all tariffs on raw materials under the SADC and COMESA tariff alignment program that I have just announced, I wish to inform the August House that Government will be cancelling existing licences issued under the Industrial Rebate Scheme from mid night tonight. However, eligible manufacturing companies are requested to re-apply for a new licence. New licences will be issued under certain criteria to be issued by MRA. Government would like to use this scheme to promote value addition. Mr. Speaker, Sir, I would like to conclude this part by saying that as result of SADC/COMESA tariff re-alignment that I have already announced, manufacturers will be able to import raw materials from the SADC/COMESA region duty free.

## **Customs Procedure Codes**

136. Mr. Speaker, Sir, I now turn to the changes we will be introducing to the Customs Procedure Codes – CPC. As the Honourable Members are aware, in 2007/08 fiscal year, Government introduced the CPC as a mechanism through which importers of Big Buses as well as imports of goods and supplies to Faith Based organizations, the Tourism Industry, to Water Boards and to ESCOM enjoyed duty free status. The scheme was introduced to boost the transport and services sectors as well as to support the activities of the faith based organizations. I am pleased to report to the August House that the scheme has had a significant impact on these industries and the economy as a whole.

137. For the transport sector, the waiver of duty on big buses has meant that more big buses have been procured and are operating on our roads especially in urban areas. Government therefore, wishes to continue with this scheme of importation of big buses so that the rural areas can also benefit from the scheme. However, as part of an exit strategy, we are increasing excise duty on big buses (over 45 seats) from zero to 20%. This still compares favourably with smaller buses whose excise duty is 50%

138. Mr. Speaker, Sir, let me also inform the house that there is evidence that there has been abuse of the duty free waiver given to the car hire operators. For this reason, we are increasing the excise duty applicable to car hire operators from zero percent to 20%. The 20% rate will be applied on the existing concessionary rate of 10% import duty and 16.5% VAT.

139. As for the tourism and Faith Based Organizations, considering the significant growth of the two sectors, it has been decided that tax concessions on building materials meant for the two sectors should be removed since these materials will be attracting low customs duty under the SADC and COMESA tariff changes. Mr. Speaker, Sir, in order to minimize losses of potential Government revenues arising from false declarations of imports to various duty-free beneficiaries such as ESCOM and Water Boards, Government has decided to specify the items to be cleared duty-free. Only items imported directly by the institutions themselves i.e ESCOM and Water Boards will be allowed to be cleared duty-free under the given CPC. This Mr. Speaker, Sir, will encourage proper use of the fully fledged procurement units in ESCOM and in the Water Boards. We are aware, Mr. Speaker, Sir that there was gross abuse of the duty waiver as 3<sup>rd</sup> party importers supplying to the utility companies took advantage of the open ended tax waivers.

140. Mr. Speaker, Sir, following the declaration of the Copenhagen Summit and the increased demand for countries to take action on climate change, Government is committed to take bold steps towards the reduction of pollution to the environment and avoid any element of dumping particularly of motor vehicles. In this regard, Government has decided to introduce an additional 20 percent excise duty on old passenger carrying vehicles aged between 8 to 12 years while those older than 12 years will attract an additional 50 percent excise duty over the current rates. For passenger carrying vehicles aged between 0 and 8 years, current rates of excise duties will apply. Mr. Speaker, Sir, all goods carrying vehicles (exceeding 10 tonnes) that are older than 15 years will attract a 20 percent excise duty. Currently, there was no excise duty on trucks.

141. In the energy sector, Government has decided to encourage the usage of energy saver bulbs by removing customs duty and excise duty on these bulbs. In the same vein, Government has introduced a 100 percent excise duty on ordinary bulbs to discourage their usage. It is envisaged that these taxes will encourage the uptake of the energy saver bulbs on one hand and discourage usage of ordinary bulbs on the other. In the medium and long term, this is expected to conserve our energy resources. Apart from saving energy, low energy bulbs

tend to last much longer than the normal bulbs. This measure has been introduced in many Sub-Saharan African Countries.

### **Excise Duty on Cigarettes and Alcohols,**

142. Mr. Speaker, Sir, I now turn to the tax measures on cigarettes and alcohol. As the Honourable Members are aware, not long ago, Malawi had a number of companies that were manufacturing cigarettes right here in the country. However, due to other factors including competition from cheaper smuggled cigarettes, the companies scaled down their operations and closed. To reverse the situation and encourage cigarette manufacturing again, Government has introduced a tax stamp scheme on imported cigarettes. This measure is designed to prevent the importation or smuggling of cheap and sub-standard cigarettes into Malawi. Government has also granted a lower excise duty on locally manufactured tobacco cigarettes.

143. I am pleased to report to the Honourable House, that following these changes, one company has already established itself and is currently manufacturing cigarettes. However, what has been noted is that regional prices of tobacco cigarettes and alcohol are far much lower than those prevailing in the country and as such they are encouraging increased inflow of cheap cigarettes and alcohols which

are not only detrimental to the domestic industries but are also encouraging drug and alcohol abuse. To address this problem, Government has decided to increase excise duty by five percent on opaque, and clear beer and ten percent on spirits. Government is increasing excise duty on cigarettes from USD\$12 to USD \$15 on soft cap cigarettes per 1,000 sticks; and from US\$18 to US\$30 on the hinge cap per 1,000 sticks.

## **VALUE ADDED TAX**

144. Mr. Speaker, Sir, I now turn to the issue of Value Added Tax. The changes I will be announcing on this tax are all administrative in nature.

145. Mr. Speaker, Sir, the Honourable House is already aware that the Value Added Tax Act is relatively new, compared to the Taxation Act and the Custom and Excise Act. As such, we are still refining and harmonizing some of the provisions in the VAT Act with those in the other taxation acts. Our proposal is to introduce a penalty on “Refer to Drawer” Cheques payable to the Malawi Revenue Authority of 30 percent of the cheque value under section 34 of the VAT Act. This is in line with the provisions contained in the Taxation Act regarding such cheques. Secondly, as provided for in the Customs and Excise Act,

the Commissioner General of the Malawi Revenue Authority impose penalties on minor offences of taxpayers. The penalties shall be paid before the case is referred to an arbitrator or commercial courts. We are therefore, proposing an amendment to sections 45, 46 and 50 of the VAT act to remove the requirement of 'upon conviction' so that it is in harmony with the provisions of the other taxation acts.

## **TAXATION OF BIO FUELS**

146. Mr. Speaker, Sir, I now to turn to taxation of the bio fuels industry. Due to the good economic policies of the current Government, a lot of foreign companies are showing interest in investing in Malawi. An example is that of Berl company which has contracted a number of farmers to produce Jatropha. The Jatropha will be processed into biodiesel which can be used as motor vehicle fuel. It is envisaged that during the second half of the 2010/11 Fiscal Year, commercial quantities of biodiesel will be produced. To promote the production of biodiesel in Malawi, Government will be providing a special taxation package for the biofuels industry. This special package is being developed and will be presented to the august House in due course.

## **INCOME TAX MEASURES**

147. Mr. Speaker, Sir, let me now turn to the Income Tax measures. As the Honourable members may recall, Government granted an exemption from taxation of investment income of pension funds operating within the country with a view to assisting businesses that may need funding for investment in productive enterprises. The extent to which the realized additional money is actually being invested in productive enterprises in the country remains questionable. There is a huge disparity from incomes generated by investments from pension funds and the amount paid out to pensioners. We are therefore proposing a 10 percent income tax on incomes arising from investment of pension funds. These measures Mr. Speaker, Sir, will bring equality in the tax treatment of all forms of income.

### **Non Resident Tax**

148. Mr. Speaker, Sir, I now want to talk about Non-Resident Tax. The current taxation system allows non-resident persons (e.g. short term consultants) that do not stay continuously for 183 days within a fiscal year to pay tax at 15 percent. We wish to propose that reference to the fiscal year be changed to require a non-resident who stays for

over an aggregate of 183 days within any twelve months period to pay taxes at the normal rate.

149. Secondly, we are proposing to change the payment date of provisional tax from the 30<sup>th</sup> day to 25<sup>th</sup> day of the month in which it falls due. This change aims at aligning the payment dates provided under the VAT Act with those of the other Acts and allow the Malawi Revenue Authority to account and reconcile monthly revenue collections with the banks.

### **Tax Relief on gratuity**

150. Mr. Speaker, Sir, under the current taxation law, tax payers who are employed on contract basis are provided a tax relief of up to K40,000 on their gratuity. Considering that with passage of time, payment of gratuities have become relatively huge sums of money and that the relief has become rather insignificant, we are therefore proposing to remove the MK40,000 tax relief.

### **Withholding taxes**

151. Mr. Speaker, Sir, allow me to bring to the attention of this august House that concerns were raised during the Pre-Budget

Consultations, regarding the narrow tax base and the high tax rates. From those concerns, we undertook an analysis of the tax structure which has shown that some of the transactions of businesses are indeed not recorded anywhere. The situation has been promoted through the issuance of Withholding Tax Exemption Certificates to numerous suppliers of products. Without a record of their transactions, it is difficult to capture them into the tax net. In order to promote equity in the tax system, we are proposing the abolition of issuance of Withholding Tax Exemption Certificates to suppliers of foodstuffs and other goods. In order to avoid impacting significantly working capital of the suppliers of goods, the rate of withholding tax on supplies is to be reduced to 3 percent of gross sales. Payment for such goods supplied will therefore be made net of the withholding tax. The withholding tax so deducted will then be remitted by the buying organisation directly to the MRA. This measure does not affect the supplies of services.

### **Taxation on Tobacco Sales by Clubs and Associations**

152. Mr. Speaker, Sir, in the past, Government extended tax exemption on income received from tobacco sold by clubs and association. I believe that this was done in order to assist very small farmers who were selling their tobacco through clubs rather than through their own registration numbers. Unfortunately, over the years,

this system has been abused by even larger farmers who have used the system as an avenue for tax evasion.

153. In order to achieve equity between farmers, Government is now removing the tax exemption for farmers clubs. With this development, all tobacco sold through the auction floors or directly to the tobacco buyers will be subject to a withholding tax of 3% of gross sales.

154. Mr. Speaker, Sir, as a compromise, we have therefore reduced the current withholding tax rate for tobacco sales from 7% to 3% and there shall be no exemption.

## **EXPORT ALLOWANCES**

155. Mr. Speaker, Sir, the august House might have read complaints from private sector on the contradictions in the provisions under the Malawi Investment Promotion Act and the Taxation Act regarding the base for computing export allowances. The issue has been discussed under a number of foras. Government has decided that the correct basis for computing export allowances is to use taxable income from export proceeds. Having clarified the matter, Government is proposing an increase in the rate of export allowances from 12 percent to 15 percent in order to promote exports. This is one of the steps towards

the implementation of His Excellency, the State President's dream of turning Malawi from a consuming to a predominantly exporting country.

## **CONCLUSION**

156. In conclusion, Mr speaker, Sir, I wish to reiterate that our economy has been able to perform exceptionally well in the past 6 years, even in the midst of the deepest global economic recession in over 70 years and escalated fertilizer and fuel prices. This remarkable achievement is on account of the visionary and decisive leadership of His Excellency the State President; and the tough fiscal and monetary policy decisions that this Government has been taking since 2004. The Honourable Members in this August House and all the Stakeholders in this country including the General Public, the Private Sector Organizations, the Faith Based Organizations, the Civil Society Organizations, the Cooperating Partners and everyone else in this country, have played their part and contributed to this success. On behalf of the Government of Malawi and indeed on my own behalf, I wish to sincerely acknowledge all these contributions and thank everyone for a job well done.

157. Drawing from the inspiration of His Excellency the President, I wish to conclude that together we have achieved a lot, together we can

build our nation, together we can shape a better destiny for this Nation, and yes, together we can make a History for Malawi. Mr Speaker, Sir, as a Minister of Finance, I believe that the 2010/11 National Budget is central in this cause and as such, I wish to say, let us march forward together and build our nation using this forward looking Budget I have proposed today.

158. Mr. Speaker Sir, with these remarks, and with the greatest humility, I beg to move.