

CHOOSING A NEW COURSE FOR A BETTER FUTURE

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Motion

1. Mr. Speaker, Sir, Honourable Members, I beg to move that the Estimates on Recurrent Account and Development Account for the 2000/2001 financial year be referred to the Committee of the whole Assembly to consider them by Vote and Head and, thereafter, that they be adopted.

Introduction

2. Mr. Speaker, Sir, let me start by expressing my deep gratitude for the great privilege and honour that has been bestowed on me by the Government and the people of the Republic of Malawi to present the 2000/2001 Budget Statement. As a new Minister of Finance and Economic Planning, who has been in office for less than six months, I regard this task to be the greatest challenge that I have to face. However, I am sincerely gratified that my work has been made easier by His Excellency the State President in the State of the Nation Address that he graciously delivered in this House when he opened the Budget Session on Monday, 5th June, 2000.

3. Mr. Speaker, Sir, this Budget is the first for Malawi in the 21st century. This is the time for taking stock and a time for charting a new course for the future. In this connection, we should consider the reasons for our past failures and successes and look at the lessons we must learn from the path that Malawi has travelled in the past. The critical nature of this Budget Session is unquestionable as evidenced by the presence, for the first time in the history of Malawi, of the Head of State in this August House. I am also humbled by the thought of presenting this budget to this Honourable House with five former Ministers of Finance present among those gathered here today.

4. Mr Speaker, Sir, as you may recall, His Excellency the State President, Dr. Bakili Muluzi, in his opening statement of this Budget Session, stressed the fact that as a country, as a people and as a Government, although we may be poor, we are rich in resources. We should, therefore, I quote " ***forget what we do not have and make the most of what we do have. let us use what we already have as a foundation to create more. let us make the most of our hard working spirit. let us make the most of our ambitions and our drive to achieve. let us make the most of our unity. let us exploit to the true fullest the fertile soils that God gave us. let us exploit to the fullest the abundant waters that surround us. let us exploit to the fullest the unique beauty of our land for the benefit of every citizen*** ". End of quote.

5. Mr Speaker, Sir, Honourable Members, these are wise words and wise advice from our Leader the State President, His Excellency Dr. Bakili Muluzi, who has summarized and underlined the fact that for us to forge ahead, we must make the best use of the resources that we already have. We need, therefore, to have a look at the available resources, determine our priorities and do the things that are critical in order to get the best results and forge ahead with our socio-economic development.

6. In this connection, Mr Speaker, Sir, the Budget for the 2000/2001 financial year that I am tabling before this august House bears testimony to the dream that the Government has and continues to pursue to **"accelerate poverty reduction of the people of Malawi through extensive social development and intensive private sector growth "** I am confident that this dream can be achieved if we are realistic about the challenges before us and choose a new course for a better Malawi. We cannot continue with **'business as usual '** if we are to achieve our dream.

7. Mr. Speaker, Sir, poverty in Malawi is widespread and deep. The majority of Malawians live in conditions of poverty. About half of the population have incomes below the Basic Needs Poverty Line. Infant mortality, child malnutrition and adult literacy remain very high. Population pressures, growing landlessness, increasing urbanisation, and greater volatility in prices and incomes have led to the increase in poverty. The situation just described is not acceptable. This is why poverty reduction remains one of the major human rights challenges facing the country. With vigour and unparalleled determination, we shall continue chasing our dream so that we can move out of the poverty trap. We want our children to move from malnutrition and sickness to better health and good education. We want the private sector to become a more vibrant engine for growth. We want our tourism sector to become more aggressive to reflect the fact that Malawi is indeed **"the warm heart of Africa. "** Last but not least, we want to ensure that Malawi should indeed be a better place to live and a better destination for investment.

8. Mr. Speaker, Sir, as we look into the new millennium, we are aware that our country continues to face enormous challenges in developing the economy and securing a minimum standard of living for the people. The country has a poverty problem similar to or even more severe than what prevails in our neighbouring countries. We also suffer from a dwindling resource base in addition to over population. Thus, our country faces formidable challenges in attacking the acute poverty, providing basic health and education services with particular emphasis on HIV I AIDS prevention, providing infrastructure and making our exports competitive, deregulating the economy, and correcting the fiscal deficit. Although we have made tremendous

progress in a number of areas and our efforts are impressive, we cannot deny the reality facing us that while there is more that needs to be done, we cannot do everything at once. We therefore need to be highly focused and do the best on what we have chosen. We need to choose the essential things and do them well. Success in achieving our dream will result from acting decisively with vigour and confidence. The challenge before us requires that we seek what is right rather than accepting what is easy.

9. Mr. Speaker, Sir, the budget for fiscal 200012001 reflects a more realistic and balanced direction for the Government by saying "Yes" to tax cuts and "No" to uncontrollable expenditure, cutting taxes for individuals, corporations and small to medium enterprises, reducing further the tax burden on low income earners, and investing in a healthy, well-educated and productive work force by balancing Malawi's top priorities namely education, health care, food security and tax cuts with the need to control the deficit.

10. Our basic principle is prudence. The basic guiding principle underlining this budget is that we must live within our means and strive for a balanced budget. We should not allow the growth of government spending to out-strip our GDP growth. Mr. Speaker, Sir, we are mindful that our Government has compounded the difficulties in the past by reaching well beyond its administrative and financial capacities. Any changes we make, therefore, should help us better handle the economic reform agenda.

11. Mr. Speaker, Sir, we find ourselves pursuing development goals in landscape that has been transformed economically, politically and socially. Among the many forces that are shaping the world in which development policy is defined and implemented are globalisation, that is, the continuing integration of the countries of the world, and localisation i.e. the desire for a self-determination and devolution of power and fiscal responsibility. In charting the new course for a better future, the budget has been crafted by focussing on several key issues including public sector restraint, strict expenditure control in Government, institutional deepening constructive responses to globalisation and ending the aid dependency predicated on the premise that a good donor is one with an exit strategy.

12. Malawi should come to realise that globalisation and liberalisation has come to stay. In order to survive in this global reality, the country needs to take very serious strategies that will enable it compete effectively. Among other factors, the serious application of standards and quality management principles in all the sectors of the economy will enable the country gain that competitive edge so essential to survival. Malawi should, therefore, fully embrace the principles of standards and quality management starting with the public sector and going through the entire private sector. Malawi should develop a

national policy in this area that will cover the issues of the application of standards in all sectors of the economy, the production and provision of quality goods and services and in particular the application of quality certification on all exported products so as to ensure that the market is accessed and maintained.

13. We should be mindful that rapid development in information technology and globalisation are making the global economic environment increasingly volatile and unpredictable. Malawi's best defence against the forces of globalisation should be predicated on running a clean, transparent and accountable government, by consolidating the rule of law, preserving basic human rights, maintaining a free flow of information, operating consistently in accordance with best international standards and providing a level playing field for all businesses.

14. There is now a rich literature indicating that economies which have benefited most from globalisation in the past two decades share some common features. They depend on open trade policy, have a clean and accountable government upholding a rule of law, places a high priority on education and health, charge low tax rates and have a flexible labour market. The new course for a better Malawi demands that we embrace these characteristics and make better use of information technology to enhance Malawi's competitiveness so as to maximise the benefits of globalisation while minimising the associated risks.

2000/2001 Budget Frame

15. Mr. Speaker, Sir, it is said that ***"when you don't know where you are going, you cannot get lost. However, the problem is that when you get there you may not even know whether you have arrived or not"*** In contrast to this saying, the dream for Malawi which I mentioned earlier and which constitutes the centrepiece of our focus, provides the direction and destination. We have properly charted our course to the destination of peace and prosperity for the people of Malawi. We should therefore leave no stone unturned as we integrate with the Global Village through advancement in information technology and improved macroeconomic management in order to attract both local and foreign direct investment that is necessary to enable us reach our destination.

16. Mr Speaker, Sir, the Budget for the financial year 2000/2001 has therefore been premised on necessary budget reforms that are aimed at ensuring that Poverty Reduction and Growth are enhanced through the best use of the resources available. In this connection, the principle that has guided the Budget is that we should not try to do everything because that is tantamount to not accepting our reality and we cannot succeed. It is important to note that a good leader not only sees the way to success but also knows when success is not possible.

The wise counsel from His Excellency the President that we should **"forget what we do not have and make the most of what we do have"** underscores the fact that we cannot do everything, especially in light of a binding constraint on account of limited resources. As you are aware, Mr. Speaker, Sir, Honourable Members, **"a country that tries to do everything is a country without an agenda, and a country without an agenda is a country without vision."** We must accept Malawi's carrying capacity and do our best within the constraints of our resources.

17. Mr Speaker, Sir, Malawi has a vision. Malawi has an agenda. Malawi wants to make the best use of the resources that are available in order to pursue its agenda and fulfil its vision. Mr Speaker, Sir, Honourable Members, the 2000/2001 budget frame has been initially based on the resources that are locally available and has focused on priority areas and activities. It has also taken the necessary measures to facilitate the way forward in order to accelerate Poverty Reduction and Growth in the economy.

18. Mr. Speaker, Sir, in the pre-budget consultations, in almost all discussions the focus was on budget deficits and their detrimental effects on the economy. One message came out consistently loud and clear that the public sector must first exercise greater prudence in its spending before dipping into tax payers' pockets. Budget discipline is essential for all countries, not just Malawi. There is now a rich literature tracing many of Africa's economic difficulties over the last three decades to financial excess in the public sector. For the future, sustained growth and development will continue to be elusive while governments run deficits. Even debt relief, however, generous, will be futile in such environments. Many of the economic problems that have emerged across Africa over the past three decades originated in chronic budget deficits. As such, a key element in efforts to restart and sustain economic growth and development in Malawi is the need for government to sharply reduce its deficit. Indeed if Malawi is to work itself out from underneath the huge debt burden we need to eliminate deficit financing completely.

19. Mr Speaker, Sir, you may wish to note that the Budget I am presenting has also benefited widely from other stakeholders in this country. At the initiative of the Government, pre-budget consultations were undertaken with stakeholders, in particular with the Private Sector, the Donor Community, Members of Parliament including the opposition spokespersons of finance, the Budget and Finance Committee and the Public Accounts Committee of Parliament, Civil Society, Principal Secretaries of various Ministries and Departments, Chief Executives of parastatals and Chief Executives of Local Assemblies. These consultations have been most useful and have assisted the Government in refining and ensuring that the 2000/2001

Budget takes into account the various concerns and aspirations of the people of Malawi.

20. *"In extremis, extremis sunt tentanda."*

(In extreme situations, extreme remedies are justified). Among the obstacles to development in the past is the fact that as a people, we have readily taken to the material products of developed and wealthy countries but have not yet accepted the sacrifices that are the pre-conditions of attaining higher living standards. To accelerate development of people at all levels, the society must be willing to accept the necessary sacrifices. As was clearly pointed out to me by a distinguished participant during the pre-budget consultations, we need "to remind ourselves that there is no gain without pain" and that he that is to reap the harvest is the one who must do the ploughing". It is very crucial for us as a nation to be mindful that we should not ask others to do for us what we can do for ourselves. Indeed there is a limit to which people of other countries will pay tax to their government so that it donates some of the proceeds to the people of Malawi who need cheap fertilizers, cheap fuel for their BMWs and Mercedes Benz, and Land Cruiser VXs, and to pay for our passports so that we can go for nice vacations in their countries and elsewhere. Mr. Speaker, Sir, I strongly believe that the best way to re-gain our dignity as a people is to move for greater economic independence. Therefore as government, and as leaders, we should all take an active part in re-orienting people away from a dependency culture to one of self-reliance. We should learn to discipline ourselves rather than to be disciplined by the state, by donors or by starvation.

21. Mr. Speaker, Sir, you may also wish to note that in addition to the principle of prioritisation, the 2000/2001 Budget frame has incorporated the principle of realism with respect to the cost of providing goods and services that are for exclusive consumption and also those where consumption is shared. Full cost recovery will, therefore, apply for all goods and services that are for exclusive consumption while cost sharing will apply for those goods and services whose consumption and benefits are shared. The idea is to take the pressure off the Budget and enable Government use the available resources on core and key activities.

22. The principle that has also been incorporated in the budget frame is that of avoiding borrowing without due and thorough consideration of cost and conditionalities, especially when such borrowing is mostly targeted for consumption and without a clear sense of how the said borrowing will be repaid. If the country has to borrow it must be for development. Also, borrowing should only be entered into if the conditions are right and acceptable. In the long term, the focus of the budget frame in development projects is to ensure that we proceed with projects that we can, as a Government and a country, sustain.

Performance of Malawi Economy in 1999/2000

23. Mr. Speaker, Sir, before I turn to the presentation of the 2000/2001 Budget, allow me to give an overview of our economic performance during the 1999/2000 fiscal year. This is a necessary background to the policy direction and measures contained in the 2000/2001 Budget.

FISCAL PERFORMANCE

24. Mr. Speaker, Sir, the 1999/2000 Budget was designed to achieve, inter alia; real Growth Domestic Product (GDP) growth of 5.1 percent from 3.1 percent in 1998/99, a strong balance of payments position with an import cover of 4.5 months and an inflation target of 21 percent by December 1999. Domestic revenue as a percentage of GDP for 1999 was projected at 14.3 percent. Overall expenditure was projected at 25.08 percent of GDP. The overall deficit excluding grants was to be at 10.55 percent of GDP while the deficit including grants was to be at 1.95 percent. These targets were perceived to be consistent with a money growth of 28 percent.

25. Mr. Speaker, Sir, some of these targets were unfortunately not achieved. The real GDP grew by only 4.2 percent in 1999. Inflation was extremely high and interest rates have persistently been high. Annual inflation rose to 44.8 percent in 1999 as compared to 29.7 percent in 1998. Domestic revenue as percentage of GDP was 15.92 percent. The overall deficit excluding grants was 9.30 percent while the deficit including grants was at 1.78 percent.

26. Mr. Speaker, Sir, this out-turn reflects, to a large extent, our over-reliance on donor support to finance the Budget. About 40% of the Recurrent Budget and 80% of the Development Budget are donor-funded. This reliance has caused problems in Budget implementation, particularly because of irregular inflows of donor resources. In addition, there were also some slippages on expenditure as evidenced by an accumulation of arrears in the system. The combination of these factors aggravated the deficit situation leading to a failure to meet the programmed repayment schedule to the banking system. It is against this background that Government has had to resort to domestic borrowing at high cost to finance its operations. During the fiscal year, Government borrowed a total of K6.9 billion from both foreign and domestic sources. Of this amount MK3.1 billion was paid as interest charges. Consequently, the 1999/2000 deficit and Government programme targets were missed. Worse still, the heavy Government borrowing from the banking and non-banking sector resulted in the private sector being denied the opportunity of using such funds for investment.

27. Mr. Speaker, Sir, in order for the Government to have control over the implementation of its Budget, it will have to live within the

constraints of its domestic resources. Through the Medium Term Expenditure Framework (MTEF), we are emphasizing on prioritisation of programmes and activities so that the most important activities get adequate funding out of the available resources. Despite the heavy demands on the Government Budget to provide various services, we have to realize that as a country we cannot, indeed, do everything. We, therefore, have to start making serious choices to ensure that expenditures and available resources are matched. We also have to enhance our revenue collection through tax enforcement, expanding the tax base and improvements in tax administration so that any additional resources we collect can assist in funding other needed Government services.

Monetary Developments

(a) Money Supply

28. Mr. Speaker, Sir, monetary conditions during the year remained tight. In general, the monetary policy stance was in line with Government's efforts to contain inflationary pressures while at the same time creating a stable macroeconomic environment. Consequently, the growth in the money stock slowed down from 49.5 percent recorded in June 1999 to 33.6 percent by the end of the year. As at end April this year, the growth in the money stock had slowed down further to 11.8 percent.

(b) Reserve Position

29. The country's foreign reserves experienced some decline since the last half of 1999. The total gross reserve position, therefore, moved from a level of Us\$295.7 million (equivalent of 4.9 months of import cover) in January 2000 to a position of Us\$257.2 million (or 4.3 months of imports) as of end-May, 2000. Since the Reserve Bank of Malawi kept supplying foreign exchange to the market during this six-month period, its reserve position dropped significantly, from US\$244.5 million (4.1 months of imports) in January 2000 to the current level of Us\$203.7 million as of June 16, 2000 (equivalent of 3.4 months of imports). Given the moderate recovery in tobacco prices recently, and the apparent stabilization of the kwacha, this reserve position is considered to be healthy enough to support the normal servicing of the country's foreign debt and the financing of payments of necessary imports. In addition, the onset of the stability of the kwacha is expected to reduce speculation for a further depreciation, and hence the Reserve Bank of Malawi is expected to record large levels of purchases of foreign exchange in the next few months. There are good prospects for a resumption of normal balance of payments support inflows and if this happens, the reserve position should be expected to improve significantly in the coming months.

(c) Exchange Rate Developments

30. Recent developments in the foreign exchange market have been a result of both international and domestic factors. On the international scene, the United States dollar has been strengthening against other major currencies, apparently being buoyed by strong economic growth in the USA. Consequently, the South African rand, which has the highest weight in the Malawi kwacha exchange rate, has been depreciating vis-à-vis the dollar. From the domestic side, the scarcity of foreign currency created by poor sales of tobacco and hoarding of foreign exchange by exporters has also exerted downward pressures on the kwacha.

31. In view of these developments, the kwacha has steadily depreciated over the first six months of this year, having moved from K46.60 to a dollar at end- January to K52.44 by end-May 2000, a drop of 12.5 percent. As at June 26, 2000 the Kwacha was trading at K55.49 against the dollar, an apparent indication of a slight appreciation after reaching its record low of K55.53 to a dollar on June 23, 2000. There are prospects for the stability in the kwacha in view of the moderate recovery in tobacco prices observed recently and particularly when exporters start to sell off their excess foreign exchange on the market, and if donor capital flows begin to flow normally. Furthermore, the stabilization will also depend on developments in regional currencies, particularly the Rand and the Zimbabwe dollar.

(d) Domestic Credit

32. The total net credit to the Government sector, Mr. Speaker, Sir, improved substantially during the just ending fiscal year despite some hiccups within the period. By the end of April, 2000, Government had made a net repayment of about K1.7 billion to the banking system compared to a net repayment of K332.0 recorded in June 1999. That notwithstanding, Government borrowing (gross) from the Central Bank at more than K3.3 billion was rather on the higher side, especially as it represented the printing of money. While Government position improved during the year, net credit to the parastatal sector however, continued to remain high. At K1.0 billion in April, 2000 net credit to the statutory bodies was very high when compared to only K366.3 million recorded in June 1999. The situation was largely due to borrowing by the National Food Reserve Agency (NFRA) which was approved by Parliament.

Private Sector Performance

33. **Small and Medium Enterprises:** Mr. Speaker, Sir, Honourable Members, as you might be aware, a majority of small and medium scale Malawian owned enterprises in the private sector have for a long time been marginalized due to lack of financial resources. The result

has been that most of the *'would-have- been'* viable enterprises have failed to develop root, good ideas and intentions and have wilted in the processes. Hardest hit has been the manufacturing industry. Local manufacturers who had shown determination to compete favourably both locally and internationally, have failed to produce products of competitive standards due to inadequate investment funding, resulting in most of them using antiquated machines and technologies. As a commitment to ensuring that the private sector should play a major role as the engine for economic development in Malawi, Government introduced the Small and Medium Enterprises Fund (SMEF) to provide business loans to small scale businessmen and businesswomen in 1996. At the moment, the Government is evaluating the progress that has been made under this facility. The Government will also explore other facilities such as the credit guarantee scheme in order to assist the small and medium enterprises.

34. The Honourable House may wish to recall that the Government had announced during the presentation of the 1999/2000 Budget that it would put aside a provision of K150 million in the budget as a commitment to promoting private sector development during the 1999/2000 financial year. However, due to budgetary constraints, it was possible to allocate only K40 million to the Fund to provide financial support to Malawian entrepreneurs with serious business endeavours.

35. Mr. Speaker, Sir, I would, however, like at this point, to make an appeal to the people who borrow money under the various facilities that the Government puts in place to repay their loans as required. It is only through the repayments that it would be possible to furnish the revolving fund and such related facilities for more people to benefit. Otherwise, coverage would be limited if the beneficiaries do not repay their loans.

36. Mr. Speaker, Sir, let me now briefly highlight the performance of the private sector in general and the parastatals during the same period.

37. **Private Sector in General:** The private sector did not perform as well as we would have wished; private sector capacity is becoming a source of growing concern in this country. The quality of human resource within the private sector is declining rapidly and the quality of management needs a serious overhaul. It appears that a number of businesses are going bankrupt largely because of poor management and failure to remain competitive. For instance, it is disheartening to note that a 100ml bottle of spring water all the way from Zimbabwe is selling at MK12.00 while a similar bottle of spring water, just from Thyolo, modestly labelled, is selling at MK21.00. Unless companies reform according to the standards and demands of the world economy, Malawi will be left out in this race of securing economic

benefits resulting from the global economy. Economic decisions, wherever they are made in the world, must take international factors into account. **Malawi, in particular the private sector, has to change.**

38. While it is the duty of the Government to improve the quality of education in the country, the private sector itself should take a keen interest in investing in education, particularly in vocational training so that there is adequate trained labour force which the industrial sector badly requires. I expect, therefore, that programmes like Technical and Vocational Training (TEVET) will be strongly supported by the private sector. Government is prepared to provide the necessary incentives to ensure that capacity building efforts are encouraged.

39. **Parastatals** : Mr. Speaker, Sir with regard to the performance of parastatals, we are saying that all parastatals must carry their own weight. They should cover their costs and service their debts. There is, therefore, the need for these organizations to restructure their operations, and to be realistic in their approach to the new competitive global economy. Government has already held meetings with some key parastatals where it has been made clear that recourse to the Treasury will only be entertained upon fulfilment of certain conditionalities including demonstrated financial prudence.

40. Allow me, Mr. Speaker, Sir, to review the performance of a few parastatals in the 1999 calendar year. Looking at the Electricity Supply Corporation of Malawi (ESCOM) Limited as an example, what has been observed is that its financial position deteriorated further in 1999 despite increases in tariffs and debt relief from Government. The parastatal accumulated substantial debt service arrears which had a significant impact on the Government Budget. A major restructuring of ESCOM is, therefore, underway to improve the finances of the organization. This restructuring will include changes in financial management systems, organizational changes, expenditure controls and adopting tariffs which reflect costs. On the issue of covering costs, how can ESCOM produce a kilowatt-hour of electricity at the equivalent of US\$ 0.06 and sell it at US\$ 0.04 and expect to make adequate revenues to sustain itself? We have also observed that some expenditure lines in ESCOM's budget do not fall under its mandate. In general, ESCOM is a parastatal that is spending beyond its means. It has, however, been observed that to a large extent the problem is due to the style of management which needs to be changed and improved.

41. Mr. Speaker, Sir, looking at the power sector in general, the Government is determined to improve efficiency and effectiveness of power sector by promoting private investment and fostering competition in power generation, transmission and distribution. To facilitate the attainment of this objective, the Government recently instituted a new Electricity Act, which has liberalized the electricity

sector and created the National Electricity Council as a regulatory and licensing agency. Private operators will now be permitted to generate power for sale to the national utility, or to generate and distribute power to consumers in areas of their choice. ESCOM will henceforth be one player in a more competitive market.

42. Another example of failure to cover costs is Air Malawi Limited which seems to be in perpetual financial crisis and is unable to service its debt. This can further be explained if you consider that Air Malawi has a total of 203 seats putting all their planes together and employs about 474 people. One of Air Malawi's competitor in South Africa has 14 planes with a seat capacity of over 1400 and yet it employs only 300 people. How can our national flag carrier compete under this scenario? If nothing is done to correct the situation, Air Malawi will continue to perpetually be seeking financial relief from the Treasury.

43. The two major Water Boards of Lilongwe and Blantyre have expanded facilities, extended service coverage and introduced some measures to improve efficiency over the years. However, their financial positions have deteriorated in recent years despite tariff increases. The Blantyre Water Board is now showing some signs of recovery. However, both Water Boards still have huge long-term debts.

44. Mr. Speaker, Sir, Honourable Members, you may wish to know that despite the fact that telecommunication is the most lucrative business there is today in the world, Malawi's rate of penetration is among the lowest in the World. For example, Malawi Telecoms Limited has a telephone penetration rate of 0.4 percent of the population which is the lowest in SADC, and a waiting period for acquiring new telephone lines reaching as high as 10 years. It has 10 lines per employee as compared to 100 to 1,000 lines per employee in an average advanced country. The budgetary impact of such inefficiencies affects all Malawians.

45. I would like to inform this august House that, in order to improve the telecommunications sector, the Government has adopted an aggressive plan of trebling the telephone penetration rate by 2001. To achieve this plan, the policy of Government is to foster private sector investment and competition in all telecommunication services by allowing the participation of new private service providers, as evidenced by the licensing and operation of a second provider of cellular phones, and by splitting the Malawi Posts and Telecommunications Corporation (MPTC) into Malawi Posts Corporation (MPC) and Malawi Telecoms Limited (MTL) as separate businesses. In the coming year, Government will work on consolidation of these two institutions to make them more efficient and effective.

46. It is, therefore, our belief that the split will go a long way in improving the performance of these two new organizations in the

delivery of their services. While plans are underway to seek a strategic partner for MTL, MPC will remain in the public sector and, therefore, will require support from the Government.

47. The profit position of Malawi Development Corporation (MDC) has slowly been declining over the years. In recent years, MDC has been undertaking investment ventures of low return to capital and as a result, MDC is another corporation that is in serious financial difficulties. In order to address the deteriorating financial position of MDC, Government commissioned a study to develop a restructuring plan for the organization so that it could develop into a more efficient and effective private sector development catalyst.

48. Mr. Speaker, Sir, it is important to note that the blame for the poor performance of our parastatals does not all just fall on management of the parastatals alone. Some of the problems, as we have discovered, are of an exogenous nature. There are allegations of interference with management and inappropriate or incompetent boards. This state of affairs has to change if indeed we are interested to see the parastatal sector contribute positively to the economy of a better Malawi. The composition and qualification of Board Members must be in line with the objectives or mission of the parastatal. All parastatals must fully account for the utilization of the public resources at their disposal. As I mentioned earlier, Government will only support parastatals that have shown commitment to reforms and are following prudent financial management.

49. Mr. Speaker, Sir, it is important for the House to note that not everything is so gloomy. According to the Malawi Investment Promotion Agency (MIPA) investor-tracking system, so far investment of about US \$44.4 million has been attracted to Malawi during the 1999/2000 financial year. At least (5) five manufacturing companies have been located in Export Processing Zones (EPZs). These are mainly textile manufacturing companies that have managed to generate employment for over 400 Malawians. We do hope this trend will continue in the coming year.

50. Moreover, during the 1999/2000 fiscal year, as part of the privatisation programme, a number of divestitures were completed, mostly in agriculture, transport, mining and manufacturing. Overall, the privatisation program is, therefore, broadly on track. In addition, Government is looking into ways and means to encourage shareholding of these privatised companies by ordinary Malawians.

Social Sector Performance

51. Mr. Speaker, Sir, I would like now to give a brief on how the social sector has fared during the 1999/2000 financial year.

52. **Education:** The sectoral goal in education is to increase access to quality, relevant and efficient education to the children and the youth of Malawi. Presently, the strategies being implemented to achieve this goal at primary and secondary school levels are the provision of necessary infrastructure, equipment, teaching and learning materials and the provision of qualified teachers. Other strategies being implemented include the reviewing of the role of private sectors in the education sector and distant education institutions.

53. Mr. Speaker, Sir, according to the Malawi Public Expenditure Review conducted in 1999/2000, there has been a general increase in Government expenditure allocation to the education sector since 1993/94. The share of recurrent expenditure for education in the national budget has increased from 20 percent in 1993/94 to 27 percent in 1999/2000. This compares favourably with other African countries. For the development budget, allocation has also increased within the same period. However, at a per capita expenditure of U\$16, Malawi is still spending less as compared to other countries in the region where the per capita expenditure for Education is already at U\$24.

54. On average, primary education in 1999/2000 had a share of 57 percent of the total allocation to education, making it the highest, followed by secondary education at 25.5 percent, the University at 16 percent and 1.5 percent for Vocational education. However, the picture on recurrent expenditure by input is still worrisome. The recurrent budget continues to be dominated by personal emoluments which account for over 70 percent, followed by goods and services at 20 percent. Within goods and services, the share of teaching and learning materials reached a peak of 7 percent as far back as 1996/97.

55. **Health:** Mr. Speaker, Sir, the overall goal of the health sector is to raise the level of health status of all Malawians by reducing the incidence of illness and occurrence of death. This goal is to be achieved through promotive, preventive and curative health services such as promotion of clean water and sanitation, expanded programme on immunization, family planning and controlling the spread of HIV/AIDs and malaria.

56. In the 1999/2000 Budget, the Health Sector was allocated K2,668.14 million, representing an increase of 98.2 percent in nominal terms over the 1998/99 Budget. The 1999/2000 allocation was 11.6 percent of the total Budget and 3.2 percent of GDP. The comparative

shares for 1998/99 are 8 percent of the total Budget and 2.1 percent of GDP. Although the per capita expenditure on drugs has been increasing from Us\$0.60 in 1994/95 to Us\$0.78 in 1998/99T this is still below the World Health Organization recommended Us\$1.25 for the sub-Saharan African Countries. In spite of the deliberate efforts to increase the share of health expenditure in total budget, the impact has been eroded by high inflation and population growth rates.

Budget Reform Programme

57. **Public Expenditure Review:** Mr. Speaker, Sir, the Government in collaboration with the World Bank has undertaken a Public Expenditure Review (PER) in order to improve public sector expenditure performance. The main objective of the PER was to contribute to the ongoing process of improving allocation of public resources, particularly with quality and content of public expenditure. The PER has been a major undertaking after the introduction of the Medium Term Expenditure Framework (MTEF) and will go a long way to improve public expenditure management. It is our sincere hope, that given the objectives of the PER, we shall get the much needed support from the public including this House so that we can implement the PER to the fullest with determination.

58. **Medium Term Expenditure Framework Review:** Mr. Speaker, Sir, the MTEF process that Government has been implementing during the past two years will become an important tool in the design and implementation of the poverty Reduction and Growth Strategy (PRGS). Under the MTEF, ministries and Departments are required to prioritise their activities so that high priority activities should get sufficient allocations while low priority activities are scaled down or dropped altogether. A review of the MTEF undertaken in 1999/2000 financial year has shown that while the framework has indeed resulted into high allocation of resources to priority sectors of education, health and agriculture, the allocations within the sectors have not resulted into high allocation to priority activities. We, therefore, call upon all Ministries and Departments to do a thorough prioritisation in order to ensure that adequate resources are allocated to those areas with greater impact. The review also revealed the need for more transparency and accountability in the use of resources. While measures have been put in place for transparency, it has been observed that this has not deepened its roots as to ensure total accountability. In this regard, I call upon Controlling Officers to ensure that they develop public expenditure systems that are transparent.

59. **Credit Ceiling Allocation System (CCAS) :** Mr. Speaker, Sir, Government efforts to maintain prudent financial management have been frustrated by the accumulation of arrears, unpredictability of

Government funding, rendering planning by ministries difficult, and heavy Government borrowing from the non-banking sector when it did not have to do so. The system whereby Government had to move cash into commercial banks at the beginning of each month meant that Government was borrowing when it did not have to. In order to ensure proper planning and indeed to avoid unnecessary borrowing, Government has introduced the Credit Ceiling Allocation System (CCAS). Under this system, Government will not be required to move cash into the commercial banks up-front. The commercial banks will be given a credit ceiling for each ministry. On a daily basis, whatever amounts ministries would have drawn, the banks will have to claim reimbursement from the Reserve Bank of Malawi. In addition, ministries will be informed on a quarterly basis their funding levels. This should enable ministries to plan their expenditure in advance and avoid accumulation of arrears. These are revolutionary measures and require commitment from all of us if they are to work. 60.

Commitment Control: In recent years, Mr. Speaker, Sir, Government has accumulated arrears of outstanding payments to various suppliers. To ensure that this is controlled and that no ministry or department accumulates new arrears, we have introduced a commitment control system. Under this new system, ministries will be informed on quarterly basis of their funding allocations. Commitments will be made based on these funding levels rather than budgeted levels. All outstanding commitments will be reported on a monthly basis along with expenditure returns for the previous month. Mr. Speaker, Sir, these are stringent measures that provide further evidence of Government's seriousness in its efforts to contain the situation in the economic stabilization programme.

61. Integrated Financial Management Information System (IFMIs) : In pursuing further measures to improve financial accountability, progress has been made in the implementation of computerized Integrated Financial Management System (IFMIs) as a core accounting system for the Government. The system aims at strengthening financial management with emphasis on controlling and monitoring of expenditure. The Government is about to complete the implementation of a new system which integrates personnel data with the payment of salaries, pensions and staff loans in an effort to improve and strengthen the management of the wage bill and human resources. In order to facilitate the smooth implementation of these financial systems, a computerized network on an integrated fiscal reporting system will be established linking the Ministry of Finance, the Reserve Bank of Malawi and line ministries in order to facilitate easy access and exchange of financial information for timely decision making.

Economic Programme for the 2000/2001 Budget

62. Mr. Speaker, Sir, the 2000/2001 economic programme will be geared to effectively begin implementing the Poverty Reduction Strategy. It will, therefore, aim at a comprehensive prioritisation of resource allocation to the social sectors. The programme will also seek to raise output (GDP) by 5.1 percent this year, and to bring down inflation to 10 percent by the end of 2001. To achieve these targets, the domestic fiscal balance in the 2000/2001 fiscal year is to be reduced to 1.4 percent from 3 percent of GDP in 1999/2000 fiscal year. This should permit the Reserve Bank of Malawi to ease the current squeeze on the economy while at the same time pursuing sound monetary policies.

63. The economic programme will essentially reflect the Government's intention to promote the export of crops including maize and to scale down the 'starter pack' scheme while strengthening the safety net programme. Projected financial flows and grants from donors in the programme will allow significant payments of central Government debt to the Reserve Bank of Malawi, which in turn would help attain the monetary targets while ensuring adequate domestic credit expansion to support private sector growth and overall economic activity.

Guiding Principles for the 2000/2001 Budget

64. **Gender:** Mr. Speaker, Sir, Budgets are not neutral. They are instruments used to implement social and economic policies. By their nature, budgets will inevitably affect the distribution of resources amongst groups of people. Gender sensitivity in the preparation and implementation of Government budgets increases the chances of implementing social and economic development process that are efficient, effective and equitable. One example of such programme is the Girls Attainment for Basic Education (GABLE) Mr. Speaker, Sir, the House may wish to know that the Government is fully committed to move along with women in development as we pursue economic prosperity for Malawi.

65. **Government -Private Sector Co-ordination :**Mr. Speaker, Sir, Government is encouraging consultation with various stakeholders in public policy formulation. As I mentioned earlier, we recently held pre-budget consultations with various stakeholders in order to ensure that the 2000/2001 Budget is responsive to the problems and needs of Malawians. We also invited the private sector, Members of Parliament and the civil society to the recently ended Malawi 2000 Consultative Group (CG) Meeting. We shall make similar consultations in the process of developing the Poverty Reduction and Growth Strategy for the country. We believe that this valuable consultative processes

should be improved and consolidated further. In this way, we will begin to address the problems facing the private sector, civil society and Malawi as a whole.

66. **Debt and Aid Management:** Mr. Speaker, Sir, in order to achieve our economic programme for the 2000/2001 fiscal year, Debt and Aid Management remains a critical element in the implementation of the Government Budget and Development Programmes. While there is need to improve capacity of donor coordination within Government, it is also crucial for our cooperating partners to coordinate and harmonize their assistance to Malawi to avoid duplication of efforts and programmes. This will require that donor objectives and conditionalities are in line with Government priorities. Uncoordinated objectives and a multiplicity of conditionalities have created serious problems with implementation of our economic programmes. Delayed disbursements have also posed a major disruption to cash flow management leading to slippages in meeting our fiscal targets. Uncoordinated objectives and a multiplicity of conditionalities have so far created serious problems with implementation of economic programmes.

67. Mr. Speaker, Sir, donor assistance and conditionalities must add to the solutions and not create more problems. As I reflect on my interaction with donors, or more appropriately our international development partners, I am reminded of a Lawyer who had to deliver a speech on the **"The gift of giving"** to a distinguished gathering of villagers. As the Lawyer stood up to make her speech, the faces of the audience quickly fell. She began **"If you were to give me an orange you'd simply say, I give you this orange'. But when the transaction is entrusted to a lawyer they say, "I hereby give and convey to you all and singular, my estate and interest in, rights, title, claim, and advantages of and in said orange, together with all its rind; juice, pulp and pips and all rights and advantages with full power to bite, cut and otherwise eat the same or give away with and without the rind; skin, juice, pulp, anything herein before or after or in any other deed; or deeds, instruments of whatever nature or kind whatsoever to the contrary in anywise notwithstanding..."** It is pleasing to note that there is now emerging consensus among donors to coordinate their assistance to Malawi and in this regard a number of donors have already done so. This coordination will among other things include common disbursement procedures, joint appraisal missions and common conditionalities. I now appeal to the other donors to also do the same.

68. Mr. Speaker, Sir, in order to ensure transparency and accountability for funds that we receive from our development partners, it is important that we incorporate all their assistance into

the Budget. While we have started to do this with some of our development partners, we will ensure that this is done with respect to all donor support in order to make the Budget all inclusive. I would therefore, like to take this opportunity to appeal to all the development partners to support the Government in this effort by providing all the information to Government on expenditures for all their programmes and projects in the country. This will also enhance preparation of our expenditure monitoring activities.

69. Poverty Reduction and Strategy Paper: Mr. Speaker, Sir, Malawi continues to benefit from the cooperation of the International Monetary Fund (IMF). The third year Enhanced Structural Adjustment Facility (ESAF) which was completed in 1999 is now to be replaced by the Poverty Reduction and Growth Strategy (PRGS). Among many things, the third year ESAF helped Government reduce inflation from 53 percent to 28 per cent between end 1998 and end 1999, and enhanced the pace of GDP growth from 3 percent to 4 per cent of GDP. During the ESAF programme the external position improved substantially as the current account deficit shrunk from 8 to 4 per cent of GDP and gross official international reserves reached a level equivalent to 4 months of imports at end- December 1999. Important improvements in tax administration and enhanced revenue collections were also achieved. A number of structural reforms were implemented in the areas of (a) petroleum marketing, liberalization of which was accompanied by the adoption of a pricing formula allowing automatic pass-through of cost increases; (b) divestiture of some of the 100 public enterprises scheduled for privatisation during 1996-2000; and (c) agricultural marketing reform by starting the process of ADMARC's commercialisation and privatisation. I have the honour to report that the Government has now embarked on the development of a Poverty Reduction Strategy Paper (PRSP). The strategy articulated in the (PRSP) will strengthen Government's efforts to further reduce poverty in Malawi as evidence has shown that despite improvements in the macro-economic indicators, over 60 percent of Malawi population still live below the poverty line and income distribution is highly inequitable. The new Poverty Reduction Strategy Paper (PRSP) will replace the Policy Framework Paper (PFP) which was developed in the past as the basis for donor assistance of Malawi's economic programme. Until it is finalized, the support of our cooperating partners, including access to the Highly Indebted Poor Countries (HIPC) initiative which Malawi has decided to join will be based on an Interim PRSP which at the moment is in the process of being finalized.

70. Economic Policy Reforms: Mr. Speaker, Sir, Malawi has for some time now been implementing reforms under various World Bank funded programme. We have just completed the second Fiscal Restructuring and Deregulation Programme (FRDP II) and we are now negotiating with the World Bank for a successor credit which will be

about US\$30 million (approximately MK2 billion). This credit is intended to support Government's efforts to accelerate the structural reforms started in 1995. These reforms will among other things assist to (a) improve the quality of Government expenditure allocation, (b) improve public financial management and accountability, (c) improve civil service efficiency through civil service and salary reforms, (d) carry out the privatisation of telecommunication and financial sectors and assets of ADMARC, and (e) improve the environment for private sector development by instituting systematic Government/private sector consultations.

71. The proposed credit is expected to also lay the foundation for poverty reduction through three aspects :- Firstly, by creating the conditions for faster poverty reduction and growth; secondly, by increasing the pro-poor orientation of public expenditure allocation based on the findings of the Public Expenditure Review (PER); and lastly, by explicitly supporting the adoption and implementation of a safety net strategy that targets the poor.

72. **SIPs AND SWAPs:** Mr Speaker, Sir, one of the problems that Malawi has constantly faced is that Sector projects and programmes have not adequately reflected Government priorities. Sectoral investments have, therefore, not been consistent with expenditure targets and other macroeconomic indicators. Thus, the Government has adopted Sector Investment Programmes (SIPs) and Sector Wide Approaches (SWAPs) to Sector development. It is expected that these approaches will ensure that a comprehensive review of Sector policies and strategies is undertaken in consultation with other stakeholders and donors resulting in an agreed prioritised list of follow up activities. The prioritised activities will constitute projects and programmes which will form the basis of the Medium Term Expenditure Framework, (MTEF).

73. Mr. Speaker, Sir, since this new approach provides for adequate consultation and coordination between the Government and the Donor Community through the Sector review process, it will also enhance coordination in programme implementation among various stakeholders including the Non- Governmental Organisations and the private Sector. SIPs and SWAPs have to date already been introduced in the three key Sectors of Education, Health and Agriculture and there are plans to extend them to other Sectors. The results have so far been encouraging in terms of better prioritisation of activities in the sectors, enhanced coordination at sectoral level by bringing all donors to a discussion table, better resource utilisation as all the resources including those by the NGO Community are planned together and improved expenditure management by enhancing revenue generation measures, promoting Sectoral reforms and encouraging a decentralised accounting system. In this regard, the Government is

committed to the implementation of project and programmes through this new approach.

74. **Public and Civil Service Reform:** Mr. Speaker, Sir 1 Government has been implementing Civil Service reforms with a view to streamlining the service and building the necessary capacity for efficiency and effectiveness. However, At the Consultative Group (CG) Meeting held in May this year, we emphasized that Civil Service reforms should not just be for their own sake but that they should be based on necessity. Care and diligence should be exercised when implementing such reforms. Civil Service reform will involve keeping the right size of Government with properly motivated civil servants, relinquishing all functions and activities that can be done better by the private sector, and training and re-deployment of staff based on qualifications and need. Public Sector Reform has an extensive agenda and will require support and co- ordination of donors and Government. It is crucial that there is transparency and clear dissemination of information on the changes through the Cabinet Committee on Public Sector Reform and the Steering Committee of Principal Secretaries working on implementation plans at a technical level.

75. **Private Sector Development:** Mr. Speaker, Sir, we have a vision for the private sector because we recognize that low rates of private sector investment and low levels of productivity are serious constraints mitigating against the national aspirations for sustainable economic growth and development. Government has made a commitment to provide a wide range of attractive incentives to promote private sector development. Our policies for private sector development include further privatisation and commercialisation of state-owned enterprises, especially in the financial, telecommunications, and power sectors; instituting more effective procedures on employment permits for investors; establishing more efficient procurement arrangements for petroleum products; and strengthening the development of transport infrastructure.

76. **Financial Sector:** Until recently, the financial sector in Malawi was dominated by two banks which controlled close to 90% of all banking assets. In the past few years, several smaller banks have entered the sector, but the level of efficiency remains low in this sector largely because of limited degree of competition. The policy of the Government is to foster increasing competition in the financial sector with a view to improving delivery of services. The main policy initiative will be to privatise Government shares in the two dominant commercial banks, namely, the Commercial Bank of Malawi Limited and the National Bank of Malawi. The Government shall also review the legal and regulatory framework for the financial sector with a view to creating a level playing field and encouraging entry of new banks.

77. Mr. Speaker, Sir, on its part, Government is committed to creating a "level playing field" to allow domestic companies to square-up favourably to foreign competition. Indeed, as Government, we need to adopt a more active industrial policy, channelling resources into industries with significant forward and backward linkages. On its part, the private sector has to put its house in order and act responsibly in the now more competitive global economy. The days of protectionism are over, they will not return.

78. **Tourism development:** As I said earlier on in my Statement, there is need for us to exploit to the fullest our abundant water resources and the unique beauty of our land for the benefit of every citizen. This brings to mind the issue of the promotion of tourism in Malawi which has not been fully exploited as is the case in most countries including our neighbouring countries. The Government wished to make a deliberate effort to promote tourism in Malawi through the improvement of our airport facilities, improved road network to the major tourist attraction areas as well as increasing the number of facilities for accommodation and conferences. Tourism development will therefore be regarded as one way of diversifying from too much reliance on tobacco as a major foreign exchange earner for Malawi in view of the present low tobacco prices and the anti-smoking campaign.

79. **10-Point Plan:** To address fiscal laxity as evidenced by the accumulation of arrears, Government has also introduced the 10-Point Plan. This is a tool for expenditure management which is designed to control expenditure, restructure the budget to achieve efficiency and effectiveness in programme implementation. The 10-Point Plan will also assist Government to address problems of extra- budgetary requests. ***"Failure to plan on the part of ministries and indeed any other Government organization should not constitute an emergency"***. Extra-budgetary expenditures will only be limited to emergencies.

80. In the State of the Nation Address, His Excellency the President highlighted the crucial role of strict fiscal discipline in controlling inflation and urged all ministries to conduct their affairs with combating of inflation in mind and to improve on budget management. His Excellency the President underscored his point by stating :

"Mr. Speaker, Sir, I fully endorse the 10-Point Plan and I wish all my Ministers to do likewise through their actions. I therefore wish to take this opportunity to warn all ministries to ensure that they get their priorities right and manage their finances in a manner that fully supports the Ten-Point Plan as an integral part of fiscal discipline and prudent financial management in Government"

81. Mr. Speaker, Sir, I wish to concur with the President that indeed financial prudence is the key in the quest for the progress of our nation.

82. **Finance and Audit Act** : Mr Speaker Sir, in order to align financial management practices in Government with reality and in order to take into account various reforms that I have talked about earlier, the Finance and Audit Act will have to be amended. First, there is need to recognize the independence of the National Audit Office. Secondly, the roles of the Public Accounts Committee and the Budget and Finance Committee of Parliament have to be recognized and strengthened. Appropriate measures for punishing public officers not adhering to Government financial management practices have to be promulgated. I am pleased to inform the Honourable House that Government has approved that the Finance and Audit Act be reviewed and amended where appropriate.

83. **Full and Partial Cost Recovery** : Mr. Speaker, I have always said that "a decision to under-collect or indeed not to collect, is a decision to close down a service". The budget has borne a lot of economically unreasonable subsidies that have resulted in Government borrowing extensively to meet the cost of such subsidies. For example, it costs Government about K2000 and K1000 to process a passport and travel documents, respectively. Government, on the other hand, charges K800 and K400, respectively for these documents. Government pays a subsidy for these travel documents, which in a year comes to K42 million. Through this Budget, Government will start phasing out the system of paying for such things that are for exclusive consumption and the benefits are internal to an individual. This will save the Government the hardship of borrowing to subsidize consumption and will also improve service delivery.

84. Government will also introduce cost sharing in certain areas where consumption of the service has some reasonable amount of individual benefit. A good example is secondary and tertiary education where Government subsidy is almost 100%. At the moment the University of Malawi is almost 100% subvented by Government. Students at the University of Malawi contribute K1,500 per year out of which K1,400 is paid back to the students as book allowance and K20 is paid to the Students Union as subscription to the Union by students. Thus only K80 goes to the running of the university. The cost of maintaining a student at the university is K180,000 per year, thus the subsidy is K179,920 per year. Similarly, it costs K7,838 to maintain a student at a boarding secondary school and K7,210 per year at a day secondary school. Currently however, the contribution by students for boarding schools is only K200 per year.

85. Under the existing legislation the University of Malawi is empowered to levy appropriate fees to ensure viability and

sustainability of their operations. Currently, Chancellor College charges K70,000 per year for all students other than those entering directly from secondary school. The Malawi Polytechnic charges K100,000 per year for Architectural programme. Mzuzu University, Malawi College of Accountancy, and Government's Data Processing Training Centre currently charge K35,000, K70,000 and K100,000 per year respectively. Any average private secondary school charges K25,000 per year. While Kamuzu Academy is currently charging K200,000 per year. The unrealistic fee of K80 (net) for University of Malawi is an extreme example of under-collecting that will surely lead to entropy.

86. Mr. Speaker, Sir, while we all agree that education is very important and every Malawian child should not be denied the chance of education, we should also be realistic on the sustainability of the education system. Universally it is agreed that basic or primary education has almost 100% social benefits and it is justifiable for primary education to be free. However, secondary and tertiary education has greater individual benefits and it is only proper that individuals contribute towards their education.

87. I recognize that there will be some children that cannot afford even the minimum contribution. In order not to deny these children the chance of education, Government will set aside some resources for bursaries for secondary students and a loan scheme for university students. Government plans are that the contributions by the students should be kept at the school to assist in the running of the school. The management of the funds will be by the communities and not by Government.

88. Mr. Speaker, Sir, the truth is that if we decide not to contribute to the education of our children in cash/fees, we will contribute in other ways, such as poor diet at boarding schools, lack of teaching and learning materials and generally poor school environment not conducive to learning, hence poor quality of education and examination results.

89. The cost sharing in education is just an example. I have however, gone to a greater length explaining this example given the sensitivity of the issue. Government will explore other areas where cost sharing is possible and its administration feasible. It is against this background that this Budget will introduce a comprehensive package of full and partial cost recovery measures. It is my hope and indeed that of Government that Honourable Members and the nation will see the reason in these initiatives and provide support to ensure the success of these systems.

Salient Features for the 2000/2001 Budget

93. Mr. Speaker, Sir, Honourable Members of the House, I will now present the principal fiscal policy measures and salient features of the 2000/2001 Budget. I will begin with an account of the expenditure estimates, with particular emphasis on priority sectors, and conclude with the revenue estimates and revenue measures.

94. The total expenditure for 2000/2001 is estimated at MK31.5 billion, of which MK19.24 billion is allocated for recurrent expenditure and MK12.25 billion for development expenditure. The recurrent expenditure includes a special allocation of MK300 million for Local Government Elections. The development expenditure includes MK1.9 billion for the National Roads Authority.

95. The deficit excluding grants is projected at MK12.6 billion reflecting a decline from 11.3 percent of GDP in 1999/2000 to 10.42 percent of GDP in 2000/2001. The deficit including grants is estimated at MK1.3 billion, representing a decrease from 1.76 percent of GDP in 1999/2000 to 1.2 percent of GDP in 2000/2001 fiscal year. Of the total recurrent budget, MK15.11 billion is allocated for statutory expenditure and MK14.13 billion for voted expenditure, comprising MK5.65 billion for wages and salaries and MK9.46 billion for Other Recurrent Expenditures (ORT). Of the total Development Budget of MK12.25 billion, MK9.74 billion will be funded from foreign loans and grants, while the difference will be from local resources. As a share of GDP, development budget expenditure is projected to increase from 9.3 percent of the GDP in 1999/2000 to 11.23 percent of GDP in 2000/2001.

96. Mr. Speaker, Sir, we have said that poverty reduction is the central creed of Malawi's development strategy and as such Government has continued to improve resource allocation to Education, Health, Agriculture and Irrigation as well as security. Within these priority areas, the following budgetary allocations warrant special mention :-

(i) **Education:** At 5.57 billion, allocation to the Ministry of Education, Sports and Culture has increased by 5% from last year's level. Out of this allocation, ORT is MK937 million, a 13.3 percent increase from last year's level. Of this amount, MK370 million has been allocated for teaching and learning materials, an increase of 66 percent from last year's level.

(ii) **Health and Population:** At MK3.09 billion, allocation to the Ministry of Health and Population has increased by 19.7 percent from last year's level. Out of this allocation, ORT is MK1.23 billion, a 28 percent increase from last year's level. A provision of MK587 million has been made for drugs and pharmaceuticals, an increase of 46 percent from last year's level.

(iii) **Agriculture:** At MK1.68 billion, allocation to the Ministry of Agriculture and Irrigation has increased by 12 percent from last year's level. Out of this allocation, ORT is MK280 million, a 24 percent increase from last year's level.

(iv) **Water and Sanitation:** At MK1.6 billion, allocation for water and sanitation has increased by 57.5 percent from last year's level.

(v) **Security, Peace and Justice:** MK1.64 billion has been allocated to the Police, Defence, Home Affairs and Internal Security, Judiciary, Justice, Anti Corruption Bureau, Ombudsman and Law Commission to improve the security situation, peace, law and order in the country.

Measures for the 2000/2001 Budget

97. Mr. Speaker, Sir, Honourable Members of the House, allow me to present the non-tax and tax measures that Government is putting in place in order to support the 2000/2001 Budget. Let me begin with the non-tax measures.

1. NON TAX MEASURES

A. Full Cost Recovery

98. Mr. Speaker, Sir, during the new financial year, Government will introduce full cost recovery for goods and services which are exclusive in consumption, that is where direct benefits are enjoyed by an individual. Full cost recovery will be implemented with immediate effect for the following services :-

i. **Passports and immigration documents** -Fees for these documents will be increased from K800 to K2,000 and K400 to K1000, respectively. There will be a revenue gain of K25 million, in other words, the Government will stop subsidizing the provision of this service.

ii. **Motor vehicle documents** -Motor vehicle Licences and other motor vehicle documents, such as driver's licences and motor vehicle registration, etc will be increased to reflect actual cost. The increase in these fees will generate about K310 million.

iii. **Police reports** -Police reports for registration of imported used vehicles and motor vehicle accidents for purposes of insurance claims will be charged at MK2,000 per report. These fees will be retained by the Police as a direct contribution to the cost for providing the service.

iv. **House rents** -All private sector employees occupying Government owned houses will pay rent at market based rates. This is intended to generate additional revenue for Government, estimated at K25 million in the 2000/2001 financial year.

B. Partial Cost Recovery

99. Mr. Speaker, Sir, for certain goods and services whose consumption is shared, that is where the benefits are generalized, Government will introduce partial cost recovery with effect from the 2000/2001 financial year. Some of the services are as follows :

i. **Secondary Schools** -Cost sharing system for secondary schools will be introduced in a phased manner over the next three years. As such, secondary school fees and boarding fees which currently are very low will increase. Details of the fees will be worked out and announced through the Ministry of Education, Sports and Culture.

ii. **University** -Fees at the University of Malawi will initially be set at a level which will reflect reasonable partial cost recovery with effect from the 2000/2001 academic year to enable the university become more self sustainable as is the case with Mzuzu University, Malawi College of Accountancy and Data Processing Department where fees are charged at reasonable cost sharing levels. The University of Malawi is empowered to effect this change and will therefore make the necessary announcement in due course. This measure is expected reduce Government subsidy to the university by about K150 million. With this saving, the Government will establish a bursary/scholarship fund to ensure that the needy are not denied the opportunity to have access to higher education. The private sector and any individuals are however encouraged to make contribution~ to this scholarship fund and such contributions will be tax deductible.

iii. **Technical and other Vocational Institutions** -Partial cost recover, schemes will also be introduced for technical schools, nursing schools and the College of Health Sciences. Details of the schemes will be announce by the Ministries of Health and Population and Labour and Vocational Training as appropriate.

C. Expenditure Reducing Measures

i. The Government will rationalize the diplomatic service and the staffing levels at the diplomatic missions. Government will also introduce a flat education allowance per child, for a maximum of four, for staff in foreign missions who have school going children.

ii. The Government vehicle fleet will be reduced by 25 percent in order to cut down expenditure, and will rationalize the allocation of the remaining fleet.

iii. Subscription fee for TV Malawi (TVM) will be introduced to allow TVM to be self sustaining and improve its services. This measure will reduce the Government subvention to the organization.

2. TAX MEASURES

100. Mr. Speaker, Sir, in addition to the non-tax measures mentioned above that Government is going to introduce, some tax measures will be introduced. These measures have two objectives. Firstly, they are meant to continue increasing efficiency and competitiveness of Malawi businesses through a reduction of duty on strategic capital inputs, intermediate goods and raw materials; and increasing disposable income through the provision of tax relief for low income earners and reducing the tax burden for companies and individuals. Secondly, the measures are intended to consolidate the shift on the sources of revenue collection from customs duties to consumption and direct taxes by introducing excise tax on certain products, rationalizing surtax rates on some ;, products, increasing excise tax on some vehicles and extending surtax to whole ~ sale and retail levels. A Bill on the extension of surtax to whole sale and retail levels will be presented to this House in due course. Income tax measures which will be presented to this house as a Bill, are as follows :-

A. Income Tax Measures

i. **Reducing the Tax Burden:** Mr. Speaker, Sir, Honourable Members, I am pleased to announce that Government has decided to remove the Drought Levy because the Levy has since served the purpose for which it was introduced. In addition, Government has decided to increase the income tax threshold exempt from tax, from K1,000 to K2,000 per month. This, Mr. Speaker, Sir, means that anyone earning a salary/wage will not pay tax on the amount up to K2000 per month. Mr. Speaker, Sir, furthermore, Government has decided to expand the income tax brackets from K12,000, K24,000 and K42,000 to K24,000, K42,000 and K60,000. This measure is intended to reduce the tax burden for all salaried employees. Mr. Speaker, Sir, Honourable Members, all these measures will result in a revenue loss of K600 million.

ii **Tax Incentive for Capacity Building:** As an incentive to contribute to capacity building in the country, particularly by the private sector, the Government will establish a Training Fund, and contributions made to the Fund will be tax deductible.

iii

Tax

Compliance

A Tax Amnesty Programme (TAP) will be introduced during which period all those individuals and organizations with questionable or problematic compliance records will be allowed to settle their tax liabilities without prejudice. The TAP is aimed at expanding the number of tax payers, minimize tax avoidance or evasion and ensuring compliance in the future. Certificates will be issued with no questions asked. Details of the TAP will be announced soon. After the amnesty window there will then be a tough and rigid programme of assessment and enforcement using the capacity of the newly formed Malawi Revenue Authority.

B. Customs Measures

101. Mr. Speaker, Sir, I now announce the Customs and Excise measures which will become effective from mid-night tonight :-

1. Revenue Losing Measures:

i. The remaining tariff rates on intermediate goods and raw materials will be reduced from 15% to 10%. This will further reduce cost of inputs for the manufacturing sector. Loss in revenue is projected at K100 million.

ii. Import duty rate on computers, UPSs and computer printers will be reduced from 25 percent to free. This measure is intended to encourage the use of modern information technology, enhance efficiency in business operations and promoting competitiveness. Revenue loss is expected to be K8 million.

iii. Import duty rates under COMESA Trade Protocol will be eliminated by October 2000. Under the SADC Trade Protocol, there will be a 10 percent reduction in import duty rates starting from January 2001. Revenue loss for these two measures is expected to be K120 million.

iv Import duty on single cabin pick-up motor vehicles of 2.99 tons and less will be reduced from 25 percent to 10 percent. The expected revenue loss is K18 million.

2. Revenue Gaining Measures

102. In order to off-set the revenue loss arising from both the Income Tax and Customs and Excise Tax reducing measures, I announce the following revenue enhancing measures :-

i. Excise duty on alcoholic beverages and cigarettes will be increased by 20 percent. The revenue gain is estimated to be K80 million.

ii. Surtax rate on petrol, diesel and paraffin will be converted to excise duty and the rate will be increased from 5 percent to 10 percent for paraffin, and from 10 percent to 20 percent for petrol and diesel. The increase will result in K600 million revenue gain. This measure aims at removing the cross-subsidization of the country's fuel which has resulted into smuggling of paraffin to neighbouring countries because it sells cheaply here. Since our borders are porous, the Petroleum Control Commission estimated that out of the 3 million litres of imported paraffin, 2 million litres could have been smuggled out. The reason for smuggling is the artificial low price of paraffin in Malawi. The subsidy on paraffin was therefore benefiting consumers in the neighbouring countries and not the rural poor we had targeted.

iii As part of the rationalisation of the price build up of petroleum products, a number of levies have been dropped with immediate effect. These include the Energy Fund and the Strategic Fuel Reserve Fund. The remaining levies and their levels are of direct benefit to users of petroleum products and the road infrastructure. However, the Loss Recovery Levy will also be dropped effective October, 2000 when the Petroleum Control Commission loan repayment will have been completed. In view of the commitment of Government to develop infrastructure and promote tourism in the country, the amount collected under the Loss Recovery Levy will then be re-allocated towards road maintenance through the National Roads Authority to enable the institution pay for rehabilitation and maintenance of access routes to tourist facilities.

iv. A 10 percent excise duty on selected goods will be introduced. These goods include, among others wheat flour, fruit juices, textiles and fabrics, photo-copying, typing and printing paper, foot-wear, perfumes, furniture, video games and some sea foods. The revenue gain is estimated at K60 million.

v. Surtax will be extended to commercial transporters (excluding mini buses). The measure will generate K38 million additional revenue.

vi. Satellite and cable television providers will be registered for surtax. The measure will generate about K10 million additional revenue. vii. Excise duty on 4 wheel drive motor vehicles of 2000cc and above will be increased from 10 percent to 50 percent. The expected revenue gain is K36 million;

viii. Import duty on double cabin pick-up motor vehicles of 2.99 tons and less will be increased from 20 percent to 25 percent. The expected revenue gain is K10 million;

ix. Excise duty on double cabin pick-up motor vehicles of 2.99 tons and less will be increased from 5 percent to 10 percent. The expected revenue gain is K12 million;

x. Goods carrying motor vehicles of 3 tons to 14.99 tons will be subject to 10 percent import duty and 5 percent excise duty. The expected revenue gain is K19 million;

xi 5 percent excise tax on goods carrying vehicles of 15 tons and above will also be introduced. This is a continuation of the rationalization of rates of duty on motor vehicles and expanding the tax base. The expected revenue gain is K17 million.

Conclusion

103. Mr. Speaker, Sir, let me express my sincere gratitude to all those who contributed so selflessly to compiling the Budget and the Budget Statement, in particular,

i. His Excellency the President, Dr; Bakili Muluzi for his wise leadership and counsel in the course of preparing the Budget;

ii. the Vice President, Right Honourable Justin Malewezi, for ably chairing and guiding the various Cabinet Committees in the policy formulation on Budgetary matters as reflected in the Budget Statement as well as my Cabinet colleagues for their constructive inputs through out the entire Budget process;

iii the Officers in the Ministry of Finance and Economic Planning for their hard work, commitment and dedication to duty, in particular for their contribution in preparing the Budget and the Budget Statement;

iv. the Reserve Bank of Malawi, especially the Governor and senior managers who are part of the economic management team; and lastly

v all those who provided their input to the Budget process during the Pre-Budget consultative meetings, the first in the history of this country .

104. Mr. Speaker, Sir, Honourable Members, I call upon all Malawians to reflect on this Budget and to decide what they, as individuals can do to contribute to the effective implementation of this Budget; in so doing, contributing to the well being of Malawi.

105. Mr Speaker, Sir, in concluding the presentation of the 2000/2001 Budget Statement, I have the honour to assure this august House and the people of Malawi that the Budget I have presented today indeed charts a new course for the transformation of our policies towards the acceleration of poverty reduction and increase in economic growth through enhanced private and social sector development. This course, among other important things, observes the need for better education for our children in Malawi and the need for better health for all the people with the view to making Malawi a better living place.

106. Mr Speaker, Sir, in this Budget Statement I have emphasised the need for prudent public financial management and the need to control public expenditure with the view to containing inflation and ultimately lowering interest rates. Emphasis has also been made for the need for the private sector to take advantage of the concessions which are outlined in the Statement in order to resuscitate the manufacturing sector and hence produce goods that compete well in both domestic and export market. Further emphasis has been given to the need for parastatals to carry their own weight and improve management.

107. Above all, Mr Speaker, Sir, Honourable members we have emphasised the need for Government to adopt Cost Recovery measures to ease pressure on the Budget and enable Government to focus more on priority programmes and activities. As a Nation we have no choice but learn to live within our means. The tragedy of Malawi is not the lack of resources or inadequacy in our resource endowment, but rather our own inability to fully exploit and efficiently utilise these resources. There are numerous countries in the world with much higher living standards but have much fewer resources than Malawi.

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108. The new course requires us as a nation to face our reality .Malawi's budget deficits as evidenced by the persistent high inflation and interest rates, coupled with periodic currency depreciations are not sustainable. Mr. Speaker, Sir, there is almost no economic activity that is viable at 50 or 60% interest rates. This represents a tax on the

whole economy. Therefore, working to bring down inflation and interest rates must be our number one priority .Mr. Speaker, Sir, it is instructive to note that high interest rates are not just a function of government borrowing and expenditure but also an uncompetitive and conservative banking sector which also leads to interest rates being stick downwards even when inflation has fallen significantly. In this regard, it is incumbent upon the monetary authorities, namely, the Reserve Bank of Malawi and Government as a whole, to ensure that the financial sector reforms are expedited.

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109. The focus of our economic programme and agenda is human development through poverty reduction and economic growth. Economic growth cannot be achieved in an environment of very high inflation and interest rates. Poverty reduction will simply be an illusion as inflation is the most cynical form of taxation of the poorest in society. For Malawi to have a chance on this new course to a better future, monetary and financial stability, budget discipline, trade and financial openness, and good governance must prevail.

110. Mr. Speaker, Sir, I wish to end with the words of the Reverend Chilembwe, declared national hero in Malawi :

"It is too late now to talk of what might or might not have been. Whatsoever be the reasons we are invited to join in the war, the fact remains, we are invited to die for Nyasaland. We leave all for the consideration of the Government, we hope in the Mercy of Almighty God, that some day things will turn out well and that Government will recognise our indispensability, and that justice will prevail."

JOHN CHILEMBWE
On behalf of his countrymen
Nyasaland Times No.48, 26 November, 1914.

111. Mr. Speaker, Sir, we need to listen to the voice of the people. Since Government is asking the people to make sacrifices, there must be a fair and equitable burden-sharing. We must act decisively. We need to decide between the possible loss of inaction and the rewards and risks of action. We must sacrifice the unimportant and pursue the essential. We must not make demands on Government that cannot be delivered especially if the budget is unable to deliver the resources needed for some of our programmes. Accordingly Government will only promise what we can deliver and then deliver what promise, ever bearing in mind that there should be credibility first before flexibility.

112. We should not only see the way, we should also know when success is not possible. In the final analysis, success will lie in action, not words. We need to see beyond the illusion of easy solutions and seek what is right rather than accept what is easy. The new course we are embarking upon demands that we overcome fear and embrace the power of transformation. Since each reality has its alternative possibilities, we should work tirelessly to introduce changes as necessitated by the circumstances and challenges of our time. There can be no room for complacency. In view of the prevailing socio-economic conditions in Malawi, we are being called upon to do the extra-ordinary. It requires courage to achieve the extraordinary. Since we intend to reach great heights, we must dare to do great things.

113. Mr. Speaker, Sir, let us all remember that the final responsibility for the well-being of a country's population rests in its own hands. The responsibility for human development and poverty reduction in Malawi is in our hands. Let us move forward decisively and with courage on this new course to a better future. Together we can make a difference and transform this nation.

114. I thank you for your attention. May God bless you all and bless Malawi.

Mr. Speaker, Sir, Honourable Members, I beg to move.

2000/2001 Budget Statement
delivered on Friday, June 30, 2000 by the
Minister of Finance and Economic Planning,
Hon. Dr. Mathews A.P. Chikaonda,
Parliament, Lilongwe, Malawi