

## **Motion**

1. Mr. Speaker, Sir, I beg to move that the estimates on the recurrent and development accounts for the budget of the 2015/16 financial year 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, once more, I feel humbled by HIS EXCELLENCY THE PRESIDENT, PROFESSOR ARTHUR PETER MUTHARIKA, for entrusting me with the responsibility of leading his economic management team. And, once again, I stand before this August House to present yet another budget that has been prepared without the certainty of budgetary support from all of our bilateral donors and most of the multilateral donors. Nonetheless, the house should commend the African Development Bank for deciding to resume its budgetary support during the 2014/15 financial year. We remain hopeful that the other two multilateral institutions, namely the World Bank and the European Union, will shortly decide to join the African Development Bank.

3. Mr Speaker, Sir, as we have repeatedly said, it is unlikely that our bilateral donors will ever resume budgetary assistance regardless of the improvements that we will make in the management of public finances. We understand that, as a matter of policy, these countries have or are in the process of withdrawing budgetary support in other countries worldwide as well. This reflects a policy shift among most bilateral donors in favour of delivering aid through off-budget support. The so-called cashgate scandal only made things worse for Malawi in

this regard. It is crucial, therefore, that Malawi should start restructuring its fiscal framework without expecting the budgetary support that we have been accustomed to receiving from abroad since independence. Moreover, as I will demonstrate later in this statement, donors are also reducing the on-budget support that they provide through dedicated and project grants.

4. Mr. Speaker, Sir, as Honourable Members of the House, it is critical that we should change our mindset and stop assessing our performance in the management of public finances in terms of how much donor support we have managed to receive. Instead, we should start congratulating ourselves based on how well we have performed with the meagre resources available to us.

5. Mr. Speaker, Sir, although direct donor contribution to the budget is declining, the House will be pleased to know that off-budget donor support has been rising in money terms. This year, we have provided the House with data on off-budget donor support that Government ministries, departments and agencies are receiving, so that Members may have a complete picture of total resources available to the Government. For example, it will be noted that the Ministry of Health has a budgetary allocation of K77.4 billion in the coming FY2015/16 budget, but it will also receive off-budget donor resources worth about K55.6 billion, making a total of K123.0 billion available to that ministry during the year. Similarly, the Ministry of Gender has a total budgetary allocation of K3.2 billion, and will receive off-budget donor funding amounting to K14.4 billion. In this latter case, off-budget financing is almost 5 times the amount in the budget.

6. As another example, Mr Speaker, Sir, the Malawi Police Service is in the process of receiving motor vehicles donated by the Chinese Government in the form of commodity aid, worth US\$5 million (K2.3 billion). This will be additional to some 50 vehicles procured by the Government during the year, and will go very far in relieving Government of the need to procure more vehicles for the Police in the FY2015/16 budget.

7. The House will therefore note that certain votes, particularly those in the social sector, may appear underfunded, but may actually be adequately funded when off-budget donor support is added to the budgetary allocation. This structural change also means that, since certain Government programmes may not be favoured for donor funding, their growth will be limited unless the Government focuses on them adequately. Typical examples are subsidies and staff remuneration.

8. Mr. Speaker, Sir, and Honourable Members, I wish to emphasise that the House should take this structural change seriously in analyzing the Government budget. At this point, I wish to register the Government's gratitude for this continued donor support, despite that it is provided off-budget.

9. The upward trend in off-budget support as a major source of financing the delivery of public goods and services is not without problems. In particular, this development means that the Government (including Parliament) does not have decision-making responsibility over an increasing amount of resources available to the public. Therefore, the Government cannot properly decide on expenditure priorities, nor properly plan and time the delivery of goods and services in some critical areas. For instance, the delivery of drugs to our health facilities

is mainly controlled by donors who supply a larger share of our drugs.

10. A further possible implication of this scenario is that donors may decide to introduce new programmes which the Government may not have the resources to sustain upon the donors' eventual withdrawal. In general, the size of the budget over which we are required to exercise surveillance as authorities is diminishing as a result of this trend, although potentially without a significant reduction in overall service delivery to the public.

11. Mr. Speaker, Sir, we hold the strong view that greater coordination between the Government and the donors will go far in relieving some pressure on the budget itself, and sustaining the impact of donor support. In this regard, we implore upon our donors to ensure that their support is aligned to our priorities as outlined in the Malawi Growth and Development Strategy (MGDS), and to be fully engaged in the on-going process of developing the next medium-term development strategy.

### **Performance of the FY2014/15 Budget**

12. Mr Speaker, Sir, let me now briefly discuss the performance of the budget for the current financial year. As Honourable Members will recall, the FY2014/15 budget was initially set at K748.1 billion, and was revised at mid-term to K800.7 billion. It is projected that this revised amount will hold to the end of the financial year on 30th June, 2015. However, the final figure of total revenue and grants is projected to be higher than the approved revised amount by some K42.3 billion, to K683.3 billion.

13. As explained during the mid-term review, the highest budget item that constituted the increase in total expenditure was the wage bill, which increased from an approved amount of K163.0 billion to K198.0 billion. This was largely because, shortly after the budget was approved, some 10,500 primary school teachers and 500 secondary school teachers had to be accommodated into the wage bill. Furthermore, in responses to various employee demands within the wider public service, several salary increments were made.

14. Similarly, interest payments rose from the approved amount of K80.4 billion to K105.9 billion, largely because of a higher level of domestic borrowing.

15. In the event, overall expenditure on other recurrent transactions (ORT) increased from the approved K306.3 billion to K314.8 billion. Notably, expenditure on the Farm Input Subsidy Programme (FISP) increased by approximately 40.0 percent, from K42.9 billion to K59.7 billion. This was largely due to the exchange rate depreciation experienced during the latter part of 2014. However, the House will note that expenditure on the Cement and Iron Sheets Subsidy Programme was only K2.0 billion out of the K7 billion that was approved.

16. Mr Speaker, Sir, the outturn suggests that the overall deficit of K117.4 billion in FY2014/15 is projected to be higher than was budgeted, by K10.3 billion. However, Honourable Members may wish to note that, at 3.8 percent of GDP in FY2014/15, the deficit was substantially lower in that respect than that recorded in FY2013/14, which was 6.2 percent of GDP.

17. Equally, the domestic debt stock was drastically reduced as a percentage of GDP from the FY2013/14 figure of 19.5 percent to 15.9 percent in FY2014/15. This is an excellent result of fiscal operations for the year which, if sustained, would bring the economy to a ratio of domestic debt stock to GDP of less than 12.5 percent which is an internationally accepted ratio.

18. Mr. Speaker, Sir, as the House is aware, that as at 30th June 2014, a total of approximately K155.0 billion in Government arrears was accumulated. In the course of the year, in consultation with the Bankers Association of Malawi (BAM) as well as the Malawi Confederation of Chambers of Commerce and Industry (MCCCI), it was decided that these arrears be paid by issuing zero coupon promissory notes.

19. I am pleased to inform the House that these notes are being sequentially issued upon certification of the payable arrears by the Auditor General. The notes have been classified into three categories, depending on maturity. The first will mature in FY2015/16, the second will do so the following year, and the last bunch will mature in FY2017/18.

20. Admittedly, Mr. Speaker, Sir, the speed at which the Auditor General has taken the process has been much slower than we had anticipated. However, it is expected that this process will be finalized over the next few months.

21. The House, Mr. Speaker, Sir, will further note from the data that we made available to them that an amount of K10.0 billion of these arrears was paid during the 2014/15 financial year to small businesses, to enable them acquire the needed liquidity for their operations. It is further planned that such

promissory notes worth about K50.0 billion will mature in the FY2015/16, and be paid out in full.

22. To gain a complete picture of how the budget has been implemented in FY2014/15 and what was achieved by individual ministries, departments and agencies, Honourable Members are encouraged to consult the relevant documents that copiously cover this material. In particular, the attention of the House is drawn to the Output-Based Budget Document, which is marked as Volume IV. This document does not only provide the outcome of the budget in figures, but also contains details of the actual performance of the concerned Government units for which these expenditures were incurred.

### **Recent Economic Developments**

23. Mr. Speaker, Sir, I will now present the economic context within which the FY2015/16 budget will operate.

24. On the international scene, Mr. Speaker, Sir, global economic activity in 2014 remained subdued, and output declined by 0.4 percentage points compared to 2013. However, growth in Sub-Saharan Africa (SSA) remained strong at 5 percent in 2014. This regional growth is projected to remain robust in 2015 and 2016, at 4.5 percent and 5.1 percent respectively. The positive forecast is due to continuing investment in infrastructure, increased agricultural production, and buoyant service sectors. Nevertheless, there are domestic and external risks arising from declining commodity prices, the Ebola epidemic, and security concerns in some countries, which might slightly dampen the growth prospects of the region.

## **Performance of the Malawi Economy**

25. Turning to the domestic economy, Mr. Speaker, Sir, the better growth trend that was being achieved this year was disturbed by the weather-related setbacks of floods and dry spells, which have adversely affected the agricultural sector. However, holding all things constant, it is expected that the economy will rebound towards the end of FY2015/16. A full assessment of the growth impact of these adverse occurrences is yet to be finalised by the Government but it is expected that economic growth will resume the trajectory of a robust activity that can sustain a high average growth rate during the coming decade.

26. It is crucial that we should take measures that attempt to insulate the economy from the weather related catastrophes. I am to report Mr. Speaker, Sir, that with the support of the World Bank, this is being organised under this budget and the coming budgets.

27. As Honourable Members are aware, Mr Speaker, Sir, Malawi's inflation has decelerated from 24.2 percent in November 2014 to 18.3 percent in April 2015. The relative strengthening of the kwacha, supported by declining pump prices for fuel, explain a large part of this positive trend. Subsequently, annual average inflation is expected to fall to 16.5 percent in 2015, compared to 23.8 percent in 2014. The 2016 inflation forecast shows a continued downward trend, with the annual average rate projected at 12 percent. In line with this positive outlook on inflation, we expect interest rates to decline as well in 2016.

28. Mr. Speaker, Sir, I wish to reiterate what I said in this August House last year that the Government remains

committed to a flexible exchange rate regime to allow the kwacha to adjust to domestic and international developments. The main objective of the country's exchange rate policy is to enhance Malawi's external competitiveness. In this regard, the Reserve Bank of Malawi (RBM) will continue to intervene in the foreign exchange market only to ensure orderly market conditions. All in all we expect a stable exchange rate next financial year.

29. As Honourable Members are already aware, the Reserve Bank of Malawi rescued the kwacha from further depreciation arising from speculative attacks by negotiating an agreement with the PTA Bank to buy a three-year Treasury note issued against part of the Government's accrued domestic debt. This delivered foreign exchange amounting to US\$250 million, and enabled the country to build enough reserves to counter the exchange rate speculation. This is one of the ways of building up foreign reserves in the short-term that countries worldwide employ.

30. I congratulate the Reserve Bank for its ingenuity on this operation, which had my full approval and the support of the International Monetary Fund.

## **THE 2015/16 DRAFT BUDGET**

### *(a) Assumptions of the Draft Budget*

31. Mr Speaker, Sir, I will now draw the attention of the August House to the draft budget for the 2015/16 financial year. But before unveiling the salient features of this draft budget, please allow me to summarise some of the key assumptions upon which it is based.

32. Mr Speaker, Sir, the draft budget assumes an optimistic macroeconomic outlook for the next financial year. The inflation rate is projected to decline to 16.4 percent during FY2015/16, and we project a general decline in interest rates, based on the expectation that the RBM policy rate will be reduced in response to this dampening trend in inflation. Further, it is expected that the exchange rate will be more stable than it was during FY2014/15. Hence, the economy is projected to register a higher real growth rate of about 7.0 percent in FY2015/16. This rate of growth is necessary for the economy to bounce back from the lower growth recorded for FY2014/15. The assumed nominal value of GDP for the FY2015/16 is K3.4 trillion.

*(b) Key Features of the FY2015/16 Draft Budget*

33. Mr Speaker, Sir, the design of the FY2015/16 draft budget is characteristically reflective of the diminishing size of the resource envelope available to the Government, as a percentage of GDP (hence, potentially, in real terms), against the pressure of growing needs to provide critical public goods and services. In particular, total revenue and grants are projected at K763.5 billion in FY2015/16. This is 22.2 percent of GDP, hence a lower share of GDP than the revised figure for FY2014/15 of K683.3 billion, which represented 24.2 percent of GDP.

34. Mr Speaker, Sir, this decline in total revenue and grants as a share of GDP is entirely due to the continued decrease in donor grants, which amounted to K132.8 billion in FY2014/15, but are projected to decline to K97.1 billion in FY2015/16. It is worth noting that even project grants, which remained buoyant in the past, are projected to decline from K71.5 billion

in FY2014/15 to K52.9 billion in FY2015/16. Moreover, dedicated grants are projected to decline by about K10.6 billion relative to the FY2014/15 revised figure of K47.6 billion.

35. This is yet another testimony of the continued reduction in total donor support to the budget. Hence, Mr. Speaker, Sir, the House should note that it is not only budgetary support that is declining, but dedicated and project grants as well.

36. Tax revenues are projected to rise from K581.0 billion in FY2014/15 to K592.4 billion, as the Malawi Revenue Authority (MRA) sets out to strengthen the tax administration regime, and as the economy bounces back from subdued growth. Because of a relatively large dividend received from the RBM in FY2014/15, non-tax revenue rose significantly from the approved estimate of K55.0 billion to a revised figure of K73 billion. It is projected that this revised level will be sustained in FY2015/16.

37. Mr Speaker, Sir, total expenditure and net lending in the FY2015/16 budget is projected at K901.6 billion. Although this appears to be higher in money terms than the FY2014/15 revised total expenditure of K800.7 billion, it is actually lower in real terms. In fact, the FY2015/16 budget constitutes 26.2 percent of GDP, while the revised budget for FY2014/15 accounts for 28.4 percent of GDP.

38. Therefore, the share of goods and services that will accrue to the public sector is projected to be lower in FY2015/16 than that consumed in FY2014/15.

39. Mr. Speaker, Sir, within the figure of total expenditure and net lending, we have included resources that will be spent on very important Government programmes as described

below. In the aggregate, the House will note that it is projected that recurrent expenditure will be K674.6 billion, while development expenditure will amount to K224.0 billion.

40. Within the recurrent expenditure allocation, however, it is proposed to increase wages and salaries by an amount that will raise the salaries of the junior grades in the public service. The budget also provides for the recruitment of some 10,500 primary school teachers and 466 secondary school teachers, who are projected to join the civil service during the last quarter of the financial year. These initiatives as well as an annual wage creep scheduled for implementation in December 2016 will raise the wage bill from K198.0 billion in FY2014/15 to an estimated K228.7 billion.

41. Mr. Speaker, Sir, development expenditure, which was revised to K189.2 billion in FY2014/15, is projected to rise to K224.0 billion in FY2015/16. Some K173.0 billion of this amount will be funded by external resources (Development Part I), while K50.0 billion will be funded using domestic resources (Development Part II).

42. Mr. Speaker, Sir, Honourable Members will be interested to know that for the first time, an amount of K5 billion or 10 percent of the domestically financed development expenditure, is being set aside for rural development in the district councils. This is in line with the legal requirement, and fully addresses the demands strongly made by the Honourable Members last year. Therefore, together with resources for the Local Development Fund (LDF) and the Constituency Development Fund (CDF), local authorities will have command over K30 billion this year, which they can use for grassroot development projects.

43. In view of the fact that these are early days for local authorities to be entrusted with such large sums of money, the Ministry of Local Government and the Treasury will only release the money to councils that have satisfactory accounting systems. Constant internal auditing of the local councils will be organised to ensure that the money is well-managed.

44. Mr Speaker, Sir, over and above these resources for development, it must be stated that the councils will also receive the usual resources for their recurrent operations, including an amount of K10 billion for drug purchases from the Central Medical Stores Trust.

45. In addition, Mr Speaker, Sir, the draft budget has provided the sum of K6.5 billion for maintenance and rehabilitation of roads within our four cities. Of this amount, the cities of Blantyre and Lilongwe have each been allocated the sum of K2.0 billion, while Mzuzu will receive K1.5 billion, and Zomba will receive K1.0 billion.

46. In terms of direct allocations to key line ministries, Mr Speaker, Sir, the amount of K133.7 billion has been allocated to the Ministry of Agriculture, Irrigation and Water Development; K109.8 billion to the Ministry of Education, Science and Technology; and K77.4 billion to the Ministry of Health. With the exception of the Agriculture vote whose allocation has declined as a result of some rationalisation of the proposed expenditure under FISP, the rest of these key vote allocations represent increases relative to the revised expenditures for FY2014/15. Moreover, Mr Speaker, Sir, Honourable Members are reminded that these allocations exclude the amounts that will be spent through local councils and subvented organisations in these key sectors.

47. Additionally, Mr Speaker, Sir, the FY2015/16 budget includes a net lending figure of K3 billion. This money has been set aside to capitalise the Higher Education Students Loan and Grant scheme. Accordingly, I wish to inform the House that the Government has resolved to abolish the payment of allowances to new students in public universities, and has created the scheme to enable deserving students to acquire loans and grants in support of their education. The Ministry of Education, Science and Technology is at an advanced stage of operationalising the arrangement.

48. At this point, Mr Speaker, Sir, allow me to indicate that some K424.3 billion or about 47 percent of the proposed total expenditure and net lending amount of K901.6 billion constitutes statutory expenditures. These are expenditures which the Government is legally prohibited from postponing each year, and are mostly dominated by Presidential emoluments, Pensions and debt servicing costs. Therefore, Honourable Members should be aware that there is very limited room for meeting our ORT needs this year. This is a very important factor that should be considered in analysing the proposed budget.

49. The proposed budget has a planned overall deficit of 4.0 percent of GDP, against 4.2 percent in FY2014/15. Below the line, planned domestic borrowing is projected at K25.0 billion, or 0.7 percent of GDP. This compares favourably with the corresponding figures for FY2014/15 of K36.8 billion, which is 1.5 percent of GDP. Building on the trend in FY2014/15 already described, it is planned to reduce the domestic debt stock further from 15.9 percent to 14.5 percent of GDP in FY2015/16. Thus, Honourable Members will see that we could be reaching the internationally accepted ratio of 12.5 percent quite soon.

*(c) Expenditures Conditional upon Budgetary Support*

50. Mr. Speaker, Sir, I have already explained that there are possibilities that budgetary support may be resumed by the World Bank and/or the European Union during the course of the 2015/16 financial year. As Honourable Members will appreciate, there are many expenditure items which could benefit from such support. In the event that this materialises, Mr. Speaker, Sir, it is the Government's intention to include on the budget some expenditure needs which cannot be afforded at the moment. Among these include the purchase of motor vehicles to add to the Police vehicles which the Chinese Government has offered to the Malawi Government. The pending critical expenditures amount to approximately K12 billion.

51. I wish to reiterate, Mr Speaker, Sir, that, while appreciating the continued on-budget and off-budget support that both the World Bank and the EU provide to this country, it is hoped that these institutions will come forth to assist us with the budgetary support that would permit the country to meet the many outstanding yet very crucial expenditure needs.

**Topical Programmes in FY2015/16**

52. Mr. Speaker, Sir, there are several programmes that are very important and consistent with the agenda of the present Government. These will be at various stages of implementation in FY2015/16, to which I now draw the attention of the House.

*(a) The Farm Input Subsidy Programme*

53. Mr. Speaker, Sir, we all know that, over the years, FISP has played a very important role in enabling ordinary Malawians who could not afford fertilizer and better seed to

access these key agricultural inputs. As a result, in every good agricultural season since its introduction in 2004, FISP has enabled many smallholder farmers to become self-sufficient in food, and has played a key role in promoting national food security. For this reason, although there have been a number of criticisms of the programme, an insignificant number of people have called for its total abolition. It is also worth noting that neither the World Bank nor the IMF have recommended its elimination.

54. Therefore, the Government will continue with the implementation of the programme in FY2015/16, and will maintain its target of reaching out to 1.5 million beneficiaries as announced by HIS EXCELLENCY THE STATE PRESIDENT in his State of the Nation Address. This will be achieved through the distribution of 150,000 metric tonnes of fertiliser as well as improved seed quantities to the households.

55. However, Mr Speaker, Sir, it cannot be denied that there have been some valid criticisms regarding the implementation of the programme to date. The first criticism has been that, since its inception, the proportion of the farmers' contribution has been declining and that of the budget has conversely escalated. For instance, the farmer's contribution in FY2005/6, at K950 per bag, was 45 percent of the total cost per bag, but this declined to a meagre 3 percent by FY2014/15.

56. A second criticism is on cost overruns, largely due to exchange rate movements. The Government's direct involvement in the procurement, storage and distribution of the inputs has meant that the Government has had to bear the impact of exchange rate depreciations, since contracts with suppliers are drawn in US dollar terms. In addition, it has been

difficult to control costs due to the mark-ups imposed by the various middlemen contracted by the Government.

57. Finally, several studies have revealed that only about 50 percent of the intended beneficiaries are actually reached by the programme, while the other half are non-deserving recipients of the subsidy.

58. In order to address these challenges, the Government is seriously considering to reform the future implementation of the programme, and is consulting with various stakeholders on the matter. It is hoped that these consultations will be concluded soon, and that the changes arising from this reform effort will yield significant cost savings.

59. It intended that the cost of the programme should be limited to K40.0 billion in FY2015/16, net of farmer contributions. This will be a considerable saving over the amount of K59.7 billion spent during FY2014/15.

*(b) Migration to the National Pension Scheme*

60. Mr. Speaker, Sir, according to the legal requirement, the current Government pension scheme should migrate to form part of the National Pension Scheme. This is, inter alia, a defined contribution pension scheme which replaces the present non-contributory and defined-benefits pension scheme.

61. Under the new pension scheme, the more an employee contributes to the scheme, the more his or her future pension will be. Therefore, in order to migrate to the National Pension Scheme fully, the Government will be expected to provide for a

large lump-sum payment, estimated at more than K500 billion, as the value of the pension benefits that should have accrued to the migrating civil servants were they to have belonged to the new scheme throughout their employment history.

62. This amount would be put into a pension fund for investment by the fund manager, and the proceeds would accrue to the pensioners. The National Pension Scheme is, therefore, an important vehicle for the mobilisation of resources that can finance long-term investments and growth.

63. Mr. Speaker, Sir, the Government cannot afford the lump-sum expense that I have mentioned, given the current fiscal situation. Therefore, the Government has decided that only civil servants who are less than 50 years old, estimated to total 122,200 employees, should migrate to the new pension scheme from January 2016. Budgetary provisions for the lump-sum contribution in respect of the migrating younger generation will be made in annual instalments from FY2016/17. For the older group, the Government will maintain them on the present scheme, subject to annual reviews.

64. In addition to this lump-sum expense, Mr. Speaker, Sir, the migration also means that the Government has to pay contributions to the pension fund in respect of each employee, at 10 percent of the employee's salary. In turn, the employee is expected to contribute 5 percent of his or her salary to the fund, which will be deducted at source by the Government. In view of this development, it is expected that the pension expenditure for FY2015/16 will increase during the Mid-Year review from the amount of K43.0 billion allocated in the draft budget to around K51.5 billion.

*(c) Youth Employment and Empowerment*

65. Mr. Speaker, Sir, there is a growing global discourse on the so-called demographic dividend, which recognises Africa's youthful population as a point of strength and calls upon the continent to take full advantage of this resource in its policies. In this regard, it is also important to emphasise what the Government of Malawi is doing for the youth of this country using both off-budget and on-budget resources.

66. I am pleased to report that, with funding from the World Bank through the International Development Association amounting to US\$50.9 million (K22.9 billion), the country is implementing the Skills Development Project. The main objective of the project is to increase access to market-relevant skills by the labour market, and to enhance the results orientation of skills development institutions, particularly for tertiary and vocational education. Mr. Speaker, Sir, this is the highest project funding towards skills development and employment creation that the Government has ever provided outside the normal funding to the education and vocational training sectors.

67. Further to this, the budgetary allocation made to the Ministry of Youth Development and Sports will be increased sustainably from K680 million in FY2014/15 to K5.9 billion in FY2015/16. This significant increase is due to Chinese funding amounting to K5.0 billion for the construction of the national stadium in Lilongwe, as well as initial Government funding for the construction of the youth centre in Mzuzu. Moreover, at the request of some representatives of the youth during budgetary consultations, Government has provided funding amounting to K100 million to the Department of Culture in the Ministry of

Information, Tourism and Culture. This funding is earmarked to develop creativity among the youth, through the promotion of drama, film-making and other cultural arts. It is anticipated that this funding initiative will be enhanced in future Government budgets.

*(d) The Greenbelt Initiative and Job Creation*

68. Let me add, Mr. Speaker Sir, that the Greenbelt Initiative (GBI) is also serving a critical role of job creation among Malawians, especially the youth, in addition to enhancing agricultural production and value addition. For Instance, the Malawi Mangos project in Salima is known to have created more than 2000 jobs already, and will have created more than 4000 jobs in total by this time next year. The sugar processing project in Salima, currently in the final stages of being set up, is projected to create about 5000 additional jobs. More jobs are also projected to be created once GBI projects in Karonga, Mangochi and the Lower Shire take off.

69. Finally on this subject, I would like to indicate Mr. Speaker, Sir, that the Government has also set job creation as a necessary requirement for the award of projects to contractors. In this regard, contractors' bids will be assessed on the basis of the numbers of local jobs that will be created, among other factors.

70. In order to determine the outcome of our efforts in the creation of jobs as a cornerstone of our economic policy, the National Statistical Office will be required to compile and refine national employment statistics, so that the Government and the general public can be routinely informed about the employment situation of the country at defined intervals.

*(e) Promotion of Legume Production*

71. Mr. Speaker, Sir, it remains the Government's plan that legume production should be supported up to a point where it can compete at the highest level in the global economy. We envisage that this production line will generate up to US200 million per annum of exports. This will enable the country to sustain a high foreign exchange reserve position and maintain exchange rate stability. It is also a very important intervention for boosting the incomes of rural people, especially when prices can be allowed to reflect a fair return on their effort.

72. Therefore, about K1 billion has been allocated in the FY2015/16 budget for this purpose, in addition to the K2 billion that was allocated each year over two financial years, including FY2014/15. The Government will exert maximum effort to ensure the success of this programme by providing incentives to farmers to produce these commodities. Honourable Members will note that this programme is very important for growth and balance of payments objectives.

*(f) The Flood Emergency Recovery Programme*

73. Mr. Speaker, Sir, as this House is aware, in January this year, the country recorded the highest rainfall in many years. This resulted in significant flooding in many parts of the country, more especially, in the following districts: Nsanje, Chikwawa, Phalombe, Zomba, Blantyre, Chiradzulu, Thyolo, Mulanje, Balaka, Machinga, Mangochi, Dedza, Nkhotakota, Ntcheu, Salima, Rumphi and Karonga.

74. Mr. Speaker, Sir, it is estimated that the floods affected 1,150,000 people, displaced 336,000 people, and killed over 100 people. As a result of this level of devastation,

HIS EXCELLENCY THE PRESIDENT, PROFESSOR ARTHUR PETER MUTHARIKA, declared a State of Disaster on 13th January this year.

75. Mr. Speaker, Sir, on 28th January 2015, the Government requested the World Bank to support a process of conducting a Post-Disaster Needs Assessment (PDNA), which was carried out in partnership with the European Union and the UNDP. I am pleased to inform the House that the PDNA has now been completed. The PDNA has established that the Government will require US\$494 million (K222.3 billion) to carry out the reconstruction and rehabilitation of all the affected areas.

76. The World Bank, Mr. Speaker, Sir, has agreed to provide US\$80 million (K36 billion) to meet some of the post disaster recovery needs. We hope that very soon the Government, in conjunction with the World Bank, will be convening a donors' meeting to discuss how the financing gap may be closed.

77. Mr. Speaker, Sir, the K32 billion which will be provided by the World Bank will be used to finance several activities aimed at providing immediate assistance to the beneficiaries; enhancing their food security through maize purchases; reconstruction and improvement of damaged infrastructure; restoration of irrigation, rural water supply and sanitation systems; and carrying out various flood mitigating works. The project will also finance the institutional strengthening of the Department of Disaster Management Affairs as well as the multi-sector design of disaster-resilient infrastructure to reduce the impact of any future disasters. Details of this project are contained in the relevant Draft Bill, which Honourable Members have already seen.

78. On maize purchases, Mr Speaker, Sir, about K8.0 billion will be spent this year, while an estimated additional amount of K13 billion will be spent during FY2015/16. I would like to assure the House that this maize will benefit Malawians throughout the country since this weather calamity has engulfed nearly the whole country. The Government, through ADMARC and NFRA has already started purchasing maize within Malawi and outside the country.

79. Mr. Speaker, Sir, on behalf of HIS EXCELLENCY THE PRESIDENT, PROFESSOR ARTHUR PETER MUTHARIKA, and the country at large, I would like to take this opportunity to thank the World Bank for this support. I would also like to thank all those that provided relief assistance, in different forms, to the affected people.

80. According to the information that we have received, donations amounting to MK492 million were received by the Department of Disaster Management Affairs for the flood victims, while MK469 million has been spent to date, including Government's own expenditure.

81. I am also aware, Mr. Speaker Sir, that there are others who provided direct support to the affected people, which is not part of the amount that I have cited. To those as well, I would like to express sincere gratitude.

*(g) The Public Sector and Public Finance Management Reforms Programme*

82. Mr Speaker, Sir, the FY2015/16 budget will continue to support the implementation of the Public Sector Reforms, which HIS EXCELLENCY THE PRESIDENT launched in February this year, as a key priority of the Government. In this

regard, ministries, departments and agencies have been encouraged to ensure that the resources allocated to them are used to advance this important agenda.

83. Under the Vice President Rt. Honourable Saulos Chilima, this programme is expected to play a pivotal role in the transformation of the country.

84. Mr Speaker, Sir, we are all aware that the cashgate scandal led, inter alia, to the withdrawal of budgetary support. Since then, the Government has embarked on reforms intended to strengthen the country's public finance management system. The recently launched PFM Reform Programme by His Excellency the President, Professor Arthur Peter Mutharika, has several objectives. The first is the rehabilitation of the fiscal system itself, in order to strengthen treasury and cash management functions. The second part of the programme will require officials, including controlling officers and accounts personnel, to undergo tailor-made courses on fiscal management at the Malawi Institute of Management (MIM). The aim of these courses will be to raise the levels of awareness of and compliance with the financial rules and regulations. Third, the programme seeks to reinforce the Government's internal audit and scrutiny functions, in order to strengthen the system of detecting fiscal malpractices and to ensure that the sanctioning of such malpractices becomes operational.

85. Finally, the programme will enhance the present capabilities of the Integrated Financial Management Information System (IFMIS) and, eventually, replace its underlying software with a more robust one. The process of identifying the replacement software is currently under way

through the World Bank procurement system. This software will be customized to Malawi conditions.

86. The enhancement of the present software to improve the capability of IFMIS that will be required before the new customised software starts functioning, is about completed and we should start noticing changes particularly the speed of the payment system early next financial year.

*(h) Establishment of the National Planning Commission*

87. Mr. Speaker Sir, in order to ensure effective economic planning for the country, the Government has started the process of establishing a National Planning Commission. This will act as an independent body for strategic thinking on matters of national development, and will be established by an Act of Parliament.

88. The Commission will be led by highly qualified professionals with strong background in development-related fields and the capacity to coordinate sectoral activities. Inevitably, some of its work will be performed by consultants or outsourced to other relevant international policy research institutions. The Government has developed the Commission's organizational structure, and is now consulting various stakeholders further. We are hopeful that, in the course of the 2015/16 financial year, this institution will be established so that it can play a leading role in the formulation of the country's next development strategy. I must emphasise, Mr Speaker, Sir, that it is our commitment to ensure that this Commission becomes independent of the Government, yet effective in influencing the direction of the national development agenda.

*(i) Establishment of Development Financial Institutions*

89. Mr. Speaker, Sir, studies have shown that there are financing gaps in Malawi, particularly in infrastructure, and small-scale agricultural development. As a result, the Government has been exploring ways of closing this gap on a sustainable basis.

90. In this regard, Mr Speaker, Sir, as reported last year, the Government has been consulting on the establishment of a development bank. In the process, some development partners, particularly those interested in providing financing, have suggested that the Government should instead consider establishing a development fund since this would part own development projects and be involved in their management.

91. However, there are also arguments in favour of the establishment of a development bank, including the relative ease with which such an institution could mobilise private resources in partnership with the Government. Therefore, the formation of this institution has been delayed in order to give full room to this consultative process. Mr Speaker, Sir, Honourable Members will be duly informed about the progress on this subject.

92. Mr Speaker, Sir, in order to increase access to development financing in rural areas, the Government is also considering reviewing the Malawi Enterprise Development Fund (MEDF), which replaced MARDEF and YEDEF to transform it into a rural cooperative development financial institution to serve miscellaneous development needs of low income population. The aim is to provide credit to poor and medium sized farmers and the youth in the country. The

decision has been arrived at considering the threats that MEDF is currently facing.

93. Firstly, it is clear that MEDF will always have to fight the image that “it is a Government institution”, which creates the downside risk of poor loan recovery rates. Secondly, MEDF’s operating costs will always be higher than its competitors because of its hefty beginnings, its non-commercial corporate culture, and its inability to offer other financial services due to the restriction of being licensed as a non-deposit-taking microcredit institution. Mr. Speaker, Sir, once the revised concept has been developed, I also undertake to brief the Honourable Members about this in the course of the year. We are consulting some Honourable Members on this matter, particularly the Chairman of the Committee on Agriculture of Parliament.

## **Tax Policy and Administrative Measures for the 2015/16 Budget**

### *(a) Overview*

94. Mr. Speaker, Sir, I now turn to the tax policy and administrative measures that under-pin the domestic revenues for the FY2015/16 budget. From the outset, let me reiterate that, unlike in the past years where we had budgetary support from donors, this year’s budget is premised on no budgetary support. Therefore, we have to generate adequate local resources to finance our activities. Consequently, the tax measures that I will be announcing concentrate on improving administrative efficiency, encouraging tax compliance, and broadening the tax base in order to generate more domestic resources.

95. Mr. Speaker, Sir, as Honourable Members may recall, last year I had indicated that we would undertake a comprehensive review of the tax system in Malawi in FY2015/16. Due to the unprecedented natural calamities of floods followed with a drought experienced this year, I wish to inform the House that we have suspended this task until further notice to allow the economy to revert to its normal state without further disturbances.

96. Mr. Speaker, Sir, the Customs and Excise tax measures to be announced today will become effective from midnight tonight, whereas the Value Added Tax (VAT) and Income Tax measures will be effective on 1st July 2015, once the relevant bills are passed by this House.

97. Mr. Speaker, Sir, my team and I received various proposals for consideration during this year's pre-budget consultations, and I wish to acknowledge that most of the proposals were insightful and constructive. I wish to inform the Nation that, although a number of the suggestions that were made may not appear in this budget, many are being considered for future budgets.

*(b) Customs And Excise Duty Measures*

**Excise Duty on Text Messaging and Data**

98. Mr. Speaker, Sir, as Honourable Members are aware, Government removed customs duties on mobile phones in order to improve access to mobile telecommunication. To complement this development, Government went further to remove customs duty on solar cellular telephone chargers. Following the tremendous uptake of the telecommunication services in Malawi, and in order to expand the tax base to

generate resources for this budget, 10% excise duty will be levied on text messaging and all data transfers including internet and similar services.

### **Excise Duty on Imported Vehicles with Engine Capacity Exceeding 3,000cc**

99. Mr. Speaker, Sir, the Government has determined that the excise duty rates on motor vehicles with engine capacity exceeding 3,000cc are too high. This has resulted in various aggressive tax planning and tax avoidance schemes by taxpayers as evidenced by the large number of such motor vehicles that continue to be seized by the Malawi Revenue Authority. To encourage tax compliance, the Government has decided to reduce excise duty rates on motor vehicles under the Customs and Excise Tariff Heading 87.03 with an engine capacity exceeding 3,000cc as follows:-

- i. For new motor vehicles up to 8 years old, excise duty will be reduced from 55 percent to 40 percent;
- ii. For motor vehicles aged above 8 years old up to 12 years, excise duty will be reduced from 88 percent to 60 percent; and
- iii. For motor vehicles aged above 12 years old, excise duty will be reduced from 110 percent to 80 percent

### **Customs Procedure Code for Specialized Broadcasting Equipment for Direct use in Television and Radio Stations (CPC 480).**

100. Mr. Speaker, Sir, the Government introduced Customs Procedure Code 480 to allow broadcasting equipment for both television and radio stations to be imported free of Customs

duties, VAT and Excise duty, in order to improve information dissemination in Malawi. It is pleasing to note that this has led to a proliferation of television and Radio stations in Malawi, creating competition in the industry which has given Malawians options to choose from. This is evidence that the objectives of removing customs duties, VAT and excise duty on radio and television equipment, have been achieved. I therefore wish to announce, Mr. Speaker, Sir, that CPC 480 has been removed henceforth.

### **Excise Duty on Dry Cell Batteries**

101. Mr. Speaker, Sir, one of the requests that we received during the pre-budget consultations was on the removal of excise duty on dry cell batteries that operate light torches and radios used by most Malawians, especially in the rural areas. While it would be commendable to remove the entire excise duty on these batteries, budgetary constraints limit this. I am pleased to inform the House, Mr. Speaker, Sir, that excise duty on dry cell batteries has been reduced from 30 percent to 10 percent.

### **Threshold Value for Entry of Goods on Customs Form 12**

102. Mr. Speaker, Sir, in order to reduce the time spent at the port of entry for small and medium business people or travellers who import goods from our neighbouring countries, and to support the 'Ease of Doing Business' initiatives that the Government is undertaking, the threshold value for entry of goods on Customs and Excise Form 12, has been increased from K100,000.00 to K500,000.00.

## **Customs and Excise Duty Fines**

103. Mr. Speaker, Sir, the minimum fine in the Customs and Excise Act has been eroded with inflation and does not cover the cost of enforcing compliance. In order to provide for meaningful cost sharing and recover the value eroded by inflation, the minimum fine has been revised from K10, 000.00 to K100,000.00.

### *(c) Regional Trade Agreements*

## **Migration of Malawi Customs and Excise (Tariffs) Order to COMESA Common Tariffs Nomenclature (CTN)**

104. Mr. Speaker, Sir, Malawi is a member of the COMESA Customs Union. To achieve deeper levels of integration, the Malawi Revenue Authority will be migrating from the Malawi Customs and Excise (Tariffs) Order to the COMESA Common Tariffs Nomenclature (CNT), and this will be published in the Government Gazette.

### *(d) Taxation Act Amendments*

## **Tax Policy and Administrative Measures**

105. Mr. Speaker, Sir, there are several Taxation Act amendments which we are proposing. These are of the nature of both tax policies and administrative measures, as follows:

- i. Exemption from capital gains tax for the transfer of property from an individual into a trust;
- ii. Clarity on charging of interest. In this regard, the MRA will now adopt the bank lending rate plus 5 percent;

- iii. MRA will levy a penalty for unremitted Non-Resident Tax, at 20 percent of the amount unremitted;
- iv. An amendment to provide clarity on what constitutes “re-organization” and “qualified re-organization” in the Taxation Act which has to date been contentious; and
- v. An amendment to provide for the charging of income tax on deemed interest earned on interest-free loans, and that the foregone income will be taxable in the hands of the lender.

106. Mr. Speaker, Sir, all the Taxation Act amendments will be presented to this Honourable House through an amendment bill. As such, I will not labour Honourable Members by mentioning these individual amendments, but the Taxation Act sections that will be presented to this House for amendment are sections 15, 27, 70(f), 105, and 112(g), among others.

*(e) Amendments of the Malawi Revenue Authority Act*

107. Mr. Speaker, Sir, a number of Government institutions have approached the MRA to collect fees and levies on their behalf. To provide the mandate for MRA to collect such non-tax revenues, section 4 of the MRA Act will be amended. An Amendment Bill will, therefore, be presented to this House for consideration.

*(f) Amendments of the Value Added Tax Act*

108. Mr. Speaker, Sir, in order to improve the administration of domestic VAT, the Government introduced electronic fiscal devices (EFDs) in 2014/15. The implementation of EFDs has highlighted a number of challenges. To address these administrative challenges, I will be presenting to this August

House an amendment bill to the VAT Act, providing, among others, the following:

- i. The requirement for issuing only one type of an EFD invoice for VAT purposes;
- ii. Prescribing penalties for non-compliance with VAT operations, leading to closure of a business premise if necessary, with regard to the use of EFD machines; and
- iii. Sanctions that are effectively a deterrent to would-be offenders in VAT evasion, assault of VAT staff, and other malpractices.

The sections of the VAT Act that will be amended are; 25, 46, 49, 51, 57 and 63(a).

109. Mr. Speaker, Sir, I would like to invite the entire House to support the proposed Amendment Bills for the Customs and Excise Act, the MRA Act, the Taxation Act, and the VAT Act.

## **Conclusion**

110. Mr Speaker, Sir, I would like to put on record the fact that the macroeconomic fundamentals suggest that our economy is getting back on track despite the setback caused by the recent floods and dry spell, and there is need for the country to sustain this stance. However, the country's fiscal position remains challenged by genuinely growing needs for public expenditures, against the constraint of inadequate budgetary resources. Although increasing amounts of donor funds are being spent off-budget within the country, there is wide scope for better coordination between the Government and the donors to enhance service delivery. Strengthening our public

finance management regime remains a critical necessity in order to regain the full confidence of both the donors and the Malawian general public to whom we are primarily accountable.

111. Importantly, Mr Speaker, Sir, allow me to emphasise that the successful implementation of this and all other subsequent budgets requires that my Cabinet colleagues and controlling officers within the Government ministries, departments and agencies should respect, closely monitor and adhere to the approved budgetary allocations, and apply the resources for their intended purposes. I would like to take this opportunity to emphasise further, Mr Speaker, Sir, that our laws do not allow controlling officers to commit the Government beyond the available resources, nor to incur extra-budgetary expenditures. These are among the key fiscal malpractices that we must desist from if we are to have a credible public finance management system. As Honourable Members are already aware, through the recently formulated Public Finance Management Reform Programme, the Ministry of Finance has renewed its commitment to ensuring that these and other fiscal malpractices do not recur within the Government.

112. Last, but certainly not least, Mr Speaker, Sir, allow me to emphasise that the Government remains confident that, barring a repeat of natural catastrophes, economic activity will rebound and growth will accelerate to resume the trajectory that will sustain our growth rate at an average of 7.0 percent this coming decade. This is what Malawians are striving for. It can, and must be done.

113. Mr Speaker, Sir, and Honourable Members, I thank you for your attention, and I beg to move.

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**2015/16 BUDGET STATEMENT**

delivered in the

NATIONAL ASSEMBLY OF THE REPUBLIC OF MALAWI

by

**THE MINISTER OF FINANCE, ECONOMIC  
PLANNING AND DEVELOPMENT  
HONOURABLE GOODALL E. GONDWE**

at

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