



# **2014/2015 BUDGET STATEMENT**

**Delivered in the**

**NATIONAL ASSEMBLY OF THE REPUBLIC OF MALAWI**

**by**

**MINISTER OF FINANCE, ECONOMIC PLANNING AND  
DEVELOPMENT**

**HONOURABLE GOODALL E. GONDWE**

**at**

**THE PARLIAMENT BUILDING, LILONGWE**

**on**

**TUESDAY, 2<sup>ND</sup> SEPTEMBER, 2014**

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## **Motion**

1. Mr. Speaker, Sir, I beg to move that the estimates on recurrent and development accounts for the 2014/2015 Budget be referred to the committees of Parliament before they are considered by the Committee of the Whole vote by vote, and that thereafter, they be adopted.

## **Introduction**

2. Mr. Speaker Sir, I feel humbled by His Excellency the President for entrusting me with the responsibility of leading his economic team at this juncture when financially the country is probably at its weakest. I am also honoured, Mr. Speaker, Sir, to deliver the first budget statement of his administration and the first budget of the second half century of our country, particularly because some would consider me a “stranger” in this

honourable House. You will recall Mr. Speaker, Sir, that I had the same privilege in the Bingu Administration, again as a stranger in the house. I accept all this honour as I did 10 years ago with humility. I feel confident that under the guidance of the President, His Excellency Professor Arthur Peter Mutharika, my team and I, will handle the task adequately.

3. Mr. Speaker, Sir, and honourable members, almost exactly half a century ago, our founding Parliament sat in Zomba as we are here in Lilongwe, pondering on a strategy for boosting the economic development of an independent Malawi and how to achieve a path of accelerated economic growth that would propel the economic welfare of its citizenry. From reading hansards of the time, it is inescapable to see that here were leaders oblivious of their own comforts but singularly devoted to their country.

4. The result, Mr. Speaker, Sir, is a transformed country. From one with barely a road system to speak of to a country that boasts of more than 1,000 kilometres of tarmacked road system. A country that produced less than 10 megawatts of electricity to one that produces power of almost 350 megawatts of electricity. A country that had less than 30 university graduates to one that

has thousands of such people. From a country, honourable members, whose public service was exclusively led by expatriates, to one which is now entirely managed by a cadre led by Malawians educated at a university established during this very first half century of its independence. A country that had a rudimentary banking system, to a Malawi that has a sophisticated financial network. A country, Mr. Speaker, Sir, whose parliament building is the envy of most African countries.

5. Honourable members, one can go on and on to describe the achievements that we made within the last 50 years including the discernible transformation of our cities and the establishment of scores of primary, secondary and technical schools. These have been the results of an utmost dedication of our predecessors to the welfare of their countrymen.

6. Having said all this, Mr. Speaker, Sir, it is also a widely held view that despite these achievements, poverty continues to prevail in rural and in urban areas of Malawi. In general, although our Gross Domestic Product has more than tripled during this period, because of a huge population growth that has quadrupled to approximately 16 million people, our income

per capita continues to be at the tail end of other African countries.

7. Honourable members, we do not need to be reminded that as a first group of political leaders of the next 50 years, we are also charged with the same responsibility as were our founding fathers; to mobilise and lead the country in its fight against poverty, disease and hunger that continue to afflict our people. Like our predecessors, we are expected to chart a path for a further transformation of Malawi. Our people demand that we put the enhancement of their welfare before our own.

8. This then, honourable members, is the challenge before us. We must lead the country even better than they did. Our aim must be to erase this constant and irritating cliché which repeatedly says that “Malawi is one of five poorest countries in the world”. As the first parliament of the coming half century, let us begin to address this challenge with the passion of patriotism.

9. The creation of institutions that are necessary in the governance of an independent country is one of the most important accomplishments that were made during that period.

Institutions such as the University of Malawi, the Reserve Bank of Malawi, the Malawi Revenue Authority, the Roads Authority, ADMARC, the Anti-Corruption Bureau and others are vital in a country. At the top and centre of these is the Civil Service. Although indeed this existed during the colonial era, it has had to be fine-tuned to serve independent Malawi. It is important, therefore, that from time to time, its place in society be reviewed and reformed so that its effectiveness continues.

### **The Public Service Reforms**

10. During the early part of the past 50 years, the Civil Service and the ancillary parastatals developed into one of the best in Africa and was the envy of all. However, its effectiveness, efficiency and reliability have been compromised and have deteriorated progressively during the latter part of the period so that towards the end, it has even become a conduit of a huge financial hemorrhage of public resources and has almost reversed the fortunes of Malawi.

11. Mr. Speaker, Sir, the entire country was shocked with the revelations of what was involved in the 'cashgate' scam and the harm it did to the country. It is an episode that all of us, I am

sure, will tirelessly work against its recurrence. Therefore, on behalf of his Excellency the President and indeed on behalf of this honourable House, I wish to express our determination to do everything in our power to fight against the recurrence of 'cashgate' in Malawi. The Malawi Police Service, the Anti-Corruption Bureau and the Ministry of Justice, I know, are pursuing suspects following the due process of the law. In this respect, this budget adequately funds the organisations charged with the responsibility of dealing with this malaise. The Government, and no doubt the house as a whole, is committed to get to the bottom of this scam. There is a saying, honourable members, that must be applied here, "they can run but they cannot hide" and "you can fool some people sometimes but you cannot fool all the people all the time". The time for covering up cashgate is gone.

12. It is in view of the importance that we attach to the Civil Service that the administration of Professor Arthur Peter Mutharika has made Public Service Reforms a highlight of its programme of action to an extent where the Vice President of the Republic himself has been named to head these efforts.

## **Public Finance Management Reforms**



13. Alongside public sector reforms, the administration has decided to strengthen public finance management reforms that were already started. These efforts are housed in the Ministry of Finance, Economic Planning and Development. The DPP administration will strengthen these efforts not because donors want them but because they are critical to the optimal use of our public resources. We cannot develop without the exercise of scrupulous and prudent fiscal management.

14. It is strongly believed that a successful pursuance of these reforms will regenerate the efficiency, effectiveness and good reputation of the Public Service. In particular, it will be crucial that all of us adhere to our own financial rules and regulations and the provisions of relevant public finance management legislation.

15. And now, Mr. Speaker, Sir, let me give an economic preamble to this year's budget.

### **Global Economy Developments**

16. Mr. Speaker, Sir, on the global front it is mostly the sluggish recovery of world economies and the prospects for oil prices that

have a high impact on the stability of our economy. Global real output is projected to grow by 3.6 percent in 2014 and strengthen to 3.9 percent in 2015 from 3.0 percent recorded in 2013. Thus although the recovery has strengthened, it is not yet robust. On one hand, there is a pick-up in growth for advanced economies but on the other, economic growth is slowing in emerging economies. Unemployment remains stubbornly high in many countries while the sustained growth momentum in low income countries has not seen reduction in poverty levels. Overall, the slow global growth dampens demand for Malawi's traditional exports resulting in stagnation of export earnings.

### **Sub-Saharan Africa**

17. Coming to our region, growth in Sub-Saharan Africa (SSA) remained strong in 2013 at 4.9 percent, virtually unchanged from 2012. This was underpinned by improved agricultural production and investment in natural resources and infrastructure. SSA growth is projected to accelerate to about 5.4 percent in 2014 and 5.5 percent in 2015, reflecting positive domestic supply side development and strengthening global recovery. Nearer home, growth in South Africa is projected to improve only modestly from 1.9 percent in 2013 to 2.3 percent in 2014 as a result of stronger external demand. Mr. Speaker, Sir,

it is important to note that a strong growth in the South African economy will positively impact our economy as it is a major importer of our products.

18. The world's oil prices have been high since 2010, fluctuating around US\$100 per barrel as demand for oil keeps rising, driven by emerging economies. Supply has also lagged behind demand due to geopolitical conflicts in some of the oil-producing countries such as Iraq, Libya, Syria and Nigeria. Since the start of the year, conflicts in the Middle East have escalated and, if sustained for longer periods, could have significant impact on the global economy through higher oil prices which could consequently lead to an increase in domestic pump prices.

### **Performance of the Malawi Economy in 2013**

19. Mr. Speaker, Sir, performance of the Malawi economy in 2013 has been mixed and subdued by the “cashgate” scandal. In accounting for performance in 2013, let me begin by reminding honourable members that as a country we are for the period, 2011-2016, guided by the Malawi Growth and Development Strategy (MGDS) that the Bingu Administration pioneered. This is our overarching medium term development framework whose

objective is to reduce poverty through sustainable economic growth and infrastructure development. In this context, we are pursuing an export led growth that is expected to significantly contribute to poverty reduction. In the same vein, while we have nine key priorities, we will pay special attention to the sectors that can quickly contribute to growth such as agriculture and those that constrain growth such as energy and transport. I will thus provide more detail pertaining to agriculture, energy, transport and manufacturing among others.

20. Mr. Speaker, Sir, during 2013/14 the economy registered an average GDP growth of 6.1 percent. This growth was as a result of good performance in the agriculture and manufacturing sectors. In particular, the 2013 growth in manufacturing was attributed to higher agricultural inputs and a more constant supply of fuel and other raw materials. The sector registered increased capacity utilization of above 73%. However, the contraction in fiscal expenditure in the last half of 2013 as a result of the 'cashgate' scandal exerted significant challenges to the economy particularly on inflation and the exchange rate.

21. Consequently, the annual average inflation rate for 2013 was at 27.3 percent. In order to contain inflationary pressures,

the monetary authorities continued to pursue a tight monetary policy. In this regard, the policy rate was maintained at 25.0 percent until July 2014 when it was reduced to 22.5 percent. Mr. Speaker, Sir, with the reduction in the policy rate we should start registering growth in the private sector credit to support economic growth in the country. The pursuance of a tight monetary policy has successfully managed to contain growth in money supply from an annual growth of 34.3 percent in June 2013 to 24.8 percent in June 2014 which is in tandem with the nominal GDP growth projected at around 28.2 percent for 2014.

22. Mr. Speaker, Sir, as the House is aware, Government in 2012 liberalized the foreign exchange regime in order to support the build-up of foreign exchange reserves. The deregulation of the foreign exchange market and implementation of market determined exchange rate regime eliminated misalignments and distortions in the foreign exchange market. This policy stance is what has always been emphasized in all countries with an International Monetary Fund programme. And as is always the case in countries that have just adopted the flexible exchange rate regime, the resultant inflationary pressures take a long time to settle as has been the case in Malawi.

23. That notwithstanding, the official foreign exchange reserves have been maintained above 2 months of imports since July 2013 thereby enabling importation of essential commodities such fuel, fertilizer, pharmaceuticals and raw materials. The central bank will continue to implement policies that aim at accumulating reserves to around 3.0 months of imports. The implementation of a flexible exchange rate regime coupled with the national export strategy should expand and deepen the export base and help to improve the current account balance in the Balance of Payment (BOP).

24. As alluded to earlier, our situation was also fuelled by the 'cashgate' scandal which led Government to drastically cut funding to some sectors of the economy. At the same time, however, the Government borrowed heavily through ways and means advances leading to accumulation of the stock of domestic debt to around MK340 billion by end May 2014. I am, however, pleased to inform this August House that the situation has abated during the last three months.

25. The government wishes to emphasise that as part of the financial program with International Monetary Fund, it will continue to pursue macroeconomic reforms that were agreed

under that programme, including the automatic pricing of fuel and the flexible exchange rate regime.

### **Fiscal Performance under the 2013/2014 Budget**

26. Mr. Speaker, Sir, before unveiling the 2014/15 budget, honourable members will wish me to report on how we performed under the 2013/14 budget. You will recall, Mr. Speaker, Sir, that Parliament approved a Revenue and Grant envelope estimated at MK603.4 billion, consisting of domestic revenue of MK363.1 billion and grants of MK240.4 billion. However, as at the end of the financial year, June 2014, revenue and grants received amounted to MK520.8 billion representing an under performance of MK82.6 billion. This underperformance is particularly due to a reduction of grants which were MK79.2billion. This is far below the pledged grants of MK240.4 billion. On the other hand, domestic revenue performed very well and rose to MK441.6 billion. However, due to a severe reduction in receipts from donors, the total resources that were available to the budget were severely reduced.

27. Mr. Speaker, Sir, you may recall that in the wake of the 'cashgate' scam, donors decided to withhold budget support which constituted about 16 percent of the 2013/14 recurrent budget and 11 percent of the total budget. What is not known publicly is the withholding of dedicated grants which were estimated at MK93.6 billion but only MK31.1 billion was received. The approved total grants of MK240.4 billion consisted of budgetary support, dubbed program grants in our documents, dedicated and project grants which were budgeted to cover 38 percent of the budget. In the event, however, only MK79.2 billion, which is 32.9 percent of total grants pledged, was infact received.

28. In consequence, the ability of the Government to function was crippled and unbudgeted domestic borrowing of MK121 billion was incurred and the stock of domestic debt as at 31<sup>st</sup> May 2014 climbed to MK340 billion. Honourable members will find this information in budget document number 5 called "Financial Statement". Over and above, this large domestic borrowing was the accumulation of unpaid bills (arrears) that amounted to MK158 billion as at end of financial year 2013/14.



29. Again, as a consequence of these events, and loss of funds from the 'cashgate' scandal, the government drastically reduced budget allocations to ministries and a number of them became dysfunctional. Mr. Speaker, Sir, I am pleased to report that the provisional budget of MK210 billion that this house passed in June 2014 has begun to bring normality in the functioning of the ministries.

### **Government Arrears**

30. As already stated, the government realizes that one of its most difficult problems inherited on its assumption of responsibilities is the large accumulation of arrears. As a matter of policy, the Government will review each claim and will commit to a schedule of payments. For the 2014/15 financial year, it has been decided that a payment of K50 billion will be made and that the balance will be paid over a period to be agreed with the claimants. Repayment of arrears has already started and will continue more systematically on the approval of this budget.

31. Going forward, the government will make the restoration of fiscal discipline a cornerstone of its administration in which no controlling officer will be expected to accumulate arrears without suffering the punitive consequences of the Public Finance Management Act.

## **2014/15 Budget Assumptions**

32. The 2014/15 budget assumes an average inflation rate of 15.6 percent and a possible GDP growth rate of 6.1 percent. It is expected that at the end of that period, the rate of inflation will have decelerated to less than 15 percent and interest rates will also decline sharply. It is also assumed that in view of this robust growth rate and deceleration in interest rates, economic activity would pick up and the economy will begin to function normally in the course of the financial year. The Government is confident that regardless of the economic slowdown that has characterised the past financial years, a stable macroeconomic situation that would include the availability of foreign reserves with a stable exchange rate and low inflation and interest rates, would prevail in Malawi during the financial year.

## **The 2014/15 Budget**

33. Mr. Speaker, Sir, the resource envelope of this budget is severely constrained as predicted by many analysts. This is so because of the huge amount of arrears, a large stock of domestic debt and the more daunting task of making up for a severe cut back of donors' financial support of the budget.

34. The total expenditure this year is projected at MK742.7 billion representing an increase of 16.3 percent over last year's total budgeted expenditure. Of the total expenditure, MK535.1 billion is recurrent expenditure and MK194.6 billion will be the expenditure on development account. The recurrent budget includes an amount of K163.3 billion for wages and salaries. This is 24.4 percent higher than last financial year's provision for wages and salaries. Honourable members will, therefore, note that this year's average wage increase is proposed to be 24.4 percent.

35. Within such an environment, it is projected that total revenues and grants will amount to K635.6 billion compared to a budgeted amount of MK603.4 billion in 2013/14, an increase of only 5.3 percent. In this budget, domestic revenues are estimated at MK525.3 billion compared with a final revised estimate of MK441.6 billion in the 2013/14 financial year. Tax revenues are estimated to increase to MK470.1 billion from K388.4 billion that was registered in the 2013/14 financial year. Grants for the 2014/15 financial year are projected at K110.3 billion which is less than half of the amount of MK240.4 billion that was budgeted last year.

36. Tax revenues at MK470.1 billion have been estimated to grow by 21.1 percent over last financial year's collection while non-tax revenues at MK55.2 billion have been estimated to grow by only 3.7 percent. These growth rates are conservative when compared with growth rates of more than 35 percent in domestic revenues for the previous two years. However, the Government will continue with efforts to improve revenue administration and collection and it is envisaged that actual collection will be far higher than projected in the budget.

37. On donor support, Mr. Speaker, Sir, the European Union, the World Bank and the African Development Bank have indicated that they could provide budget support amounting to over MK43.0 billion. Nevertheless, as the pledges are conditional on demonstrated progress in the implementation of the agreed public finance management reforms, we have assumed that none will be received. However, we believe that by mid-year we will have made sufficient progress in implementing the public finance management reforms enough to achieve the critical mass necessary to trigger disbursements of the budget support.

38. Mr. Speaker, Sir, honourable members should note that this financial year we have assumed that Malawi will not receive budgetary support.

39. At this point, I would like to remind the house that our understanding is that, in principle, only budgetary support is being withheld by donors. Therefore dedicated and project grants should not be part of withheld grants. In actual fact, however, even dedicated grants were severely curtailed from a commitment of MK93.6 billion to MK31.1 billion last financial year that was actually received. Therefore, this year Government has reduced its expected amount of dedicated grants to MK38.5 billion while project grants, that fund development projects, have remained at a high figure of MK71.8 billion. As honourable members will see, therefore, even the total amount of these two categories of grants is budgetted at less than half the 2013/14 budgeted amount of MK240.4 billion.

40. Amicable discussions are still continuing with donors and it is hoped that grants in excess of the budgeted amount could be received in the course of the year. We also expect far higher domestic revenue than projected in the budget.

41. Mr. Speaker, Sir, and honourable members, I invite the house to note that in view of our experience last year we have decided to be prudent and conservative in our projections of revenues and grants.

42. Mr. Speaker, Sir, here I would like to report to the honourable House and the public in general that we have had several very intensive and amicable discussions with our Development Partners. These are the United States of America, the European Union, the United Kingdom, Germany, Norway, Japan, Ireland, Flanders, Iceland, World Bank, African Development Bank, and the International Monetary Fund. Let me take this opportunity to thank this community of friends for the good and friendly discussions that I know will continue.

43. In sum, over and above the resource envelope consisting of revenue and grants, there is also an amount that will be available to the budget of MK92.1 billion that will be drawn from the project loans. Therefore, the total amount of resources that will be available to the budget is MK727.7 billion leaving a gap between total expenditure and available resources of MK15.0

billion which represents the planned domestic borrowing this year.

44. The design of the budget has largely drawn on constructive discussions. I hope, as do all my colleagues in government, that as we proceed with this financial year and the public finance management reforms that we are implementing our partners will offer resources in excess of what has been pledged in various forms that could be provided within or outside government financial system, for the good of the poor segment of the population in Malawi. All in all we are confident that with the fiscal discipline that is expected our fiscal and economic objectives will be achieved.

45. In the event that receipts are higher than expected we intend to table a supplementary budget in Parliament for the approval of further expenditures as will be deemed necessary. In such a case, we are likely to ask Parliament that we use the excess revenues on macroeconomic stabilization programmes such as the reduction of arrears beyond the current allocation and the reduction of the stock of domestic debt; and to increase spending on some development projects.

46. Mr. Speaker, Sir, honourable members will have concluded that the country is passing through turbulent times financially. This would be a correct conclusion and I would request for yet an extension to such a conclusion. That is, in such circumstances we should all adopt a frugal stance where individuals or groups of individuals should desist from asking what more the government can do to improve their own situations. In the spirit of what President Kennedy said, Mr. Speaker, Sir, I would invite everyone of us to ask how we can help Malawi to pass through this turbulent terrain smoothly and safely. I have no doubt Mr. Speaker, Sir, that if we took this stance, we will achieve fiscal normality within the financial year.

### **Key allocations in the 2014/2015 Budget**

47. This year, the allocation of resources to votes, is based on the need to attain a number of objectives that the government believes the country wishes to achieve. The first is the desire that as a country, we should get at the bottom of what really happened as regards the 'cashgate' scam. Therefore, law enforcement votes have been granted a more than usual expenditure increase that averages at more than 80 percent. In



fact the Anti-Corruption Bureau vote has a 167 percent increment which is the highest of all votes. The Director of Public Prosecutions, the Judiciary, the Police and others have also had large increments for the same reason.

48. More importantly, is the continuing need for food self-sufficiency in the country. In this respect, the government has decided to continue with Farm Input Subsidy Programme (FISP) in all its aspects. The number of beneficiaries will be maintained at 1.5 million and the quantity of fertilizer involved will be 150,000 metric tons. The exception is that the procurement of fertilizer is being done through the Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM). It is expected that this will reduce costs substantially. The Government will also pilot a biometric identification scheme and if it succeeds, the results will be rolled countrywide and replace the coupon system that has been widely criticised. Over and above this improvement, next year we intend to increase the number of beneficiaries to cover all maize producing smallholder farmers. In the event the contributions of farmers per bag will be reviewed.

49. The Farm Input Loan Programme (FILP) was a loan programme introduced by the previous administration to assist

farmers who were not targeted through FISP but were assessed to have capacity to get the farm inputs on loan. In order to secure the loans, farmers were advised to organise themselves into clubs. The loans were therefore granted to farmers through the farmers clubs. Government secured a total of 75,000 metric tons on a suppliers' credit basis that has yet to be approved by Parliament and does not appear to have been sanctioned by the Treasury. Of the 75,000 metric tons, only 32,500 metric tons was distributed to the farmers leaving a balance of 42,500 metric tons currently in the distributor's warehouses. The fertiliser suppliers and warehouse owners are yet to be paid the cost of the fertilisers and storage charges respectively. The outstanding payments to the suppliers and distributors are part of the arrears reported earlier.

50. Mr Speaker Sir, I wish to report that Malawi Development Fund (MEDF) Ltd. is currently collecting the repayments from the farmers. It is expected that a total of MK11.1 billion will be collected from the 32,500 metric tons distributed. So far, a total of MK3.1 billion has been collected and these proceeds shall be used to repay part of the outstanding bills with the suppliers and distributors. In view of the legal and financial complexity of the programme as it stands now it is planned that MEDF should

continue to lend money to the farmers who could buy the fertilizer from distributors in Malawi. In this case the government will not be involved in the importation of fertilizers nor its distribution. MEDF, therefore, will include this operation into its day to day loan activities.

51. In order to improve living conditions through improved housing in rural and urban areas, the Ministry of Lands, Urban Development and Housing has been allocated an extra amount of MK7 billion in order to introduce a pilot scheme in subsidising iron sheets and cement. That Ministry will soon publish the mode of administering the programme and the public is being strongly advised not to initiate any action under this programme before this announcement.

52. Lastly, the Ministry of Labour and Manpower Development has been allocated a 68 percent increase of its recurrent budget and a large increase in its capital account budget so as to rehabilitate existing technical colleges and for the establishment of community technical colleges around the country for the critically important Youth Skills Development Programme.

53. Within these requirements are a number of other considerations in the allocation of funds to votes.

54. More generally, Mr. Speaker, Sir, I would like to emphasise that Professor Arthur Peter Mutharika's government is committed to ensuring that the gender equality principle enshrined in our Constitution is translated into real gains for men and women, boys and girls in Malawi as required in the Malawi Growth and Development Strategy II.

55. The government looks forward to working together with national and development partners in ensuring that more gender responsive budgeting takes place within government institutions.

56. It should be acknowledged that the allocations that follow do not include much worthwhile expenditures made by development partners and NGOs outside the budget. As a matter of fact, last financial year in 2013/14, over and above the budgeted expenditures of MK648.3 billion, donors funded activities in the various ministries amounting to MK114.2 billion which was 17.6 percent of expenditure. Most of these resources were spent in the Ministry of Health on drugs and equipment. In

the Ministry of Education, Science and Technology and in a number of other social sector ministries, sizeable off-budget expenditures were made on valuable public goods and services. In 2014/15 we are expecting that such resources will amount to K129.7 billion.

57. Thus, from the discussions that we have had with donors, it is expected that this year donors would fund even more off-budget activities and some activities in the budget without channeling funds through the Government financial system as pointed out before.

58. The latter funding of budgeted activities that could include teaching and learning materials, drugs, strategic grain reserves and others as indicated by donors could free domestic resources to be spent on other worthwhile activities such as repayment of arrears and reducing the stock of domestic debt. This would relax the budgetary environment within which we would operate.

59. The objective is to increase rural incomes by facilitating an increased scope of smallholder farming through the

diversification of crop production and crop exports. In this respect, the Ministry of Agriculture, Irrigation and Water Development is also being allocated an amount of MK2.0 billion that will support the procurement of leguminous seeds for sale to farmers. The Ministry of Trade and Industry, whose vote has been increased substantially, will be responsible for the creation of suitable marketing conditions for the sale of these crops inside as well as outside the country.

### **Agriculture, Irrigation and Water Development**

60. Once more, the allocation to this vote at MK142 billion is the highest. Of this amount, Farm Input Subsidy Program is estimated at MK50.8 billion targeting 1.5 million beneficiaries, MK2 billion for promotion of legume production and MK5 billion out of the K10 billion that is required for the restocking the strategic grain reserves. The Development budget is estimated at MK74.1 billion. The projects earmarked for these resources are the Agriculture Sector Wide Support project, Livestock Development Program, Agriculture Extension and Advisory Services, Irrigation, Rural Livelihood and Agriculture Development (IRLAD), Farm Income Diversification Program, Shire River Basin Management project, National Water

Development Program and technical support for the Green Belt Initiative Program.

## **Education Sector**

61. This vote, which is the second highest, has been allocated a total of MK127.9 billion which is 17.2 percent of the budget. The education sector includes resources allocated to Ministry of Education, Science and Technology, Public Universities, District Councils and allocation to the Local Development Fund for construction of primary schools and teachers' houses. Of this amount a total of MK14.3 billion has been allocated to development projects. MK2.4 billion has been allocated for infrastructure projects in the Public Universities, namely the University of Malawi, the Malawi University of Science and Technology, Mzuzu University and Lilongwe University of Agriculture and Natural Resources. It is planned that the establishment of Mombera University to be built in Mzimba will start this financial year.

62. The construction of Primary School blocks and Teachers houses has been allocated MK2.9 billion under Local Government Authorities and the Local Development Fund.

There are budget allocations for rehabilitation of various Primary and Secondary Schools as well as construction of Teacher Training Colleges in the order of MK1.6 billion as explained in the relevant budget documents.

## **Health Sector**

63. The total budget allocation to the health sector is MK65.2 billion. This includes allocations to Ministry of Health, District Councils and National AIDS Commission. The capital budget allocation is MK14.4 billion. This is meant for the construction of staff houses and health centres under Umoyo project, the construction of new hospitals in Phalombe, Nkhata Bay and Dowa Districts and other community hospitals. Resources for rehabilitation of central hospitals, and other district hospitals as well as health centres have also been provided. The other projects include Nutrition Improvement and HIV/AIDS.

64. The Ministry of Health attracts a lot of off budget support from donors. For example, the bulk of our drug requirements is now supplied directly by the DfID and other donors. Expenditure on HIV/AIDS, Tuberculosis and Malaria is almost entirely covered by the Global Fund.



## **Roads, Public Works and Transport Sector**

65. The sector has been allocated MK31 billion. Of this amount MK10.4 billion, being road levy collections and will go towards maintenance of roads. A total of MK1.7 billion will go towards various development projects whereas MK17 billion is expected to go towards construction of various road projects across the country.

66. This amount will also fund a number of road design studies. Among notable road projects are the completion of Chipembere Highway onwards through Limbe which will be funded and constructed by the Japanese and the construction of the double carriage in Lilongwe, from the Mchinji roundabout to Kanengo that the Chinese will fund and construct. It is also planned to launch design studies for Nathenje/KIA by pass road and the double carriage way of the Mzuzu Airport road. It is also intended to begin the construction of the new high court in Lilongwe.

67. Mr. Speaker, Sir, here I also wish to mention that the construction of fuel reserve tanks at Mzuzu, Lilongwe and Blantyre is at an advanced stage. This project is being funded by

the government of India which has also funded some very vital Green Belt Initiative installations.

### **Natural Resources, Energy and Mining Sector**

68. The natural resources, energy and mining sector has been allocated MK26 billion. These resources will cater for the construction of additional hydropower plants to supplement current power generation, support to the mining and governance project and rural electrification program. In addition, there are resources for waste management and various conservation initiatives. Resources for atomic energy regulation and ISO certification have been provided to support government plans to construct a cancer centre.

### **Decentralization**

69. Government's commitment towards decentralisation continues, to the effect that a total of K28.6 billion has been devolved. These resources will be utilised in Councils by various sectors that have devolved their functions. The major proportion of these resources will be channeled to the Education, Health and Agriculture sectors. Resources for the Constituency Development Fund and operational resources for the Councillors have also been included.

## **Malawi Development Bank**

70. In the financial sector it is planned to establish the Malawi Development Bank that will start with a government majority shareholding with a sizeable private sector shareholding. This structure could be changed so that the majority ownership is reversed and the role of the government in the institution is diminished considerably.

## **2014/15 Proposed Tax Measures**

71. Mr. Speaker, Sir, it should be noted that the Customs and Excise tax measures that I will announce today will be effective from tonight whereas the VAT and Income tax measures will be effective 1<sup>st</sup> October 2014 once the relevant bills are passed by this house.

72. Honourable members, before I announce the 2014/15 revenue measures of this budget let me take this opportunity to thank all those stakeholders who participated in the Pre-Budget consultation meetings. My team and I disagree with one or two of those who have argued that budgetary decisions are taken long before the consultations. Mr. Speaker, Sir, other than the

professional bodies and business representatives, many private individuals attended the meetings. My colleagues and I roundly appreciated the participation of the people including the many individuals and the press who took time to attend these meetings. Such stakeholders also made some insightful and constructive observations and suggestions. I wish to inform the Nation that although a number of suggestions that were made may not appear in this budget, many are being considered for future budgets.

73. In this context, one of the most common requests was to remove the 3 percent withholding tax that is applicable to the smallholder farming community. Mr. Speaker Sir, we viewed this plea against the accepted policy of widening the tax base and the fact that other sectors pay normal withholding tax as high as 15 percent. In light of these considerations, it was declined to waive the application of this tax as suggested.

74. During the consultation meetings was a suggestion that industrial machinery that are intended either for new industrial production or to increase industrial productivity, should not be subject to VAT. Mr. Speaker, Sir, the public is reminded that VAT on such machinery was removed in 2012/13. Another concern was that tax incentives are only offered to foreigners. I would

like to emphasise that tax incentives are available to both foreign and local investors with no discrimination.

## **Income Tax**

75. Mr. Speaker, Sir, in order to ensure that we avoid discrimination Government has reduced corporate tax rate from 33 percent to 30 percent in the Telecommunication sector for mobile phone operators. However, Malawi Revenue Authority (MRA) and Malawi Communication Regulatory Authority (MACRA) are expected to continue working together in the regulation of this sector.

## **Value Added Tax (VAT)**

76. Mr. Speaker, Sir, Government recognizes the strategic nature of products such as fertilizer and medicine. We also note the policy inconsistency in the operation of VAT in these sectors which currently seem to favour direct importation of these products instead of local production. In order to support local industries operating in these strategic sectors and also to promote import substitution, under the industrial rebate scheme, raw materials used in the production of fertilizer and

medicine will now be relieved from VAT under the Third Schedule of the VAT Act.

## **Customs and Excise**

77. During the budget consultations this year, there was also a persistent outcry from the minibus operators on the need for leveling the play field with the operators of the large buses who currently import buses of zero to five years old duty free. In this regard Mr. Speaker, Sir, government agrees to remove the import duty, import excise and VAT on minibuses that are zero to five years.

78. In Customs and Excise, Mr. Speaker, Sir, in order to close the gap on smuggling and illicit trade as well as promoting fair competition, Government has introduced a single rate of excise tax of US\$15 per 1,000 sticks for both imported and locally produced cigarettes. This is in line with fair trade practices and international best practice for the administration of excise tax.

## **Customs Procedure Codes**

79. Mr. Speaker, Sir, Government has removed Customs Procedure Code 487 allowing duty free importation of goods by banks covering; ATM machines, point of sale devices and mobile banking vans. Government believes that the implementation of this measure over the past two years has supported the banking sector enough and enabled the expansion of the banking services.

### **Trade Agreements and International Taxation**

80. Mr. Speaker, Sir, Malawi remains committed to the tariff offers made under the SADC Trade Protocol in order to facilitate regional integration within the SADC region. In this regard, Malawi now undertakes to further reduce the tariffs that are applicable to South Africa in line with the SADC Trade Protocol.

81. Mr. Speaker, Sir, to improve international taxation and encourage foreign direct investment, Malawi Government through its Diplomatic channels will continue to engage other Governments in the negotiation of new Double Taxation Agreements (DTAs). In addition, Government will continue to

review the old DTAs especially those that negatively impact on our tax base through the loss of taxing rights.

### **Administrative Measures**

82. Mr. Speaker, Sir, to reduce delays experienced by taxpayers in tax refund claims, Government will open a tax refund account at the Reserve Bank of Malawi where funds will be readily available for use by Malawi Revenue Authority in tax refunds. This policy aims at improving VAT compliance and ensuring timely processing of tax refund claims by the Malawi Revenue Authority. Ministry of Finance, Economic Planning and Development and the MRA have put in place stringent measures to ensure that only bonafide claims are honoured through this account.

### **Miscellaneous Measures**

83. Mr. Speaker, Sir, Government has observed that some Malawians and locally hired employees working in foreign Embassies and International Organizations are not paying taxes as required by the Republican Constitution. In order to address this matter, my Ministry will work with the Ministry of Foreign Affairs and International Cooperation to get information of



nationals and locally hired employees that are working in Embassies and International Organizations, so that MRA can enforce this tax law and collect taxes. In this regard, Government would like to appeal to Heads of Diplomatic Missions and Embassies including privileged International Organizations resident in Malawi to cooperate with Government in the submission of the information that will be required.

84. In addition, government has noted with concern that some holders of permanent residence permits are not paying tax on income earned in Malawi. In this regard, I have directed the Malawi Revenue Authority to follow up on this matter. I believe it is prudent that we must all abide by the laws of Malawi.

85. Mr. Speaker, Sir, to promote taxpayer compliance and enforcement of the domestic excise tax regime, Government has amended section 65(5) of the Customs & Excise Act to provide for a penalty of MK200,000 for registered domestic excise taxpayers that fail to renew their Excise Licence with the Malawi Revenue Authority.

86. Mr. Speaker, Sir, in an effort to collect better data on our exports, Government has amended section 114 of the Customs and Excise Act, on valuation of the exports to cover selling price and use of international reference prices as the basis for determination of credible values for exports.

## **Conclusion**

87. Mr. Speaker, Sir, I would like to yet again emphasise that a number of countries that have had their own versions of 'cashgate' have made the circumstances a base from which they could bounce into the higher heights in the management of public finances. These countries are now considered the models of fiscal propriety. I appeal to the house and the public at large that we should also make 'cashgate' a linchpin from which we can bounce to higher heights in public finance management. Mr. Speaker, Sir, we have the advantage of being a compact country in which the transmission of good practices are short and effective and therefore, we stand to achieve our objective quickly. Indeed, we shall consider performance under this budget to be a success if strict adherence to our own finance

management rules and regulations is resumed and made a cornerstone of public finance administration.

88. In conclusion, if, Mr. Speaker, Sir, you were to ask me the theme of this year's budget, without hesitation I would say **"Restoration of Fiscal discipline as a Foundation for Poverty Reduction"**.

88. Mr. Speaker, Sir, and honourable members, I thank you for your attention.