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THE 2009/10 BUDGET STATEMENT

Motion

1. Mr. Speaker Sir, I beg to move that the Recurrent Account and Development Account of the 2009/10 Budget be referred to the Committee of the Whole House, be considered Vote by Vote, and that thereafter, be adopted.

Introduction

2. Mr. Speaker Sir, it gives me great pleasure to present to this honourable house the first budget of the second term of the Democratic Progressive Party (DPP) administration. Mr. Speaker Sir, this being the first sitting of this newly elected parliament, allow me to start by congratulating the State President, His Excellency Ngwazi Dr. Bingu Wa Mutharika for winning the second term of office in the just ended Presidential and Parliamentary Elections with an historic and resounding victory.

3. What makes the victory historic, Mr. Speaker Sir, is that the State President won convincingly in all the three regions of the country, which gives him an indisputable mandate to govern the country. At this point Mr.

Speaker, Sir, allow me also, to congratulate all the Members of Parliament who have made it into this honourable House.

4. Mr. Speaker Sir, before I present the Budget, permit me, with a great sense of humility, to express my profound gratitude to His Excellency the State President, for the honour bestowed upon me by appointing me as Minister of Finance. I pledge my loyalty to His Excellency the State President and the Government of the Republic of Malawi.

5. Mr. Speaker, Sir, let me also pay tribute to my predecessor, the Honourable Goodall E. Gondwe, MP, who - in one of the most hostile parliamentary environments - rose beyond reproach to serve the country diligently much to the admiration of many at home, including myself, and many others internationally. I will not hesitate to consult him whenever it is necessary to do so. Let me also take this opportunity to assure the people of Malawi and our cooperating partners that while not underrating the task before me, I intend to meet the challenge head on. In this regard, I call upon this August House, the Cabinet and all Malawians for your continued support. The visionary leadership of His Excellency the State President gives me enough confidence to answer in the affirmative, "Yes I will."

6. Allow me, Mr. Speaker, Sir, to congratulate you for your appointment to be head of this August House. I am sure that under your guidance, the House will conduct its business with efficiency and effectiveness. Let me also take this opportunity to congratulate Cabinet Ministers and Deputy Ministers

for their appointments and assure them of my personal support and that of my Ministry.

7. Mr Speaker Sir, before I go further, allow me to take this opportunity to express my profound gratitude to the public officers, especially those in the Ministry of Finance, who persevered beyond the call of duty in the preparation of the various budget documents to be presented to this Honourable House. I would also like to thank my fellow Cabinet Ministers for their support. In addition, I would like to thank all those individuals and organisations that made invaluable contributions to the budget process.

8. Finally, I would like to thank our cooperating partners, exceptionally, for the untiring financial, technical and moral support that they have given this country for the past five years and beyond. Much as we may justifiably believe that their support was on account of our prudent economic management, their decision to forego equally important development agenda in their respective countries and institutions is a noble gesture that the Malawi Nation as a whole and I do not take for granted.

Economic Review (2004-2008)

9. Mr Speaker Sir, let me briefly talk about some of the economic achievements that we have made since 2004 when the current Government took over the reigns of power. Mr. Speaker, Sir, His Excellency the State

President articulated the economic achievements that Malawi has made since 2004 in his State of the Nation Address delivered in this same August House about a fortnight ago. I will not attempt to repeat what the House already know. It is however important to mention a few achievements as they relate to the execution of the budget.

10. I will start by reminding the House Mr Speaker Sir, that we started with a transitional budget in 2004/05 Financial Year that provided a framework to eliminate practices, habits and mindsets that proved to be obstacles to the exercise of fiscal discipline and good economic governance. As expected, there were many challenges but a number of important achievements were also made and these are reflected in the improvement of living standards of many Malawians.

11. Mr. Speaker Sir, due to decisiveness in implementing policies of sound macro-economic management, the annual rate of inflation that was in double digits in 2004 rapidly decelerated to about 9.3 percent by September 2008 and has been maintained at single digit thereafter. This has provided space for other policy changes. For example, interest rates that reached a high of 35 percent in 2003 were reduced to 15 percent. Domestic debt that had accumulated to 25 percent of Gross Domestic Product (GDP) at the beginning of 2004 was reduced to 11.5 percent of GDP by September 2008. For the first time in the history of this country, Mr. Speaker Sir, Malawi, successfully completed six consecutive reviews of the International Monetary

Fund (IMF) supported programs without any interruption. Further to that, Malawi was the first country in the world to have access to the newly-introduced Exogenous Shock Facility (ESF) with the IMF having successfully concluded the 3-year Poverty Reduction and Growth Facility (PRGF) program that had started in August 2005. The ESF was meant to cushion our economy against the deteriorating terms of trade following the rise in food and fuel prices.

12. It is on account of the prudent macroeconomic management that was observed under the Bingu administration, Mr Speaker Sir, that Malawi reached the Highly Indebted Poor Countries (HIIPC) Completion Point in August 2006 and subsequently qualified for the Multilateral Debt Relief Initiative under the IMF, the World Bank and the African Development Bank (AfDB). As honourable members may be aware, the relief that we got provided us with fiscal space for development finance. It is for this reason that the Government was able to finance from its own resources the construction of modern bituminised roads. Mr. Speaker, Sir, I am talking of the Kamphata/Nkhoma, Mponela/Ntchisi and Malowa/Goliati roads.

13. Mr. Speaker Sir, in addition to the above, the country also scored highly on a number of fronts. The increased budgetary expenditures, particularly in agriculture and social sectors, helped Malawi to substantially improve the general welfare of rural communities. Incomes in the rural areas rose through smallholder sales of surplus maize, cotton and tobacco that

emanated from improved production of these crops following a successful Agricultural Input Subsidy Program. It is thus worth noting, Mr. Speaker, Sir, that Malawi's income per capita rose to US\$313 by 2008 from a meagre US\$152 at the beginning of 2004. As a result of such improvements, the percentage of the population below the poverty line that was at 65 percent some years ago has now fallen to 40 percent. This is no mean achievement Mr Speaker, Sir and Honourable Members.

14. To sum up my introductory remarks, Mr. Speaker Sir, it is quite clear both from statistical data and from observations around the country, that the Government's economic and financial policies have been successful in putting this country on the path to prosperity, making Malawi the "African Economic Miracle". Mr Speaker Sir, the economic success is attributed to the wise and visionary leadership of the State President, who in his wisdom directed the Government machinery to come up with the Malawi Growth and Development Strategy (MGDS) which is the single reference document for policy makers in Government. All the budgetary allocations from the 2006/07 financial year are prepared according to the well defined priorities set out in the MGDS.

Macroeconomic Performance in 2008/09

15. Mr. Speaker Sir, allow me now to submit to the House the performance of our economy during the 2008/09 financial year.

16. Mr Speaker Sir, the Malawi economy grew by 9.7 percent in 2008 compared to 8.6 percent in 2007. Strong economic activity was recorded in the agriculture sector owing to the government's fertilizer and seed subsidy program coupled with favourable rains and good crop prices, especially tobacco, in the preceding year. The other sectors that contributed positively to the remarkable economic growth rate are manufacturing, information and communication and construction. The economy is expected to grow by 7.9 percent in 2009 despite the global financial and economic crisis. Actually, Malawi has been labelled the second fastest growing economy in the world after Qatar.

17. Monetary developments were expansionary in 2008, with money supply increasing by an average of 40.3 percent, year-on-year. Growth in money supply has nonetheless abated in 2009, growing at 17.2 percent, year-on-year in April. Despite the expansion in money supply, the rate of inflation was maintained at below 10 percent throughout 2008, averaging 8.4 percent for the year. Increased food availability on the local market and the relatively stable Malawi kwacha exchange rate largely explained the stability in local prices. The rate of inflation stood at 9.5 percent in March 2009 and

went down further to 8.7 percent in May 2009 despite pressures arising from earlier increases in fuel prices. .

17. Our net foreign assets, however, have not performed very well Mr Speaker Sir, owing to a number of factors. Firstly, demand for foreign exchange has been higher than expected during the 2008/09 financial year. Honourable Members may wish to know that Malawi's import bill substantially jumped in 2008 largely as a result of the rise in fuel and fertiliser prices. Fertilizer prices which averaged US\$650 per metric ton during the 2007/08 crop season rose to a high of US\$1,600 per metric tonne in the 2008/09 crop season; and that coupled with the increased volume of fertiliser imports, as I will explain later, led to a substantial drain on our foreign reserves.

18. Secondly, Honourable members will recall that the rise in fuel prices was a cause of international concern at the onset of 2008 and the situation remained precarious until towards the end of the first quarter of 2009. As a result, our fuel import bill more than doubled in 2008 and early 2009 compared to previous years when fuel prices were relatively low. This was again another major drain on our foreign reserves. Furthermore, Mr Speaker Sir, Honourable Members may wish to know that our growing economy needed to be supported and this was largely in the form of foreign exchange to enable importation of raw materials.

19. Government is, of course, aware of the presence of some unscrupulous individuals who have been siphoning our foreign currently. Mr. Speaker, Sir, such people will be dealt with to the fullest extent of the law.

20. The major challenge, however, remains the effects of the financial and economic crisis which among other factors may lead to reduced demand for our commodity exports leading to falling prices and hence export earnings. It is our hope, Mr Speaker Sir, that the on-going discussions with our cooperating partners, both bilateral and multilateral, will turn out positive, leading to some stimulus packages being made available to Malawi. This should help the country rebuild its foreign reserve position.

Fiscal Performance under the 2008/09 Budget

21. Mr Speaker Sir, let me now turn to the implementation of the 2008/09 budget. As per tradition, Honourable Members will find detailed reports of how the budget was implemented in the documents that will be made available to you immediately after the presentation of this statement. I wish to emphasize that over and above these documents, my Cabinet colleagues and I stand ready to answer questions that honourable members may have.

Revenue and Grants

22. Mr. Speaker Sir, the previous house approved the 2008/09 budget with total revenue and grants amounting to K205 billion, which because of good performance of domestic revenue, is being revised to K224.1 billion. Tax revenues for 2008/09 are projected to exceed the approved estimate of K104.3 billion by K15.1 billion while non-tax revenues outturn is projected to be K16.3 billion, an increase of K5.5 billion. Overall, Mr. Speaker Sir, domestic revenues are projected to exceed the approved estimate by K20.6 billion. This good performance, Mr. Speaker Sir, is attributable to tax administration reforms that government is implementing through the Malawi Revenue Authority (MRA) and improved tax compliance, among others.

23. Mr Speaker, Sir, during the 2008/09 financial year, grants amounted to K88.4 billion. This figure falls short of the approved amount of K89.9 billion by K1.5 billion and the short-fall is mostly due to exchange rate losses especially on inflows from DFID and EU as the British Pound and the Euro depreciated against the United States Dollar in the course of the year.

Expenditure

24. The approved estimated total expenditure for the 2008/09 year Mr. Speaker, Sir, was K226.6 billion which is being revised to K251.4 billion. This is on account of escalations in the price of fertilizer which was initially budgeted at \$800 per metric tonne but was actually bought at \$1,600 per metric tonne. The other reason is the increase in both foreign and domestic interest payments. Another important factor is that the development account spent K640 million more than the provision on account of better project implementation. This required some revision to the estimated budget allocation to allow for the accelerated project completion. There was also an increase of K1.5 billion in the expenditure for Presidential and Parliamentary Elections.

The Agricultural Input Subsidy Program

25. Mr Speaker Sir, allow me to provide specific feed back on the implementation of the 2008/09 agricultural input subsidy program because, just as has been the case in the past, it has generated a lot of interest.

26. Mr. Speaker Sir, let me begin by mentioning that the original 2008/09 budget allocation to the whole subsidy program was K19.4 billion but was later revised to K29.4 billion due to increases in prices. As indicated earlier, the cost of fertilizer was initially estimated at \$800 per metric tonne but this

went up to \$1,600 per metric tonne. The increased cost was mostly financed by increased budget support from Donors notably DFID, European Union, and the African Development Bank.

27. Mr. Speaker Sir, the 2008/09 agricultural season saw a substantial increase in the quantity of the fertilizer purchased for the subsidy program. In total, Government procured 72,000 metric tonnes of fertilizers more than the planned 170,000 metric tonnes on account of two main reasons.

28. Firstly, Government decided in the course of the year, to extend the subsidy program to include smallholder tea and coffee farmers. This was in response to the unprecedented rise in fertilizer prices on the world market. Secondly, Government decided to procure additional stocks of fertilizers that was intended to be used by households whose crops were destroyed by floods in various parts of the country.

29. The foregoing, Mr. Speaker, Sir, depicts circumstances that led to the existence of excess fertiliser supplies and the increase in the expenditures related to the subsidy program.

30. Mr, Speaker Sir, it has turned out that 83,000 metric tonnes of fertilizers were not redeemed by farmers and hence remained undistributed at the end of the agricultural season. To avoid incurrence of extra-budgetary expenditure, Government requested Smallholder Farmers Fertilizer Revolving Fund of Malawi to purchase all the fertilizer that was not used.

31. To defray costs, the SFFRFM entered into a buy-back arrangement with commercial banks. Under this arrangement, SFFRFM sold the excess fertilizers to banks. Mr Speaker Sir, the SFFRFM will repurchase and sell this fertilizer to Government in the 2009/10 financial year and the cost has been reflected in the budget estimates being tabled before this August House.

32. It should be noted, Mr. Speaker Sir, since 83,000 metric tonnes of fertilizer is already available in the country, only the difference between this amount and the planned 160,000 metric tonnes will be imported from the 2009/10 budget. This will save Government foreign exchange. In addition, Government will be able to avoid a lot of the logistical problems involved in importing and distributing large quantities of fertilizers.

33. Mr. Speaker Sir, let me point out that through a preliminary review of the program, Government has noted a number of shortcomings in the implementation of the 2008/09 subsidy program. Government will announce measures to address these problems as we begin implementation of the 2009/10 program.

34. Mr. Speaker Sir, going forward, Government has made a decision that in the 2009/10 financial year, the Fertiliser Subsidy Programme will no longer be applicable to cash crops. It should be appreciated that the motivation for extending the fertilizer subsidy program to cash crop farmers was to cushion them against high prices which were unaffordable at that time. If this was not

done, their livelihood including their ability to buy food would have been threatened. Considering that the prices have since gone down to affordable levels, Government finds it no longer necessary to provide subsidy to the smallholder cash crop farmers.

35. Mr. Speaker, Sir, I trust this provides an adequate explanation on how the 2008/09 fertilizer subsidy program was implemented.

Fiscal Reforms in the 2008/09 Financial Year

36. Mr. Speaker Sir, let me now turn to fiscal reforms which the government is implementing from 2008/09 financial year going forward to further improve fiscal management.

37. Mr Speaker Sir, Government is now in the process of developing a comprehensive five-year programme of Public Finance and Economic Management (PFEM) Reforms. The programme will, among other things, cover the linking of Government strategies to budget processes, improve domestic and donor resources management, roll-out Integrated Financial Management Information System (IFMIS) to District Assemblies, promote effective and efficient procurement, and improve financial reporting as well as the timeliness and quality of auditing processes.

38. Let me assure this Honourable House, Mr Speaker, Sir that Government will endeavour to continue enforcing prudent financial

management practices in the public sector. Focus will not only be limited to the amount of money spent but also the value that the money will bring to Government services. Going forward, efforts are being made to ensure that audits focus more on outputs and not just inputs as has been the case in the past.

39. Mr. Speaker Sir, with respect to debt and aid management, sector working groups are being established to implement a policy of using sector-wide or programme based approach to development planning, implementation, monitoring and evaluation. The aim is to increase effectiveness of the use of public resources. We are also introducing an Aid Management Information System to track donor resources more easily. We will also rationalise the use of donor resources by implementing Debt and Aid Management policies.

Parastatal Sector

40. Mr. Speaker Sir, in line with Government's commitment to improve the performance of parastatals which pose a fiscal burden when they are underperforming. Allow me to turn to the performance of this sector and provide the direction which Government will take.

41. Mr. Speaker Sir, the performance of this sector has been mixed; with some parastatals registering surpluses whilst others continue to under

perform and experience financial distress. Those that have registered surpluses include; the Malawi Communication and Regulatory Authority (MACRA), the Malawi Housing Corporation, Airport Developments Limited, and the Tobacco Control Commission. However, Air Malawi, the Agricultural Development and Marketing Corporation (ADMARC), Electricity Supply Commission of Malawi (ESCOM), the Malawi Post and Communications, and Blantyre Board are among the notable parastatals that have underperformed this year. Causes of underperformance include poor management decisions such as poor allocation of resources and inadequate levels of maintenance and investment in infrastructure. On account of the strategic nature of our parastatals, Government will continue to implement a number of reforms aimed at turning around the performance of those that are underperforming. These reforms will, among others, include;

- i) Strengthening the corporate governance and management structures. Mr. Speaker Sir, Government will continue to strengthen governance structures in all parastatals by strengthening Boards of parastatals in ensuring that there is a mix of key skills. Furthermore, the executive management of various parastatals will be strengthened by strict adherence to a policy of recruitment based on merit. I would like to mention here that management of Parastatals needs to understand that the

tenure of their stay in office will be determined by their performance.

- ii) Strengthening the monitoring processes of parastatals. Mr Speaker Sir, the monitoring processes over parastatals will continue to be strengthened with emphasis on adherence to regulations and efficient allocation of resources. We will demand high reporting standards to ensure proactive oversight of these institutions. The recent harmonization of the parastatal budgetary framework in form of Performance Management Plans and Budgets will help prioritization of scarce resources towards core business areas.
- iii) Mr. Speaker Sir, Government will continue to review the capital investment requirements of some parastatals with a view to upgrading and enhancing the core equipment and installations in order for them to efficiently meet the increasing demand for services. This will be done in the power and water sectors.
- iv) Mr. Speaker Sir, in the water utility sector, both Blantyre and Lilongwe Water Boards will undertake projects that will improve their water pumping and distribution capacity in order to meet the increased demand for water supply in an efficient manner. The

current pumping facilities are almost obsolete, inadequate and inefficient. Consequently, these facilities are unable to meet the demand for clean water in the cities. Due to old age, there are also high levels of water losses particularly with Blantyre Water Board. The projects envisaged will therefore help to address these shortfalls. A number of reforms are also envisaged for the power sector as will be explained later.

- v) Mr Speaker Sir, Government will also continue to ensure that there is enhanced transparency and accountability in all parastatal organization.

42. Mr. Speaker Sir, these reforms together with others will continue to be implemented to ensure that the parastatal sector becomes efficient enough in its delivery of services and be able to make a meaningful contribution to the national budget through the payment of dividends. These will form a key performance indicator for management in parastatal organizations. As His Excellency the State President mentioned in His State of the Nation address, any parastatal that consistently makes losses without any clear sign of returning to profitability will be closed.

World Economic Outlook

43. Mr. Speaker Sir, having explained how the Government has implemented the 2008/09 budget and having reviewed major economic and fiscal reforms that will be implemented, in the short to medium term to further improve fiscal management, allow me, at this point, to provide the global and regional outlook upon which main assumptions of the 2009/10 budget framework have been built.

44. Mr. Speaker Sir, the House will recall that pressures in the financial system in the United States that emerged in mid 2007 transformed into a full-blown global financial crisis by the end of 2008. Credit markets froze, stock markets crashed, and a sequence of insolvencies threatened the entire international financial system. Honourable members, the problems in the financial system spread to the real economy to force the world into a recession.

45. Mr. Speaker Sir, the developed countries have been particularly hit by first round effects of the financial crisis and this has spread over to many other developing countries as manifested in the second round effects. Whereas the developed countries were able to respond by bail-out packages, the ability for the developing countries to do the same remains limited because of lack of resources. It is now common knowledge that most of the countries in the west are having the worst recession since the end of World War II. What is most painful is that developing countries have to bear

the consequences of the crisis despite the fact that they were not part of the countries that caused it. Some people think that there are signs of the global crisis easing but I am of the opinion that the crisis may be with us for sometime to come.

46. As for Malawi, the impact of the crisis may include lower prices for our main export commodities of tobacco, tea, cotton, textiles and coffee emanating from the reduced demand in the developed countries which constitute our main market. Remittances from Malawians living abroad are likely to be affected because of the financial hardships brought about by the crisis. In addition, the level of donor inflows could be affected through exchange rate movements. The Malawi Stock Exchange market has been benignly affected as it is not fully integrated to the international markets.

47. We are, however, relieved to learn Mr. Speaker Sir, that all our current donors have promised to maintain their commitments for the next three years. We are equally comforted by the pledges made by the Group of 20 Countries who indicated that assistance to developing countries will neither be reduced nor be subjected to more stringent conditionalities in the wake of the global financial and economic crisis.

48. In view of these developments, Honourable members, the IMF estimates that the world economy will contract by 1.3 percent in 2009 compared to a growth of 2.5 percent in 2008. However, Mr. Speaker Sir, the global economy is expected to rebound towards the end of 2009 and grow by

1.9 percent in 2010. Additionally, Mr. Speaker Sir, world trade volume is expected to shrink by 2.1 percent in 2009 due to a decline in consumer spending.

Regional outlook

49. Turning to the Sub-Saharan Africa region, Mr Speaker Sir, growth in economic activity is estimated to register 4.6 percent in 2009 as compared to the 5.4 percent recorded in the previous year. This slowdown, Mr Speaker Sir, is not as bad considering the economic environment within which this growth will be obtained.

50. Let me also highlight, Mr. Speaker Sir, that within the Sub-Saharan region, the effects of the global economic downturn are more pronounced in oil exporting countries and in key emerging and frontier countries like Angola, Botswana, and South Africa. For example, Mr. Speaker Sir, the IMF is projecting the Angolan economy to shrink by 3.6 percent and South Africa by 0.3 percent in 2009. The developments within the SADC region may affect Malawi as a number of SADC countries, such as the Republic of South Africa, are Malawi's major trading partners.

Malawi Economic Outlook for 2009/10 Financial Year

51. Mr. Speaker Sir, having provided the global and regional economic context, allow me to turn to the major macroeconomic assumptions upon which the 2009/10 budget framework is built.

52. Mr. Speaker Sir, Malawi's economy is projected to grow in real terms by 7.9 percent. This forecast is underpinned by expectations of strong agricultural production, the imminent start of uranium production at Kayelekera and continued growth in service sectors such as telecommunications.

53. The annual average rate of inflation is expected to remain at a single digit of around 9.7 percent. However, due to the forward procurement system used in Malawi for petroleum products, the decrease in world fuel prices in the first and second quarter of 2009 will have a lagged effect. The benefits to the country should be manifested in the third and the beginning of the fourth quarter which will ease inflationary expectations for the year. This continued price stability is expected to help maintain interest rates at around 15 percent or below.

Perspectives for 2009/10 Budget

54. Mr. Speaker Sir, let me now turn to prospects for the 2009/10 budget. In line with priorities spelt out in the MGDS and reiterated in His Excellency the State President's State of the Nation Address, Government shall strive to allocate more resources towards economic sectors of Agriculture and Food Security; Integrated Rural Development; Irrigation and Water Development, Transport and Communication Infrastructure, Energy Development, and Youth Enterprise Development, among others.

55. Mr. Speaker Sir, Government recognises the fact that agriculture will remain the backbone of the economy for the foreseeable future. In this regard, Government intends to transform the agriculture sector mainly within the framework of the Green Belt Initiative. In the medium term, Government in addition to smallholder farming will promote medium and large scale commercial farming. This would among other things entail increased mechanisation and irrigation.

56. Mr. Speaker Sir, to complement efforts in the economic sectors, Government will also allocate resources towards the social sectors particularly Education, Science and Technology; Management and Prevention of HIV and AIDS; Public Health and Sanitation; and Youth

Development and Empowerment.

57. Mr. Speaker Sir, now that education, science and technology has been placed high on Government's priority list in the social sector, our strategy for the next five years will focus on improving the quality of education by deliberate investments in teacher training, teaching and learning materials and school infrastructure including school blocks and teacher houses.

2009/2010 Budget Framework

Total Revenues and Grants

58. Mr. Speaker, Sir, on the basis of the country's macroeconomic outlook, Total Revenues and Grants for the 2009/10 FY are projected at K244.3 billion representing a 19 percent increase over last year's approved estimate and 9 percent over the revised figure for the same year.

59. Supported by robust GDP growth and tax administration improvements, tax revenues are projected to rise to K139.9 billion from K105 billion last year representing an increase of 41 percent. Albeit with lesser momentum than tax revenues, non-tax revenues are also estimated to increase by an extra K12.3 billion over last year's estimate.

60. We have pledges of grants from our cooperating partners, Mr. Speaker Sir, that amount to K 81.1 billion for the 2009/10 Budget. These Grants, comprising General Budget Support, Dedicated Grants to specific sectors

and projects have registered a slight decline of 9 percent over last year's figure. This decline is on account of several one-off expenditures incurred last year which included increased fertilizer prices, the general elections, population and housing census, and large donor expenditures in the Health Sector-wide Approach (SWAP). The reduction would therefore not significantly constrain expenditure in priority areas that Government has planned to implement during this financial year.

Total Expenditure and Net Lending

61. Mr. Speaker, Sir, Total Expenditure and Net Lending is projected to rise to K256.8 billion representing a 2 percent increase over last year's revised figure. However, if we net out the effects of the huge one-off expenditures experienced last year, the House will actually note that there is more fiscal space to scale up priority expenditure on both the recurrent and capital accounts than the overall increase suggests. In fact, from an approved estimate of K226.6 billion last year, expenditure in 2009/10 has increased by 13 percent which more than compensates for inflation projection thereby attaining a real increase of 4 percent.

Overall Budget Balance

62. Mr. Speaker, Sir, and Honourable Members, the planned overall fiscal deficit is therefore K12.5 billion, equivalent to about 1.6 percent of GDP. The House may wish to note that such a deficit is deemed to be prudent since international best practices prescribe 3 percent as an upper limit.

63. With a Net Foreign Financing of K19 billion, Government will not only close this fiscal gap but will also be able to achieve a Net Domestic Debt Repayment of K6.5 billion equivalent to about 1 percent of GDP. This, Mr. Speaker, Sir, and Honourable members is a very important policy anchor in this budget as it will provide space for monetary policy leveraging.

Notable Allocations in the 2009/10 Budget

64. Mr Speaker Sir, let me now turn to some of the notable allocations in this budget.

Agriculture and Food Security

65. Mr Speaker, Sir, the expenditure on the agricultural sector remains a priority in part to sustain the country's food self sufficiency. As stated earlier, there is consensus that while we must continue with the Input Subsidy Program, in the medium to long term, we must also begin to shift away from

the use of the hoe and invest in mechanized agriculture if we are to improve agricultural production in this 21st century.

66. Mr Speaker Sir, the targeted input subsidy programme will this year be limited to food crops in order to sustain food security. Consequently, Government has scaled down the total fertilizer subsidy requirements to 160,000 metric tonnes. Government has allocated an amount of K17.8 billion for procurement of fertilizers.

67. I am also pleased to announce, Mr. Speaker, Sir, that following the State President's directive, a 50 kg bag of fertilizer will now be purchased at K500 for all types of fertilizers. In addition, Seed Subsidy has been allocated a sum of K1.6 billion.

68. In addition Mr. Speaker Sir, Government will spend a sum of K5.1 billion on development projects to supplement other efforts aimed at ensuring food self sufficiency. Furthermore, Government has allocated K2.0 billion for the purchase of maize for the strategic grain reserves.

Integrated Rural Development

69. Mr. Speaker, Sir, most of our people have no access to a number of basic services in rural areas. The Integrated Rural development programme is a deliberate effort adopted by Government to provide basic social and economic services through the establishment of Rural Growth Centres. To

this effect, Government has allocated K330.7 million for the construction of growth centres in the country.

70. Mr Speaker, Sir, in ensuring that rural people have access to the means for transforming their lives, Government has allocated K200 million to the One Village One Product initiative (OVOP) to help rural people engage in meaningful economic activities where their income generation capacity is enhanced. In addition, MARDEF will continue to compliment the effort through the extension of soft loans to groups of people in the villages to venture into small business enterprises.

71. Mr Speaker, Sir, alongside the OVOP initiative, MASAF and Public Works Programme are other initiatives focusing on social transfers to the rural poor so that they can work for themselves to move out of abject poverty. The budget has K90 million earmarked for Public Works Programme. This will be complimented by MASAF projects.

Irrigation and Water Development

72. Mr Speaker, Sir, I am pleased to announce that Government has allocated K 10.1 billion to the Ministry of Irrigation and Water Development. Of this amount, the sum of K534 million will be spent on development projects to increase food production and provide safe potable water. Some of the activities will include rehabilitation of faulty boreholes and drilling of new

ones. In addition, Government will lay reticulated water supply systems in the rural areas. In order to ensure agricultural production without heavy reliance on rain fed agriculture, Government will intensify the construction of multipurpose dams and rehabilitate irrigation systems to cover 3,882 hectares of land.

Transport and Communication Infrastructure

73. Mr Speaker Sir, most of the country's road network requires improvement in order to allow efficient flow of goods, services and people throughout the year. A good road network particularly feeder roads in the rural areas is important in facilitating access to the markets by the farmers. In this respect, Government has allocated K3.95 billion for the rehabilitation and maintenance of most of the existing roads and bridges. Government will also upgrade some feeder roads to a standard bituminized level and will maintain others under the Public Works Programme. Graders which Government sourced under the bilateral agreement with the Government of India will be used in grading the roads.

74. Resources have also been set aside for the completion of the Zomba-Jali-Phalombe-Chitakale, Malowa-Goliati-Thyolo, Zomba-Blantyre, and Mzimba-Njakwa Roads just to mention but a few. A comprehensive list of all roads that have been factored in the budget is available in Budget Document number 4, the Output Based Budget.

Energy Development

75. Mr Speaker, Sir, in the power sector, work on Tedzani II power station will be completed in this financial year. This will bring an additional 20 megawatts of electricity. Furthermore, ESCOM will, starting from this financial year, undertake the completion of the Kapichira phase II project which will provide an additional 64 megawatts within the next thirty (30) months. These projects combined with the Mozambique-Malawi Power Transmission Interconnection, will substantially improve the power supply capacity in the economy within the next two years. It will also allow ESCOM to be able to easily undertake repair and maintenance works on its facilities without the undue social and economic costs occasioned by intermittent power outages. Mr Speaker, Sir, Honourable Members may wish to note that K105 million has been allocated to the Malawi Rural Electrification Programme (MAREP) Master Plan.

76. Beyond this, Government will invest more in energy generation projects including other alternatives such as thermal, geo-thermal and other renewable sources of energy to meet the increasing demand in our industries.

Youth Enterprise Development Fund

77. Mr. Speaker Sir, in this budget, Government, is proposing to set aside K3.0 billion for investment in the Youth Enterprise Development Fund. This Fund, which was conceived by His Excellency the State President, will address the challenge of youth unemployment by providing the Youth with knowledge, essential skills, and opportunity to engage in micro, small and medium sized enterprises as a self employment mechanism.

78. As we all know Mr, speaker Sir, the youth in Malawi make up a large proportion of the population. However, their active participation in economic development initiatives continues to be impeded by a number of challenges which include limited access to post primary and secondary vocational training, limited access to credit and inadequate employment opportunities amongst others. In addition Mr. Speaker, Sir, due to the HIV/AIDS epidemic, our young people, particularly girls, are increasingly heading households. As a result, they miss out on gaining proper skills that qualify them to get a job or engage in businesses that would enable them meet basic requirements.

79. Mr Speaker Sir, specifically the Fund will focus on the following:

- i) Build capacity, especially in artisan skills and entrepreneurship to ensure sustainability of the business ventures that would be set up by the youth through the Fund. Our various technical schools will be used to undertake this function.

- ii) Provide loans to the youth so that they can set up their own small and medium scale enterprises.
- iii) The Fund will also actively provide information to the youth on the existence of potential markets both locally and internationally and assist in accessing those markets.

80. Mr. Speaker Sir, by investing in our Youth, we will afford them an opportunity to focus their energies into productive activities and thereby improving their living standards.

Education, Science and Technology

81. Mr Speaker Sir, human capital development is vital in sustaining the social and economic development path that we have put ourselves on. A good education system ought to produce well trained and properly skilled labour capable of surmounting the challenges in the various fields. In order to achieve this, the 2009/10 budget has allocated K31.4 billion to the education sector, including the two public universities.

82. Mr Speaker Sir, the budget has also allocated K1.8 billion for the purchase of teaching and learning materials in both primary and secondary schools to provide quality education to our children. In addition, K758.8

million will be spent on teacher training to improve the quality of teachers while another K70 million will be spent on Special needs education.

83. Furthermore, in order to improve on the quality and number of qualified teachers in primary schools, government has embarked on an expansion programme of the 5 teacher training colleges. Out of the allocation of K758.78 million, some resources will be used for the expansion of Teacher Training colleges as indicated earlier. Further, construction of additional colleges, with support from our development partners, is underway including Liwonde Teacher Training College which is in completion phase.

84. Mr Speaker Sir, Government will introduce the double shift system on a bigger scale in some selected primary and secondary schools to give an opportunity to many people to access formal education. An extra K76 million has therefore been provided to compensate for the extra workload that teachers in the schools concerned will bear.

85. Mr Speaker, Sir, Government has also allocated K5.1 billion to implement a number of projects in the sector including continuation of the construction of girl's hostels in various secondary schools across the country which will accord girls an opportunity to complete their secondary education. Government will also build hostels at the Malawi Institute of Education (MIE) to increase the intake particularly of girls as part of the effort to improve on equity and access to quality education. Furthermore, K2.5 billion has been

allocated for the construction of primary school teachers' houses across the country through the Malawi Social Action Fund (MASAF).

Public Health

86. Mr. Speaker Sir, with respect to the health sector, Government has allocated K32.0 billion, excluding expenditure on National Aids Commission (NAC). Of this allocation, K9.1 billion will be administered by the District Assemblies for District Hospitals and other health institutions. K5.0 billion has been provided for the purchase of drugs of which K3.1 billion has been allocated to the Assemblies. In addition, K1.4 billion has been allocated for capacity building in the health sector.

87. Mr. Speaker Sir, Government has allocated K4.8 billion towards the implementation of various development projects including the construction of Dowa, Nkhata-Bay and Phalombe District Hospitals.

Miscellaneous

Mr. Speaker, Sir I will now talk about miscellaneous allocations which are worth noting

Civil Servants' Salaries

88. Mr Speaker Sir, over the recent past, Government has been implementing the Medium Term Pay Policy to harmonise salaries in the Public Service. While implementation of the policy has helped to bridge the gap in pay levels between various institutions that draw from the Consolidated Fund, some disparities still exist between the Civil Service and other public institutions. These disparities have, in some cases, been extreme. For instance, a new graduate recruit who joins Parliamentary Service earns almost one and half times more than an officer at grade F (previously P5 grade) in the main stream Civil Service. In the worst case, messengers in other institutions earn twice as much as a graduate officer at entry level in the Civil Service. This anomaly is what government has been gradually addressing within the remit of the Medium Term Pay Policy.

89. Mr. Speaker, Sir, in pursuit of the harmonisation objective, I am pleased to announce that Government has decided to raise salaries of the Civil Servants by 15 percent effective 1st July, 2009. It must be emphasized that this increase is limited to the Civil Service and does not include other public institutions.

Constituency Development Fund

90. Mr. Speaker Sir, in this budget we have again made a provision for the Constituency Development Fund. An audit of the Fund for the 2008/09 financial year has revealed some shortcomings that need to be addressed. My ministry is liaising with the Auditor General to design new measures that will help improve the management of the Fund. In the meantime it is considered prudent to reduce the allocation to K2 million per constituency. This will be reviewed in future. Mr Speaker Sir, Honourable Members will be pleased to know that the allocation to District Assemblies has been increased by K1.3 billion to compensate for the reduction in the Constituency Development Fund. It is my hope that Honourable Members will take keen interest on how the Assemblies will apply these resources.

Revenue Measures for 2009/10

91. Mr. Speaker, Sir, let me now outline non-tax revenue and tax measures that we propose for this Budget. The Customs and Excise tax measures will be effective from midnight tonight whereas the VAT and Taxation measures will be effective when the Bills are published.

Non Tax Revenue Measures

Fees and User Charges

92. Mr. Speaker, Sir, in line with the ever-increasing costs of providing services to the general public, Government is reviewing fees and user charges levied by the Departments of Police, Registrar General and Road Traffic. A list outlining revised user fees and charges will be published by the relevant Government Departments.

Re-introduction of Tourism Levy

93. Mr. Speaker, Sir, despite the numerous incentives that have been accorded to the tourism industry in Malawi and improvements made to the hotels and lodges, we have not seen significant increases in the number of tourists coming to Malawi. One of the possible reasons is the inadequate marketing of Malawi as a tourist destination. The tourism industry has potential to contribute more to foreign exchange earnings. At the request of the tourism industry, Government is re-introducing a market levy of 1 percent on all bills from registered tourism units to enable the Ministry of Tourism to market the country.

Payment of Revenue through Banks

94. Mr. Speaker, Sir, there have been complaints that paying taxes and other government revenues is quite cumbersome as in a number of cases it

entails travelling long distances and standing on long queues for hours. In order to address this problem, government has put in place a system to allow people to pay their taxes and other revenues through banks. For taxes, we will start with larger tax payers. For fees and other user charges, we will start with the departments of Immigration, Registrar General, Road Traffic and the Ministry of Lands, Housing and Urban Development.

Tax Revenue Measures

95. Mr. Speaker Sir, let me now address tax revenue measures. During the first term of His Excellency Ngwazi, Dr. Bingu wa Mutharika, Government made great progress towards creating a tax regime in this country that rewards real investors without being open to abuse. We saw our first large investment in mining in the region of US\$200million, at Kayelekera. We also have seen privately owned new buses plying on our main roads following the removal of duties and VAT on buses. In the manufacturing sector, a number of factories have opened including a cotton factory in Balaka. This is evidence to the fact that focused tax incentives for the private sector can play a part in bringing investment into Malawi.

96. These investor friendly tax policies implemented in the past five years have helped support strong economic growth over recent years and we believe that Mr. Speaker, Sir now is not the time to relax but to consolidate

on the gains made so far. A consolidation of such tax policies will go a long way in supporting our efforts in continuing the delivery of the high growth our people have now come to expect from us. Secondly, Government is aware that appropriate tax policies supported by robust tax administration can result in strong economic growth, we intend therefore in this Budget, to introduce measures that will reduce taxpayers' tax compliance costs or make it easy for taxpayers to meet their tax obligations.

97. Mr. Speaker, Sir, one issue that has often been raised during pre-budget consultations has been that of the application of VAT to very small businesses. After considering various alternatives, we have concluded that the best approach is to raise the minimum turnover threshold at which VAT registration is required from the current level of K2 million to K6 million.

98. Mr. Speaker, Sir, for equity reasons, a turnover tax set at 2 percent of annual turnover will be introduced for businesses with a turnover above K2 million but below K6 million. For those who will be registered for turnover tax, the change will mean that those businesses making under K6 million in turnover per annum will not have to submit both VAT and company tax. The tax procedures for this category of businesses will be simplified. The MRA will undertake country wide civic education on the new turnover tax.

99. Government intends to reduce compliance costs of those taxpayers who are compliant, by introducing both a self-assessment scheme and increased use of the banking system for payment of taxes and other

revenues. While these reforms need to be introduced carefully, I believe that they offer the potential to greatly reduce the time and expense companies incur in meeting their tax obligations. These changes will initially focus on larger taxpayers with annual turnover of K200 million and above, but will be extended to other taxpayers over time.

100. Mr. Speaker, Sir, one particularly complex area of tax administration is that of dealing with transfer pricing between related entities. Businesses in this country have for a long time been requesting clear guidelines to be followed in this area, and in response Government will now issue guidelines on this subject which will be published in the Government Gazette.

101. Mr. Speaker, Sir, some of our penalties under tax legislation have been seriously eroded over time by inflation and no longer act as sufficient deterrent. In areas such as late filing of returns or the giving of false information, there will be substantial increases in the penalties imposed. Taxpayers should take note of this development and ensure that they comply with the law. Measures will also be introduced to ensure that professional practitioners such as lawyers, engineers, architects, medical practitioners, dentists and others must produce Tax Clearance Certificates before their professional business licenses and permits are renewed. This requirement will also cover renewal of licenses by construction and building companies registered with the National Construction Industrial Council. Details of these administrative changes will be presented to this August House in the form of

Taxation Act and VAT Act Amendment Bills for approval and thereafter the changes will be published in local newspapers.

102. Mr. Speaker, Sir, in recent budgets this Government has progressively increased the earnings threshold at which PAYE begins to be paid, and the threshold for payment of the higher rate of PAYE. The rationale for increasing the tax free threshold has been to improve fairness of our tax system and also to ensure that inflationary effects on income are taken care of. We propose to continue this process, by raising the lower PAYE threshold to K10,000 per month. The next K3,000 of income will continue to be taxed at 15 percent , as is currently the case.

103. Mr. Speaker, Sir, the two year exemption from duty and VAT on buses with a seating capacity of more than 45 passengers including the driver, expired last month. This measure has greatly contributed to the improvement of bus services in the country, especially between our largest towns. However, there is a great need for these services to extend to cover more routes especially in the rural areas. For this reason, Government is extending the concession for one further year.

104. Mr. Speaker, Sir, while the improvement we have seen in bus services in the country has been very welcome, we need to support the development of other modes of transport. In order to do this, we propose this year to remove both VAT and duty from rail locomotives, aircrafts, aircraft engines, and related spare parts.

105. Mr. Speaker, Sir, one area with real potential to contribute to national development is that of creative arts. Malawi has long produced fine musicians, artists, actors and recently interest has increased in the possibilities for film making in the country. All too often the ability to translate talent into sales success has been hampered by lack of adequate facilities to produce high quality but affordable recording. In order to give our artists a real opportunity to develop products that reflect their potential, we need to see investment in technology to support this sector. For that reason, Government is removing duty on a range of capital equipment used for photographic, recording, projection and duplication in both the film and music industries. This does not cover, however, equipment mainly used for domestic purposes.

106. Mr. Speaker, Sir, our national sports teams carry the aspirations of the Nation, and they have recently done this country proud. One way in which we can support these teams is by removing VAT and duty on the equipment purchased or donated. In this regard, we propose creating a new Customs Procedure Code exempting from VAT and duty on sporting equipment imported by the Malawi National Council of Sports for use by our National teams. I hope this will encourage companies and individuals who would like to donate equipment for the national sports teams to do so.

107. Mr. Speaker, Sir, we are removing Customs duties on a number of items which are considered necessary in manufacturing or for development

projects. A full list of these items is being published today, however, some of the notable items include:

- i) Renewable energy sources such as wind-mill engines, solar panels, solar energy lamps and solar batteries in order to mitigate effects of climate change and environmental degradation.
- ii) Specialized hospital equipment including medical, surgical or laboratory sterilizers, ultrasonic scanning apparatus, artificial respiratory apparatus, in order to reduce costs of these services and make them easily available to low income groups.
- iii) Dumpers for off-highway use and civil works, and mobile drilling derricks, in order to improve availability of potable water.
- iv) Electric motors, generators, and generating sets for industrial use, to support the country's investment policies in agriculture and manufacturing.
- v) Furniture and furnishings, public address systems, video conferencing equipment, TV screens, amplifiers, LCD equipment for use in hotels with room capacity of not less than 50.

108. Mr. Speaker, Sir, to encourage the development of livestock farming, and lower the cost of animal feeds including chicken feed and fish feed, the Government is removing duty from vitamins, pro-vitamins and premixes which are normally used to supplement animal feeds. This measure should provide a welcome boost to the poultry, meat and fish farming industries. Government is also removing duty from chemicals used in medical and scientific research.

109. Mr. Speaker, Sir, as you might be aware; there is no duty on computer hardware. Government is also removing duty from computer software, so that its tax treatment is similar to that of computer hardware. This is intended to encourage increased use of information technology in the country.

110. Mr. Speaker, Sir, in order to encourage the production of food products in Malawi, Government has decided to increase to 30 percent the rate of import duty on vegetables, meat offals, fish, fresh and powdered milk, coffee, tea, nuts, and spices. We believe this will help to raise local production in all of these areas.

111. Mr. Speaker, Sir, mosquito-borne disease transmission poses one of the greatest threats to the tropical regions of the world including Malawi. Malaria is the number one killer disease in Malawi. We propose zero-rating VAT on mosquito bed-nets to make them affordable and encourage local production.

112. Mr. Speaker, Sir, at present, motor vehicles imported duty free under existing Customs Procedure Codes are subject to post importation control by the MRA indefinitely. To reduce the resulting administrative burden, these control measures will in future only last for 5 years from the date of Customs clearance. Amendments are also being made to a number of Customs Procedure Codes. In most cases, these are technical changes to bring existing Procedure Codes in tandem with legal requirements or existing practice. Full details are being published by the MRA today.

Conclusion

113. Mr Speaker Sir, for the past five years, this Government has demonstrated its commitment to uplifting the living standards of our people by, among other things, its commitment to strong economic policies that have resulted in unprecedented achievements in many sectors of the economy. This budget, Mr Speaker Sir, is intended to consolidate these achievements.

114. I call upon all Malawians to work with the Government to ensure that the progress made thus far is not lost. This is not the time to be complacent but to harness all our energies to ensure even higher economic growth. There is no doubt in my mind; we will all rise to the occasion.

115. Mr Speaker Sir, I beg to move.