

CONSOLIDATING OUR BOLD STEPS TOWARDS A BETTER FUTURE FOR MALAWI

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MOTION

1. Mr. Speaker, Sir, Honourable Members, I beg to move that the Estimates on the Recurrent Account and Development Account for the 2001/2002 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, please allow me at the outset to preface the Statement by expressing my sincere gratitude for the honour and privilege that the Government and the people of the Republic of Malawi have bestowed upon me, for the second year running, to present the Budget Statement for the 2001/2002 financial year. I also wish to express my deep felt gratitude to the President, His Excellency Dr. Bakili Muluzi, for the support he has accorded me in discharging my duties as Minister of Finance and Economic Planning. Without his unflinching support and guidance, most of the important economic measures we are implementing as a Government and as a nation would not have been possible. The importance of good economic management and the critical nature of a Budget Session to the well being of a Government and the people is unquestionable as evidenced by the presence, for the second year, of the Head of State in this August House. This indeed bears testimony to the fact that good economics makes good politics and not the other way round.
3. Mr Speaker, Sir, at this point allow me also to express my heartfelt gratitude to my dear Cabinet colleagues and Members of Parliament, various stakeholders in the Private Sector, Civil Society, non-Governmental organisations (NGOs), and the academic community for sharing with me during the pre-budget consultations the vision for Malawi, and for supporting the philosophy of doing whatever is possible in our powers, in pursuant of the vision, so that Malawi becomes a better place for all, in particular our children. **They say a chain is strong with full support of its interlocking rings.**
4. Mr Speaker, Sir, Honourable Members, the theme for the Statement I am presenting is **Consolidation of Our Bold Steps Towards a Better Malawi.**

5. Mr Speaker, Sir, as a background to this theme, allow me to commence by highlighting the achievements we have registered during the course of the current fiscal year. Mr Speaker, Sir, I am pleased to report that my work has been made much easier by the President, His Excellency Dr Bakili Muluzi, who delivered the State of the Nation Address in this House when he opened the Budget Session on 5th, June 2001, exactly one year from the date he opened the Budget Session of the current and now ending fiscal year. Mr. Speaker, Sir, Honourable Members, in his State of the Nation Address, His Excellency the President took stock of the achievements that the economy has registered and charted the course for the future of Malawi.

6. Mr Speaker, Sir, Honourable Members, I will take the opportunity in this Budget Statement to give details of the broad outline of the achievements registered and the course for the future which His Excellency the President gave in the State of the Nation Address. What is clear Mr Speaker, Sir, Honourable Members, is that it is now time to create the requisite conditions for the majority of our people to be economically self-reliant. Indeed, it is time for the less-privileged members of our society to be given an opportunity to be proactive and to participate in the economic activities of this country, and be able to generate their own income as opposed to treating them as by-standers to economic development. It is time to shift from poverty alleviation through Government controls and handouts, to empowering the poor to take an active role in the task of reducing their own poverty, so that we can eventually achieve total poverty reduction.

7. Mr. Speaker, Sir, apart from the deliberate efforts that Government is making towards poverty reduction, this Honourable House must, in unison, call upon the people of Malawi to change their attitude to life and development. Poverty reduction requires changing the perceptions of the poor from regarding themselves as helpless victims of poverty to seeing themselves as active participants, eager to cease every available opportunity to improve their own lives. We must endeavour to rebuild good work ethics and to eradicate from the minds of our people the excessive expectations placed on Government. We must strive to search for what it is we can individually and collectively do to help our Government become increasingly efficient and an effective tool for us. But most importantly, there is need for all of us in leadership positions, including members of this Honourable House to change our motivation from that of seeking short-term personal enrichment to one that promotes the longer-term national good.

PERFORMANCE OF THE ECONOMY IN 2000/2001

8. Mr. Speaker, Sir, Honourable Members, before I present the 2001/2002 Budget, allow me to give an overview of our economic performance during the 2000/2001 fiscal year. This provides an important background to the policies that will be articulated in the 2001/2002 Budget.

Economic Performance

9. Mr. Speaker, Sir, the 2000/2001 Budget was, among other things, designed to achieve a real growth rate of Gross Domestic Product (GDP) of 5.1 percent in the year 2000 from 4.2 percent in 1999; a strong Balance of Payments position with an import cover of 4.5 months; and an inflation target of 10 percent by December 2001. To achieve these targets, the domestic fiscal balance in 2000/2001 fiscal year was to be reduced to 1.4 percent of GDP from 3 percent of GDP in 1999/2000 fiscal year. The economic programme was aimed at promoting the export of crops including maize, and to scale down the Starter Park Programme while strengthening the Safety Net Programme for vulnerable groups.
10. Domestic revenue as a percentage of GDP for 2000/2001 was projected at 17.3 percent and overall expenditure was projected at 28.9 percent of GDP. The overall deficit excluding grants was projected at 11.6 percent of GDP while the deficit including grants was projected at 1.2 percent of GDP.
11. Mr. Speaker, Sir, I wish to report that while we made significant gains towards our objectives for the economy, the outturn for some of the targets were different from what was programmed. The real GDP growth slowed down and registered a growth rate of only 2.1 percent in 2000. The decline in GDP reflected a contraction in some sectors of the economy, particularly in agriculture, manufacturing and transport owing to the sharp depreciation of the Malawi Kwacha, and the high and volatile rate of inflation and interest rates. Agricultural output grew by only 5.4 percent in 2000 compared to 10.1 percent in 1999. Mr Speaker, Sir, in the course of the year domestic revenue as a percentage of GDP amounted to 18.7 percent while overall expenditure was 28.6 percent. The overall deficit excluding grants was turned out to 11.5 percent of GDP and the deficit including grants was 1.65 percent of GDP.

12. Mr. Speaker, Sir, the rate of inflation that had declined from 30.2 percent in January, 2000 to 22.2 percent in June, 2000, rose to 35.4 percent by December 2000. This was largely attributed to the pressure from fuel prices on the international market in addition to domestic borrowing by Government occasioned by less than expected revenue flows for the budget. The Free on Board (fob) price of petrol, for example, rose from US\$193.95 per tonne in April 1999 to US\$346 per tonne in October 2000. This represented an increase of 78.4 percent. On the other hand, the price of diesel increased by 106 percent, from US\$157.00 per tonne to US\$325.50 per tonne during the same period.
13. Mr. Speaker, Sir, it is, however, pleasing to note that despite the macroeconomic uncertainties experienced during the fiscal year, particularly during the first quarter of the 2000/2001 financial year, the macroeconomic indicators show that the economy is slowly stabilising and Government is on track to achieving some of the targets set during the 2000/2001 budget. Inflation, for example, has declined from 33.7 percent in January 2001 to 24.8 percent in May 2001. It is expected that the December 2001 inflation target of 10 percent will be achieved.
14. Mr Speaker, Sir, in the 2000/2001 State of the Nation Address. His Excellency the President had advised that we should **forget what we do not have and make the most of what we do have**, and that we should **use what we already have as a foundation to create more**. In line with this, borrowing had to be curtailed and allocation for expenditure had to be cut to reverse the unfavourable trend in the economic fundamentals. Mr Speaker, Sir, Honourable Members, the recent improvements in the economy are attributed to the budgetary controls that the Government undertook during the financial year, particularly during the third and fourth quarters of the financial year. The budgetary controls were taken in line with the spirit of the advice just outlined.

Developments In The Monetary Sector

15. Mr. Speaker, Sir, monetary developments towards the end of 2000 were characterized by high money supply growth triggered by borrowing requirements of the Government in order to finance recurrent expenditures. Because of the delays in the flow of expected revenues and the need to deliver essential Government services, Government borrowed from the domestic market during the first half of the financial year. This triggered the higher than anticipated inflation and interest rates. Recent developments, however, are bringing about hope for the future.

Foreign Reserves and Exchange Rates

16. Mr. Speaker, Sir, the country's gross international reserves have increased from 4.5 months of imports in July 2000 to 5.4 months in March 2001. It is expected that these reserves will remain at comfortable levels in the coming months. Given this level of reserves and the maintenance of tight fiscal and monetary policies, the Kwacha exchange rate that had stabilized at about MK80.00 to US\$1.00 from September/October 2000 appreciated significantly to around MK75.00 to US\$1.00 by end May 2001. While this may be good news for all Malawians since essential imports can now come in at a reduced cost, appreciation of the Kwacha also means that the country's exports are now less competitive than before and this could result in loss of output and employment. Nonetheless, the business community is encouraged to pass on the benefits of the reduction in import costs to consumers.

Domestic Interest Rates

17. Mr. Speaker, Sir, because of the Government's need to borrow domestically, interest rates rose and remained high for most part of the 2000/2001 financial year. However, recent strengthening of the fiscal and monetary policy measures has led to a slowdown in inflation with a corresponding significant drop in interest rates. The 271 day Treasury Bill yield, for example, has dropped from 76.75 percent in December 2000 to 37.9 percent by end-May 2001. What is needed now is to further strengthen budgetary controls so that both inflation and interest rates can continue to decline and be maintained at low levels. This will create a favourable climate for the much-needed private sector participation in the economy.
18. The position has improved since the conclusion of the economic reform programme with the International Monetary Fund, the World Bank, and the international donor community in December, 2000. This was further strengthened by the implementation of budgetary controls by Government aimed at bringing about more fiscal discipline coupled with the cutting of expenditures in a number of areas. As a result, the country's foreign exchange situation has improved, the Kwacha has stabilised and inflation and interest rates have substantially come down, as mentioned earlier.

PRIVATE SECTOR PERFORMANCE

19. Mr Speaker Sir, Honourable Members, the performance of the private sector was not as expected. Private sector investment decreased due to unfavourable macroeconomic conditions. Output in the manufacturing sector, for example, continued to decline in the year. As a result, the sector was unable to spur economic activity.

Malawi's Privatisation Programme

20. Mr. Speaker, Sir, the Honourable House may recall that the Government embarked on a privatisation programme in 1996. Government has made considerable progress in the implementation of the programme, but some challenges remain ahead. There has been a rationalization in the pace of privatising some commercial enterprises in the Divestiture Sequence Plan due, in part, to the continued debate regarding alternative policy options to achieve the key objectives of increased efficiency in the economy and the promotion of competition.
21. Mr. Speaker, Sir, it is imperative that the gains made this far through the privatisation programme should not be allowed to go to waste. It is widely recognised, for example, that a poor state of the utilities in any country places serious obstacles to the attainment of global competitiveness by local industries. The Government will therefore prioritise the admittance of private sector participation in the operation and management of utilities in this country. The need to introduce private sector participation in the country's public utilities sector is essentially predicated on the fact that costly and unreliable public utilities are a major obstacle to private sector development in Malawi.
22. Another challenge facing the privatisation programme is how to enhance the participation of Malawians in the privatised entities. Mr. Speaker, Sir, I would like to assure the Honourable House that Government will continue to seek ways of providing financial support to Malawians to acquire shares in the privatised companies as has been done with respect to some privatised companies particularly those that have been listed on the Malawi Stock Exchange.
23. Government, in March 2001, granted MIPA the status of a one-stop investment centre. As a one-stop investment centre, MIPA has been given the authority to make speedy approvals on investment applications.

24. Mr. Speaker, Sir, by conferring MIPA the one-stop investment centre status, the Government has once again demonstrated its commitment to facilitating private sector development in Malawi. The advantages of this arrangement is that unnecessary delays in processing investor applications have been eliminated and the whole process will be transparent and credible since it is based on clear guidelines. Government is sending the message to all investors that the Government of Malawi is business and investor friendly. These measures complemented by Government determination to achieve and sustain macroeconomic stability should translate into increased investment growth and the resultant buoyant economy.
25. Mr. Speaker, Sir, Honourable Members, the Micro, Small and Medium-Scale Enterprises sector is still in its infancy in Malawi, and therefore requires a considerable degree of nurturing. Government's efforts will, therefore, focus on the development of support institutions that will provide financial, business and technical assistance to the sector. A major constraint to the development of the sector is the ability and willingness of the entrepreneurs to pay for services offered by support institutions as well as ability and willingness to repay loans. Focus will therefore be on the development of micro-finance institutions to support the sector on a sustainable basis in order to enhance the potential of the sector to contribute significantly to the economic empowerment of the less privileged.

PERFORMANCE OF STATE OWNED ENTERPRISES

26. Mr. Speaker, Sir, in the Budget Statement that I delivered on June 30, 2000, I did emphasise on the need for state-owned-enterprises to carry their own weight, and in particular, to cover their costs and service their debts. I made a call for these organisations to restructure their operations and to be realistic in their approach to the new competitive global economy.
27. During the recently held Pre-Budget Consultations, Mr. Speaker, Sir, it was a general concern that most parastatals were incurring huge expenditures. It was also noted that most of the subvented parastatals were not making enough profits despite huge allocations from the Budget. In fact, they were entering deep into debts with suppliers and other service providers. Another concern raised by stakeholders is the

large number and poor quality of Board Members in the parastatals. It was further submitted that there was need for the composition and qualification of Board Members to be relevant and in line with the objectives or missions of the parastatal and for parastatals to fully account for the utilisation of the public resources at their disposal. This state of affairs has to change if we as a people are to see the parastatal sector contribute positively to the economy of Malawi.

28. Mr. Speaker, Sir, the findings of the Pre-Budget Consultations and what has been reported in the media tell it all. A number of our parastatals have not shown a commitment to reforms and prudent financial management. We have heard, for example, of Chief Executives and Chairpersons of parastatals purchasing and using expensive motor vehicles such as Land Cruiser VXs as their official vehicles, when smaller and more modest vehicles would have done, just as well. Similarly, a number of parastatals have failed to remit Pay As You Earn (PAYE) deductions to the Malawi Revenue Authority (MRA). This is a criminal offence and the MRA have been instructed by Government to deal with such offences in accordance with the Law.

29. Mr. Speaker, Sir, I am pleased to inform the House that the Ministry of Finance and Economic Planning with the financial support of our cooperating partners set up a Unit, the Public Enterprise Reform and Monitoring Unit (PERMU), to monitor the financial performance of parastatals. In its first year of existence, the Unit has focussed on the financial performance of 10 major state-owned-enterprises. These include the Agricultural Development and Marketing Corporation (ADMARC), the Electricity Supply Corporation of Malawi (ESCOM), Malawi Postal Corporation (MPC), Malawi Telecommunications Limited (MTL), the Malawi Development Corporation (MDC), Air Malawi and the Water Boards. In addition, Mr. Speaker, Sir, the Unit has been sitting on the Finance and Audit Committees of these major parastatals, and a senior Treasury official has been assigned to attend Board Meetings for these targeted parastatals.

30. Allow me, Mr. Speaker, Sir, to review the performance of a few parastatals in 2000. Overall, the financial performance of the parastatals in 2000 was unsatisfactory. Virtually all the parastatals recorded losses in their profit and loss accounts. This state of affairs was manifested in the numerous requests that the organisations forwarded to the Central Government to bail them out of their financial difficulties. In general, the poor financial performance by the

parastatals show lack of prudent and sound financial management as evidenced by lack of financial discipline to control and contain expenditure within the predetermined limits. It is also true to say that there is lack of aggressiveness to generate enough income for the corporations, culminating in huge bad debts. Mr. Speaker, Sir, I am pleased to report that Government has generally put its foot down and maintained the policy stance that parastatals should carry their own weight, and that cost sharing and cost recovery on the part of the various institutions should be part of the implementation of the budget in order to ensure sustainability of operations.

31. Mr Speaker, Sir, allow me to now highlight the performance of some of the major parastatals.

Malawi Development Corporation

32. Mr. Speaker, Sir, the profitability of the Malawi Development Corporation has lately been deteriorating. In the year just ended, the Corporation registered a loss of K84 million against the budgeted profit of K7 million. The loss has been attributed to both exogenous and endogenous factors. These include unbudgeted foreign exchange losses and endogenous factors such as unrealised profit from the sale of investment which were budgeted at K495 million against a realised amount of only K158 million.

Malawi Housing Corporation

33. Mr. Speaker, Sir, Honourable Members of the House, you may wish to note that despite a 20 percent increase in the annual rent and the surplus on the sale of houses projected at K18 million, Malawi Housing Corporation still incurred a loss of MK15.2 million against a budgeted profit of MK8.3 million. It is unfortunate that management indicated from the outset that the success of their budget heavily depended on Government subventions. This, as the House may agree, could have provided a leeway for management to shift all the blame for under-performance on to the Government when the parastatal is supposed to operate as a commercial entity.

Malawi Posts Corporation

34. Mr. Speaker, Sir, another bad example of complete under-performance is Malawi Posts Corporation (MPC). The situation there is so critical that not only is it unable to service its financial obligations, but it is also

failing to cover its operational costs. The reasons for this poor level of performance are two-pronged.

35. Firstly, the staffing of the organisation leaves a lot to be desired. Mr. Speaker, Sir, Honourable Members, the organisation has a work force of about 1957. Of these, 79 percent or 1540 persons have a mere Junior Certificate as the highest qualification. Certainly, Mr Speaker, Sir, in today's world rapid adaptation to an ever-increasingly competitive environment is an essential requirement. The organisation has to either retrain its staff to raise the skill level to a minimum required, or replace the workforce with a new competent team.
36. Secondly, the Honourable House may wish to be informed that MPC's major source of revenue is sale of postage stamps which, for security reasons, are printed abroad. The average cost of procuring one stamp is about K10. However, on the domestic market, MPC sells a stamp at only K2. It is clear that the principle of appropriate cost recovery or cost sharing is not being applied adequately to assist the institution sustain its operations. Definitely, in this way, Mr. Speaker, Sir, MPC can not perform satisfactorily. Mr Speaker, Sir, we all know that a decision to under collect is simultaneously a decision to close down the operation. Unless drastic changes are made, MPC will perpetually to rely on subventions to finance its operations. Unfortunately, the inability of the institution to sustain its operations also affects the operation of other institutions, particularly the Malawi Savings Bank who share facilities in some areas with the MPC.

Malawi Telecommunications Limited (MTL)

37. Mr. Speaker, Sir, over the past year, Malawi Telecommunications Limited (MTL) has exhibited signs of recovery. It has expanded its scale of operation and this has been made possible because, currently, demand for telecommunications is on the increase and it has turned out to be one of the most lucrative businesses. Penetration rate has moderately gone up due to, in part, the commissioning of Telecomm II Project in Lilongwe and the proliferation of Internet browsing. The waiting period for acquiring a new telephone line has also been reduced from the previous figure of as long as 10 years to a slightly shorter period.
38. However, behind this seemingly rosy performance, the organisation still has huge long-term debts that have to be serviced. In fact, during

the financial year, the institution was unable to service K385 million of foreign debt which the Government paid and was set-off against the obligations that Government accumulated as arrears in respect of telecommunications services.

Air Malawi

39. Mr. Speaker, Sir, Air Malawi is another example of loss-making parastatals which constitute a burden to the Government budget. Our national flag carrier is riddled with inefficiency and unnecessary over-staffing. Given the limited number of seats on all the planes put together, it cannot compete favourably on the international scene to realise enough revenue to cover its costs and service its loans. For instance, at one time in the year, it was noted that there were about ninety (90) personnel in the Accounting Department in a total labour force of 474 people. Further to this, the packages are exorbitant and numerous to the extent that, in most cases, they may exceed 10 categories accruing to an individual employee. Unless revenue is more fiercely generated and remuneration and other operational costs correspond to revenue realised, our national flag carrier will be locked in perpetual financial crisis and will one day collapse.

National Food Reserve Agency

40. Mr Speaker, Sir, the House may also wish to recall that from the 1998 through 2000 growing seasons, the country had an above average crop yield. As a result, by the beginning of 2001 the Strategic Grain Reserve under the National Food Reserve Agency (NFRA) had grain stocks in excess of requirements. This necessitated a reduction of the stocks to a minimum level enough to meet immediate demand in times of need. At the beginning of its sales operations, the stock level was 167,100 metric tonnes. About 28,000 metric tonnes were exported while 125,210 metric tonnes were sold locally. However, the major problem that might prevent the Agency from standing on its own feet during this season is that most of the payments for the maize sold have not yet been made, and until full payments are made to them, the NFRA may still have to depend on Government financial support, particularly if the payments owed are by other parastatals such as ADMARC who are reported to be owing NFRA about K300 million.

Electricity Supply Corporation of Malawi

41. Mr Speaker, Sir, Government has made an effort to improve efficiency and effectiveness in the power sector by instituting an Electricity Act liberalising entry into the sector of private operators, with the National Electricity Council as the regulatory and licensing body. However, to date, no private entrepreneur has ventured into the sector and the

Electricity Supply Corporation of Malawi (ESCOM) still remains a monopoly.

42. Mr Speaker, Sir, the financial position of ESCOM has been and still remains an issue of concern to the Treasury. A restructuring process has been underway to, among other things, decentralise the finance activity. But, apparently, the process has taken longer than anticipated and so far no noticeable improvement has been recorded. ESCOM effected a 44.4% rise in tariffs to cover its costs in the year. But then, this was not done early enough to reverse the deteriorating financial position. This, coupled with loose expenditure controls, has resulted in the corporations financial position being very tight. In fact, during the financial year, Government assisted the corporation by paying K227 million in respect of its foreign debt that was due and ESCOM was unable to settle on the due date.
43. Mr. Speaker, Sir, there was no appreciable change in the technical performance of the parastatal and consumers continued to experience frequent power outages and voltage fluctuations. In an effort to improve the overall performance of ESCOM, Government has entered into a short-term management support contract with a private company to provide services in corporate management, technical services, revenue collection and financial management.

Water Boards

44. Mr. Speaker, Sir, it is important for the August House to note the performance of the three newly established water boards, namely, Central, Northern and Southern Region Water Boards. Mr. Speaker, Sir, Honourable Members, Central Region Water Board registered a loss of MK1.9 million against a budgeted profit of MK675,000.00 for the period ending 30th September, 2000. The loss came in because revenue registered a negative growth although there was a slight decline in budgeted expenditure.
45. Mr. Speaker, Sir, the Northern Region Water Board also registered a loss of MK3.8 million against a budgeted profit of MK3.4 million for a period of nine months to 31st December, 2000. This was mainly due to significant growth in operating expenses from the budget of MK17.3 million to MK22.6 million, representing 30 percent increase. The loss is mainly attributed to large interest payments on long-term loans and high depreciation charges.

46. Mr. Speaker, Sir, financial performance of the Southern Region Water Board was not healthy during last financial year. Partly, this was due to under-performance in revenue generation because of the fall in water sales. In addition, the Board failed to contain expenditure to the limits corresponding to the levels of income generated.

SOCIAL SECTOR PERFORMANCE

47. Mr. Speaker, Sir, Government has made impressive gains in investing in people and for the broader benefit of the people. Government recognizes that investment in human capital is instrumental to economic growth and development. It is for this noble reason that Government continues to regard the social sector as a priority area and will continue to increase allocation to the sector relative to the whole budget.

Education

48. Mr. Speaker, Sir, education is the key to more rapid and meaningful economic development. As such, the sectoral goal in education is to increase access and quality as well as relevant education to the children and the people of Malawi.
49. Mr Speaker, Sir, Government has made remarkable progress to improve the educational infrastructure in the country. Since 1994, Government has built a total of 1,476 new primary schools, 13 new secondary schools, and upgraded 112 Distant Education Centres (DECs) to Community Day Secondary schools. In addition, Government through the Malawi Social Action Fund (MASAF) project has also built 1210 primary schools and some secondary schools. Government shall endeavour to provide the necessary infrastructure, equipment, teaching and learning materials and the provision of qualified teachers. Other strategies will include reviewing the role played by the private sector in the provision of primary and secondary education with a view to enforcing standards and quality. Government shall also continue to provide universal free primary school education.
50. Mr Speaker Sir, the introduction of universal free primary education has resulted in increased primary school enrolment an increase by 51 percent between 1993/94 and 1994/95. However, this has not been

without problems and these include the high ratio of primary pupils to qualified teachers (114:1), and insufficient furniture and textbooks. Government will intensify its efforts to address these problems. Under the current Budget substantial funds have been set aside for teaching and learning material and teaching training.

51. Mr. Speaker Sir, Government will increase access to secondary school from the present 19 percent to 23 percent by 2004. To achieve this, special focus will be placed on rationalising allocation of resources within secondary school system. Government has also prioritised science and technology and business communications skills in the secondary school curriculum. At the same time, Government will continue to encourage the private sector provision of quality education.
52. In tertiary education, Government is striving to expand access to tertiary education by expanding Distance Education. Human resource development at the tertiary level is also being tackled through technical, entrepreneurial and vocational education policy. Mr Speaker Sir, Government recognises that both tertiary and secondary education have been heavily subsidised. In this regard, Government has introduced cost sharing schemes at the secondary and tertiary education levels.
53. Mr Speaker Sir, I would also like to mention that Government has, in general, increased expenditure allocation to the education sector. The share of recurrent expenditure for education in the national budget has increased from 20% in 1993/94 to 27% in 1999/2000. This compares favourably with other African countries. For the development budget, allocation has also increased.

Health Sector

Health

54. Mr. Speaker Sir, during the current financial year, the Health Sector has implemented its programmes with success. However, the sector has faced difficulties in two areas namely personnel and supplies. Shortage of drugs and supplies has been reported in most hospitals. Part of the problem has been pilferage and Government has put in place measures to address the problem. The allocation of resources for drugs has been increased in the new financial year. With respect to personnel, the sector has experienced a significant brain drain with a

number of medical personnel leaving the public sector for the private sector due to non-competitive remuneration packages and conditions. In order to deal with the resultant shortage of personnel, the Government has strengthened its programme on training and incentives for medical personnel, which were recently increased will be substantially improved in the new financial year.

HIV/AIDS

55. Mr. Speaker, Sir, following the Round Table Conference on HIV/AIDS in which Government mobilized US\$110 million to implement the HIV National Strategic Framework, I am pleased to inform the House that Government has established the National AIDS Control Commission. Government has restructured the National AIDS Secretariat in order to strengthen the implementation of all programs in the National Strategic Plan. Government has also held national consultations with religious committees in the country on the problem of HIV/AIDS.
56. In addition Government has also established a National HIV/AIDS Task Force made up of Government personnel and the faith community in order to tackle the social problems that are resulting from the epidemic as well as working together on preventive measures.

2000/2001 BUDGET IMPLEMENTATION

57. Mr. Speaker, Sir, Honourable Members, I now turn to examining the budget performance in year 2000/2001.
58. Mr Speaker, Sir, Honourable Members, in implementing the 2000/2001 Budget, the Government experienced expenditure overruns during the first half of the financial year. This was occasioned by less than expected revenue to finance the budget. However, the situation improved during the second half, especially during the third and fourth quarters when Government instituted several expenditure control measures to contain expenditures within the agreed budget.
59. Mr. Speaker, Sir, despite the slippages experienced during the first half of the fiscal year, the fiscal performance was generally good and the fiscal performance criteria set at the beginning of the fiscal year are likely to be achieved. For example, the revenue target of K19 billion

has been achieved while the K12.9 billion target for grants has been exceeded by about K200 million, mainly due to exchange rate gains resulting from the depreciation of the Kwacha during the first half of the fiscal year.

60. On the other hand, Mr. Speaker, Sir, I wish to mention that the budget expenditure target of K34.6 billion was exceeded by K400 million due to the depreciation of the Kwacha during the financial year and the need to retain the real value of some of the budget lines, such as the purchase of essential drugs and pharmaceuticals and financing of the foreign missions.

61. Mr. Speaker, Sir, Honourable Members, you will recall that in the 2000/2001 budget Government introduced several initiatives to improve financial management in the public sector. The initiatives included an improvement in the expenditure return format to enable the Ministry of Finance and Economic Planning easily access information on resources utilisation; introduction of a Credit Ceiling Authority System (CCAS) which replaced the advance funding of Government accounts in the Commercial Banks, and introduction of Commitment Control System (CCS) aimed at improving expenditure monitoring by taking into account outstanding commitments.

Credit Ceiling Authority

62. Mr. Speaker, Sir, as I mentioned in my 2000/2001 Budget Statement, Government efforts to maintain prudent financial management have been frustrated by the accumulation of arrears, unpredictability of Government funding, and heavy Government borrowing from the non-bank sector when it did not have to do so. The system whereby Government had to move cash into commercial banks meant that Government was borrowing when it did not have to.

63. Mr. Speaker, Sir, in order to ensure proper planning and indeed to avoid unnecessary borrowing, Government introduced the Credit Ceiling Authority System in June 2000. Under this system, the Government is no longer required to move cash into the commercial banks up-front. Instead, the Ministry of Finance and Economic Planning simply notifies the commercial banks of the credit limits for Government ministries and departments, and the ministries and departments are also notified of how much they can draw from the commercial banks. The commercial banks are advised not to honour

any cheque from a ministry or department once the credit ceiling has been exhausted.

64. Under this system, therefore, there is no actual movement of cash from the Reserve Bank of Malawi to the commercial banks in advance of expenditures as was the case previously. Commercial banks are reimbursed from the Reserve Bank of Malawi on a daily basis for monies disbursed on behalf of Government.
65. Mr. Speaker, Sir, Honourable Members, allow me to report that despite a few teething start-up problems, the system has worked very well. All commercial banks except the Commercial Bank of Malawi have fully complied with the provision of information required by the Government and the Reserve Bank of Malawi. The un-disbursed cash that now sits in the Reserve Bank of Malawi has improved the overall cash position of Government on a net basis. Mr. Speaker, Sir, Honourable Members, the previous system of moving cash to commercial banks to be drawn down by ministries and department was taken advantage of by commercial banks by using the unused cash to buy Treasury Bills at a high interest. Government was essentially borrowing its own money,

Commitment Control System

66. Mr. Speaker, Sir, Honourable Members, as pointed out in my 2000/2001 Budget Statement, Government has accumulated arrears of outstanding payments to various suppliers and this has been a major concern for Government for the past years. Beginning in July 2000, Government, therefore, put in place a Commitment Control System (CCS) to ensure that the Ministry of Finance and Economic Planning is able to monitor and track Ministries/Departments that accumulate commitments into arrears. Mr. Speaker, Sir, the Commitment Control System is complemented by a new funding arrangement of notifying ministries and departments of their quarterly funding allocations, which will take into account their commitments at the beginning of the following quarter.
67. On a monthly basis, Mr. Speaker, Sir, ministries report to the Ministry of Finance and Economic Planning on how they have spent the cash allocated to them and what commitments they have as a condition for further funding. In cases where levels of commitments have been getting out of control and degenerating to arrears, the Treasury has withheld funding to such ministries and departments and facilitated

settlement of the commitments. Mr. Speaker, Sir, it is not the intention of the Government to withhold funding for ministries and departments because of their failure to plan carefully and settle commitments when they fall due. Rather, it is because Government wants to avoid the accumulation of arrears in the system and the negative effects the arrears have on the private sector. I, therefore, call upon all Controlling Officers to personally ensure that all commitments are settled in time. Non-compliance will result in stern action against Controlling Officers including disciplinary action for incompetence.

68. Furthermore, Mr. Speaker, Sir, all ministries and departments have been asked to make quarterly expenditure planning. To facilitate this process, the Treasury will continue to make indications about quarterly budget allocations, with actual funding being made monthly, which is generally one third of the quarterly budget allocation intimated to the line ministries/departments.
69. Mr. Speaker, Sir, in support of the Credit Ceiling Authority System and Commitment Control System, please allow me to call upon the private sector not to accept supplying goods and services to the Government on credit. I am saying this because there is some evidence that some members of the private sector have been supplying goods and services to Government on credit even where they are told that budgetary provisions are inadequate, resulting in new arrears being accumulated. Mr Speaker, Sir, to ensure compliance with these new measures, Government will be bringing up before the House a proposed amendment to the Finance and Audit Act that will provide for appropriate penalties to anyone who leads Government into expenditures without financial provisions in the budget.

Integrated Financial Management Information System

70. Mr. Speaker, Sir, Honourable Members, in its efforts to improve public sector financial management, Government has for the past years been developing a computerized Integrated Financial Management Information System (IFMIS) as a core accounting system for the Government. The system aims at strengthening financial management with emphasis on controlling and monitoring expenditures at a sub-item level. In addition, as reported in my 2000/01 Budget Statement, the system will facilitate the implementation of a system that integrates personnel data with payment of salaries, and pensions and staff loans in an effort to improve and strengthen the management of the wage bill and human resources.

71. Mr. Speaker, Sir, I am pleased to inform this Honourable House that all preparatory work for the system have been finalized. With effect from 1st July, 2001 the system will be applied on a pilot basis in the Ministries of Health and Population; Agriculture and Irrigation; Education, Science and Technology; and Finance and Economic Planning. Mr. Speaker, Sir, these ministries represent about 65 percent of the total Government operations and the rollover to the rest of the ministries and departments will be done in due course after a successful implementation of the pilot phase.

Cost Sharing and Cost Recovery

72. Mr. Speaker, Sir, Honourable Members, in presenting the 2000/2001 Budget, I outlined the principle of exclusive and shared consumption and called upon ministries/departments including parastatals to implement cost sharing and cost recovery measures as part of budget implementation. I am pleased to inform this August House that some ministries/departments complied with the budget instruction. The departments of Road Traffic, Immigration, and Registrar General revised their fees accordingly to cover the cost of providing their services. These departments have performed exceptionally well and have been able to provide the Government with some resources to assist with the implementation of the Budget. For example the Immigration Department has so far collected MK178.4 million, an increase of MK123 million over the 1999/2000 financial year.
73. Mr. Speaker, Sir, it is noted with concern that there are several institutions including the University of Malawi that have not yet revised their fees in line with the economic reality of providing their services. Let me once again remind this Honourable House and those concerned that **a decision to undercharge or not to charge is tantamount to a decision to stop or close provision of the related service, activity or programme.** The institutions that are under- collecting have continued to operate ineffectively and inefficiently with the limited resources. In some cases, such institutions have diverted funds including PAYE for other uses instead of paying to the Malawi Revenue Authority. Mr Speaker, Sir, the funds that are diverted, are part of the resources that are used to fund the activities of various Government and public institutions, and no one is at liberty to commandeer these resources for use in any way they want other than as directed by this Honourable House.

74. Mr. Speaker, Sir, I wish to mention that the gradual recovery in economic activity we are currently experiencing also emanates from the implementation of the "10 Point Plan" introduced in 2000/01. As Honourable Members may be aware, the "10 Point Plan" is a tool for expenditure management which was designed to control expenditure, and restructure the budget to achieve efficiency and effectiveness in programme implementation.
75. Mr. Speaker, Sir, a number of the reforms outlined in the plan have been implemented and have begun to bare fruits. These include the closure of most mini treasuries; introduction of cost sharing and cost recovery in areas of shared and exclusive consumption, respectively; implementation of expenditure control measures through the Credit Ceiling Authority System (CCAS) and the Commitment Control System (CCS); and improvement of expenditure management within the Medium Term Expenditure Framework (MTEF). Other reforms include the establishment of the PERMU in the Ministry of Finance and Economic Planning; requiring parastatals to carry their own weight, cover costs and service their debts; and allowing ministries and departments that collect Departmental Receipts and Fees to retain up to 50% of these receipts for their operations.
76. Mr Speaker, Sir, it can, therefore, be noted that the "10-Point Plan" has to a large extent been successfully implemented. Benefits from some of the issues of the medium to long term nature under the "10 point plan" are yet to be fully realised. The road to success is always under construction. **It is a pilgrim's journey full of obstacles and pitfalls. But in the end the rewards are indeed great.**
77. Mr Speaker, Sir, Honourable Members, please allow me to express my sincere thanks to His Excellency the President, Dr. Bakili Muluzi, for endorsing and supporting the "10 Point Plan". Allow me also to thank individually all my Cabinet colleagues for supporting the "10 Point Plan". The support given has assisted in ensuring fiscal discipline and prudent financial management in Government.

MACROECONOMIC FRAMEWORK FOR THE 2001/2002 BUDGET

78. Mr Speaker, Sir, on the basis of the expected performance of the economy during the 2001/2002 fiscal year, and taking into account the

various measures that Government has put in place, a macroeconomic framework for the 2001/2002 Budget has been developed.

79. The overall economy is expected to increase in real terms by 2.3 percent in calendar year 2001 and by 4 percent in the calendar year 2002. The average inflation is projected to decline to 20 percent in calendar year 2001 and 7.5 percent in calendar year 2002. To maintain macroeconomic stability, the overall deficit including grants is expected to increase moderately from 1.4 percent to about 1.9 percent of GDP (an increase of 0.6 percentage point of GDP) relative to the projected outturn for the financial year 2000/2001. It is expected that the exchange rate will remain relatively stable during the fiscal year.
80. Revenue projections for fiscal year 2001/2002 have been based on the assumption of some changes in tax policy as will be announced in this statement. The implementation of the extension of surtax will require sufficient time to prepare for the implementational logistics and a comprehensive tax payer education. Consequently, the extension of surtax to the wholesale and retail sectors is scheduled to become effective in January 2002. It has, however, been assumed that the MRA will continue strengthening the measures on administrative capacity and revenue collection and that the share of resources that is retained by MRA will be increased (presently, 1.65 percent of revenue collected is retained).
81. The total expenditure is projected at K42.3 billion (32 percent of GDP). Wages and salaries are expected to increase by K1.8 billion, from K5.95 billion to K7.8 billion. This translates to 5.9 percent of GDP. This wage bill includes a special allowance/increase for health personnel and teachers. In the course of providing this adjustment, Government will be expected to continue with the gradual introduction and implementation of civil service reforms whose additional fiscal impact will be felt in the 2002/2003 financial year.
82. Mr. Speaker, Sir, expenditure on other goods and services, is projected to be reduced by 0.6 percent of GDP. It is also assumed that the stock of outstanding Treasury Bills will be reduced by K2 billion in the first half of the new financial year so that the interest burden in the budget can be reduced.

83. Mr. Speaker, Sir, Honourable Members, as you are aware, Malawi qualified for debt relief under the enhanced Highly Indebted Poor Countries (HIPC) initiative in the amount of US \$ 1 billion (MK80 billion) over a twenty year period. In the 2001/2002 fiscal year, Government will receive about MK4.7 billion of the HIPC debt relief resources (3.5 percent of GDP). These resources will be used in poverty reducing priority expenditures as identified in the Poverty Reduction Strategy Paper (PRSP). Until the full PRSP is completed, the expenditure allocation will be guided by the 'PRSP: Findings to Date' document. The areas selected for immediate spending include primary and secondary education; teacher training; preventive and clinical health services; drugs; agricultural extension; rural water supply and borehole construction/dam maintenance; maintenance of rural roads; gender, youth and community services; labour and vocational training; tourism, and commerce and industry sector, and mining.
84. Total development expenditure is expected to be K12. 3 billion, most of which will be financed by donors (K9.1 billion from donors and K0.5 billion from HIPC), and the balance to be financed by Government. It is expected that the overall grants will be about US \$ 155 million (US \$ 67 million project grants and US \$ 88 million balance of payments support).

2001/2002 BUDGET FRAME

85. Mr. Speaker Sir, Malawi continues to face deep rooted poverty that is not conducive to private investment and the creation of wealth. Despite significant Government efforts in poverty and reduction, poverty remains a reality for the majority of Malawians. Hence, poverty reduction is accorded high priority in the planning and development framework of our country.
86. Undoubtedly, the past six years have witnessed a number of achievements in poverty reduction efforts including the launching of the Poverty Alleviation Programme. The introduction of free primary education stands out as the single most important policy intervention. However, these efforts have not been adequate to reduce poverty. The prevalence of the poverty situation in Malawi has been due to several factors. Firstly, the Poverty Alleviation Programme was seen as just another government activity rather than a basis for all government

activities. Secondly, the budget process did not fundamentally change to reflect the prioritisation of poverty interventions. Thirdly, the poor were not given the opportunity to participate positively in activities aimed at improving their own welfare.

87. Mr. Speaker, Sir, to achieve the objectives of poverty reduction, Government has decided to create conditions for the poor to generate their own income and be able to fend for themselves. It is for this reason that Government is preparing the PRSP to facilitate the attainment of the appropriate conditions for the poor to gain and improve their social welfare status. The PRSP will define policy and articulate poverty strategies. This process will build broad ownership of the strategy and the necessary measures.

88. Mr. Speaker, Sir, the 2001/2002 Budget has also been guided by the need to attain and maintain macro-economic stability which is a prerequisite for growth and a foundation for poverty reduction. Last year's budget was termed the peoples budget because of the reorientation of the budget to peoples' aspirations. We want to go further than that in the budget for the 2001/2002 fiscal year by taking into account the views from stakeholders during the pre-budget consultations throughout the country and the PRSP process.

89. Mr Speaker, Sir, Honourable Members, through the pre-budget consultations, we have discussed with the private sector, the donor community, religious leaders, city assemblies, trade unions, journalists, non-Governmental organisations and the university institutions. Through these consultations the people have spoken. We have to listen and not only listen but to incorporate the issues raised, however difficulty, into the national budget. Through the PRSP, the stakeholders have ranked activities that need to be addressed as a matter of priority. The dialogue has been rich and undeniably important to Government. Mr. Speaker, Sir, if we cannot listen to the people, then whom are we serving? The Budget being presented today, Mr. Speaker, Sir, incorporates some of the issues raised during the various consultations.

90. As was the case last year, in this year's pre-budget consultations, in almost all discussions, the focus was on budget deficits and their effects on the economy. Repeated calls are being made to reduce our

appetite for spending so that we bridge the gap between available resources and expenditures. The calls are a directive from the Public, our employer.

91. Mr. Speaker, Sir, as a country, we have indeed been living beyond our means. With total expenditures growing to about 31 percent of GDP in 2000/2001 fiscal year and a total domestic revenue averaging 18 percent, the primary deficit has been at an alarming 13 percent of GDP. This, Mr. Speaker, Sir, has been a source of Malawi's problems and agony. What this tells us is that as a nation we have refused to accept our reality, we have let the status quo continue to the detriment of the economy. To close the gap, Government has had to borrow and the result has been there for all of us to see: chronic inflation and high interest rates. These have destroyed the budding private sector.

92. Mr. Speaker, Sir, as a country, we have been consuming and not investing enough to free Malawi from its deep seated poverty, we have been producing only for the domestic market under heavy tariff protection while using old technologies. We have not seized the opportunity of international markets to show the world what Malawi is capable of producing. However, Malawi is not beyond redemption if only we can change our mindset and do business differently for the better of our beloved country, the Warm Heart of Africa.

93. Mr. Speaker, Sir, in 1962, the Colonial office in Britain commissioned a study to assess the viability of its colonies if they were to become independent. The study indicated that all but two of the British Colonies would be financially independent and could be removed from the Budget of the British Government. But the two, the report said, could not amount to anything and needed always to be on the British Budget. These two colonies were Nyasaland (now Malawi) and Mauritius. These two colonies had one thing in common. They both had huge deficits and unsustainable financing gaps that would require massive borrowing. Both colonies were going to crumble, it was feared, under the weight of poverty and disempowerment. Today, while Malawi is asking for debt relief and ranks very low on the Human Development Index, Mauritius is a middle-income country with below one percent unemployment levels. The difference is that Malawi borrowed to consume while Mauritius borrowed to invest (in sugar and tourism). Most of the major hotels one sees along the ocean front were constructed by the Government of Mauritius but run by the private sector. The irony of the matter is that the size of Mauritius is such that

it can fit in Lake Malawi with plenty of waters left over. **Destiny indeed is nothing but choices**, and as the saying goes, **today is your tomorrow from the past**.

94. Mr. Speaker, Sir, the budget for the fiscal 2001/2002 reflects a more realistic balance of choices. Choices that not only affect the Malawian of today, but also the unborn child of the Malawi of the future. Choices we make today should indeed be part of our consciousness as they will forever be captured in the history books for having made Malawi either a better or a torturous place to live in.
95. Today, as a Government and as a people of Malawi, let us say **yes** to tax cuts and **no** to unnecessary expenditures. Let us make more cuts in taxes for individuals, corporations and small to medium-scale enterprises. Let us increase further the disposable incomes of the people, particularly of the low income earners to enable them afford the basic needs of life. Let us invest and not consume recklessly. Let us invest in a healthy, well-educated and productive labour force and pay attention to the priorities that the people have set during the various consultation processes, including the consultations through the PRSP Process.

POVERTY REDUCTION STRATEGY PAPER

96. Mr Speaker, Sir, the overall emphasis of the Poverty Reduction Strategy emerging from the PRSP Process so far is on creating the conditions for the poor to generate their own income. This involves shifting from poverty alleviation through Government control and handouts to empowering the poor to reduce their own poverty. This shift in emphasis will involve a number of changes in terms of the activities Government performs, but perhaps more importantly, requires a change in attitudes or mindset to development. In particular, this will entail changing perceptions of the poor from helpless victims of poverty to active participants in the economy; restoring national unity and work ethic; removing excessive expectations placed on Government ("dependency culture"); and changing peoples' motivation from short-term personal enrichment to longer-term national benefit.

97. Mr. Speaker, Sir, three key sources of change to these attitudes have emerged from the PRSP Process so far. These are depoliticisation of development, provision of appropriate incentive structures and elimination of corruption.
98. Mr. Speaker, Sir, with respect to Depoliticisation of Development, a clear message from both the District Consultations and the Official Launch was that there was need to depoliticise development. In particular, all stakeholders should be involved in planning and implementing poverty reducing activities regardless of political affiliation, and that political leaders must recognise the need to foster development in all districts and constituencies, regardless of political representation. Finally, there is need for political leaders to change the terms of political discourse, which create the expectation of material gain in return for political allegiance and reinforces the excessive expectations placed on Government.
99. Mr Speaker, Sir, inappropriate incentive structures have been identified as the fundamental cause of low productivity and poor work ethic, particularly in the civil service. These inappropriate incentive structures include low salaries, poor monitoring, no punishment for poor performance, and opportunities for fraud and corruption. Thus, more needs to be done to address these issues.
100. Mr Speaker, Sir, as stated by His Excellency the President in his State of the Nation Address which he delivered on 5th June, 2001 **corruption is a form of social and economic injustice. Government further recognises that corruption has a significant negative effect on economic growth and development.** Thus, Government with the assistance of the donor community will continue the fight against corruption.
101. Mr Speaker, Sir, it is important to note that the "Findings to Date" document is not supposed to be comprehensive: it simply outlines the key areas where consensus has been reached so far, and where specific interventions can be identified for the 2001/2002 financial year. The final PRSP document will be comprehensive, filling in the gaps remaining and come up with a fully prioritised strategy.

Revitalization of Commerce and Industry

102. Mr. Speaker, Sir, Honourable Members, as indicted in the 2000/2001 Budget Statement, the Government's policies for private sector development include further privatisation and commercialisation of state owned enterprises including telecommunications, electricity, procurement of petroleum products and strengthening the development of transport infrastructure including Air Malawi. While tremendous progress has and is being made in the petroleum, telecommunications and transport infrastructure, Mr Speaker, Sir, Honourable Members, the Government has moved a step further to ensure that the 2001/2002 budget provides funding for a programme and strategies designed to revitalize commerce and industry in Malawi. In this connection, the Ministry of Commerce and Industry will take the lead to focus on projects that will spur private sector activity. It is also Government's commitment not to increase tariffs or duty rates particularly on raw materials so that the private sector can be provided with a more suitable and conducive business environment.
103. Mr. Speaker, Sir, the programme will also focus on broadening and diversifying the country's export base and promoting growth of value added manufacturing and other entrepreneurial development activities. Let me report Mr Speaker, Sir, Honourable Members, that consultations are underway to identify targeted manufacturing industries that will qualify to receive seed capital from Government. It is expected that apart from specific products, the programme will include creating an enabling environment and appropriate legal and regulatory framework for the development of Micro, Small and Medium - Scale Enterprises (MSMEs).
104. Mr. Speaker, Sir, private sector investment, including foreign direct investment, is expected to increase slightly in 2001 from the levels achieved in 2000. MIPA estimates that there will be a significant of new investment in the year 2001 is about US \$33.4 million. The main sectors of expansion will be tourism, retail and manufacturing. The improvements in the macro-economic parameters including economic stability should attract further investment from the private sector. A reduction in the cost of imports, such as raw materials, occasioned by reforms in the tax structure, should also result in productivity gains in manufacturing.

105. Mr Speaker, Sir, as noted earlier, the programme of Private Sector Development in the new financial year will include the creation of an enabling environment and legal and regulatory framework for the development of MSMEs. The main objective of the MSME Programme is to create, promote, support and facilitate the growth and development of MSMEs in order to maximize their contribution to economic development.

2001/2002 BUDGET OUTLOOK AND MEASURES

106. Mr. Speaker, Sir, the Budget I am presenting today is premised on the measures I presented to this House in June 2000 and also the new measures to be implemented. These measures are geared at strengthening the execution of the Budget and management of the economy so that the available limited resources are able to achieve the intended noble objective of poverty reduction.
107. Mr Speaker, Sir, Honourable Members, presented before you are the relevant Budget Documents as follows: 2001/2002 Budget Statement as Budget Document No.1, 2001 Economic Report as Budget Document No. 2, Financial Statement 2001/2002 as Budget Document No. 3, Draft Estimates of Expenditure on Recurrent and Capital Accounts for the financial year 2001/2002 (output based) as Budget Document No 4 A, and Draft Estimates of Expenditure on Recurrent and Capital Accounts for the financial year 2001/2002 (detailed estimates) as budget document No. 4B.

Revenues

108. Mr. Speaker, Sir, the total revenues and grants for 2001/2002 (without the additional measures for contingent liabilities) are estimated at K42,273 million. Out of this amount, K26,691 million is from domestic revenues of which K22,344 million is from various taxes and K4,347 million is from fees and departmental receipts. Grants are estimated at K15,582 million, comprising K7,045 million for Balance of Payment and Budgetary Support, K3,820 million for project assistance and K4,715 million for the implementation of poverty focused priority areas under the Highly Indebted Poor Country (HIPC) Initiative.
109. Mr. Speaker, Sir, domestic revenues represent an increase of 28.6 per cent in absolute terms over the 2000/2001 fiscal year. Tax revenues have increased by 14.7 per cent while non-tax revenues have

increased by 64.8 per cent. These increases are due to the improved administration in revenue collection MRA, on-going implementation of cost sharing and cost recovery measures as announced in the 2000/2001 Budget Statement in June 2000, and other measures that I will be announcing today. Grants have increased by 15 percent. This shows continued confidence that our cooperating partners have in the Government, its programmes, and the way it uses grant funds.

110. Mr. Speaker, Sir, as indicated earlier, the total expenditure under the macroeconomic framework for the 2001/2002 budget is projected at MK42.3 billion. However, in order to cater for payments in respect of contingent liabilities and other prior commitments for loans guaranteed by Government for parastatals, an additional provision of MK3.5 billion has been made. This has necessitated the introduction of additional cost recovery and cost sharing measures. Consequently, the total expenditure for the fiscal year is projected at MK45.8 billion.
111. Mr. Speaker, Sir, out of the projected expenditure of MK45.8 billion, MK32,199 million is for the Recurrent Account, MK13,676 million for the Development Account. The allocations for the recurrent and development expenditure include MK4,715 million earmarked for the implementation of priority programmes under the HIPC. The total estimated expenditure represents an increase of 27 per cent over the 2000/2001 Budget. This high increase has been necessitated by the presence of prior and statutory commitments of expenditure including arrears that have persisted in the system in respect of ministries/department and parastatals.
112. Mr. Speaker, Sir, out of the K32,199 million on recurrent account, K7,797 million is for wages and salaries. This amount includes an annual wage and housing allowance adjustment granted to civil servants. Expenditure for goods and services has been allocated K9,616 million, Pensions and Gratuities has been allocated K1,499 million and Interest payments has been allocated K6,400 million. To consolidate the decentralization process, a provision of K250 million has been made for disbursement to district assemblies.
113. Mr. Speaker, Sir, the Expenditure on the Development Account has been allocated K13,676 million. Of this amount, K2,803 million will be sourced from local resources with K10,873 million as foreign loans and

grants. The earmarked domestic resources will cater for on-going projects only. All new projects will be considered once the PRSP has been finalized.

114. Mr. Speaker, Sir, the Budget I am presenting today, recognizes that Government's priority policy objective is poverty alleviation. This has been reflected by the increased allocations to the social sectors of Health, Education, Water and Sanitation, and Community Services. However, in recognition of the fact that our economy will continue to depend on agriculture for sometime, a substantial amount of money has been allocated to this sector. Specifically, the Ministry of Health and Population has been allocated K2,388 million for its recurrent expenses, an increase of 32 percent on 2000/2001 Budget, with K1,000 million earmarked for drugs. The allocation to drugs represents a per capita drug allocation of US\$1.33 that is above the World Health Organisation (WHO) recommended minimum of US\$1.25 for Sub-Saharan Africa.
115. Mr. Speaker, Sir, I need to seriously indicate my concern, which is also the concern of Government and all deserving citizens of Malawi, about the high drug pilferage in our Government hospitals. One recent study, for example, has found out that 60 percent of the drugs purchased for Government hospitals and clinics find its way out of the system. If indeed this is the case, then this is a very worrisome situation. I need, therefore, mention that it is the noble responsibility of all of us to ensure that the scarce resources we allocate to these activities serve the intended beneficiaries.
116. Mr. Speaker, Sir, for recurrent expenses, education has been allocated K1,692 million, an increase of 47 percent on the 2000/2001 Budget, while Gender, Youth and Community Services has been allocated K177 million, an increase of K147 million from the 2000/2001 Budget, representing a 490 percent increase.
117. We note with great interest, Mr Speaker, Sir, that issues of Gender equality and balance were of equal concern to our forefathers as is evidenced by the following quote from the Rev. John Chilembwe in 1912 :

"I feel safe in saying that I am doing good to my countrymen, as it is true everywhere the men are developing faster than the women. But there can be no healthy progress if such is the case. We believe there is an urgent need for special work to be done among the wives of the people, because an African woman does not exert an influence for good or evil on her husband. I almost despair when I think of her ignorance, her utter lack of ambition. I believe and pray that God may rule someone to lay the foundation for the future of the race. It is sad to see a young mother, little more than a girl, with an infant on her back and know that she is thrust into responsibility for which she is quite unfit,... . God has a purpose in creating man, male and female and women have work to do that man cannot do."

John Chilembwe
Excerpts from letter to the
Foreign Mission Board Secretary
National Baptist Convention, 1912

Mr Speaker, Sir, this is why budget has made substantial increase of resources to Gender.

Budget Monitoring:

118. Mr. Speaker, Sir, I wish to assure the Honourable House that the Treasury will closely monitor implementation of the budget. In addition to monitoring figures, a new feature will be added on the achievement of set outputs and targets. The budget for individual ministries/departments has set out clearly what objectives they intend to achieve, and how the money allocated to them will be apportioned to various programmes. This will complement the recently introduced auditing concept called Performance Auditing, where focus is shifting from compliance on figures to achievements.

119. Debt relief funds will be spent on poverty reducing programmes and will be monitored separately. This will be essential since in addition to ensuring that the necessary triggers are achieved to take Malawi to the HIPC Initiative Completion Point, it will also ensure that funds are spent on intended programmes.

Extra-Budgetary Requests

120. Mr. Speaker, Sir, in the 2001/2002 financial year extra- budgetary requests will not be entertained unless they relate to emergencies. Under the existing Treasury instructions, and statutory and constitutional provisions relating to supplementary appropriations, the Treasury can not authorise an increase in the total provision for any vote unless supplementary estimates have been prepared and presented to the National Assembly for approval. Controlling Officers are requested to personally note, that for any excess expenditure at the end of the financial year (including unsettled commitments/arrears) only after consideration by the Public Accounts Committee of Parliament and the concurrence of the Minister of Finance will a provision be made in the Supplementary Appropriation Bill to permit the excess to be charged against a vote.

MEASURES TO SUPPORT THE BUDGET AND THE ECONOMIC PROGRAMME FOR THE 2001/2002 FISCAL YEAR.

121. Mr. Speaker, Sir, Honourable Members, for the Budget I am presenting in this August House to be implemented, several measures are being introduced. These measures are aimed at controlling expenditure, enhancing revenue generation to finance the Budget and also to stimulate the economy.

Expenditure Control Measures

122. Mr. Speaker, Sir, the following expenditure control measures will be introduced with immediate effect:
- (a) Ban all non-essential Government funded foreign travel. Essential foreign travel applications will be considered only when a Ministry has funds available on its external travel budget line.
 - (b) Reduce all rates of foreign travel allowance by 25 percent, and in addition, there should be a significant reduction in the size of delegations where travel is necessary. This directive applies to Government and all parastatals and the Reserve Bank of Malawi.
 - (c) The entitlement of first class air travel should be reduced to business class for all Members of Cabinet, civil servants and employees in parastatals.

(d) Suspend use of personal vehicles and all Transport and Travel claims unless personally approved by the Controlling Officer, subject to a limit of one approval per officer per month.

(e) There should be no consideration for extra-budgetary requests except for emergencies and essential items. Requests for extra funding beyond budgetary provisions will be processed strictly in accordance with existing Treasury Instructions and statutory and the constitutional provisions, relating to supplementary appropriations.

(f) Disciplinary action to be taken against Controlling Officers who fail to adhere to the approved budget or exceed their provisions without Treasury authority.

(g) Hiring of vehicles to be banned except where authorised personally by a Controlling Officer. As far as possible, ministries and departments should lend vehicles to each other as part of expenditure control.

(h) Reduce internal travel and rationalise use of Government pool vehicles for such travel in preference for cheaper public transport in appropriate cases.

(i) Controlling Officers should undertake extensive and intensive fleet management in their Ministries and Departments, and pool vehicles should be allocated a maximum of 200 litres of fuel per month. In cases where excess allocation is necessary, the Controlling officer should personally authorise the allocation. Controlling Officers are to ensure that the number of pool vehicles for a ministry does not exceed the maximum of five.

(j) All Government vehicles should be parked at Capital Hill and other secure places after 5 p.m. in line with existing instructions. Controlling Officers should ensure enforcement of this, and note that that vehicles found being used unauthorised at odd hours and during weekends will be impounded.

(k) Controlling Officers in all ministries and departments should introduce telephone expenditure control measures and appropriate time management systems.

(l) Government, through the Ministry of Finance and Economic Planning and the Auditor General, should sell all non-running vehicles by public auction.

(m) The filling of vacancies in the public services to be on a need basis.

(n) All diplomatic postings to be carried out in line with the rationalization of foreign service.

MEDIUM AND LONG TERM MEASURES

123. Mr. Speaker, Sir, Honourable Members of this August House, apart from the above measures, that are with immediate effect, there are also some medium and long term measures that Government will implement during the course of the financial year after review and consideration of detailed recommendations. These include:

(a) review Malawi's membership to International Organisations.

(b) introduction of fleet management and implementation of a motor vehicle policy that will help to save on maintenance and overall expenditure on Government. The policy give guidelines on the type of vehicles to be bought for Government, type and size of vehicle that should be allocated to various grades of public servants, and propose a new motor vehicle ownership scheme for some public offices.

(c) Rationalisation of the use of office space to cut down on renting of office space by Government.

(d) government should rationalise the number of Government vehicles as part of fleet management.

(e) The reorganisation and clarification of the status and operations of the National Food Reserve Agency (NFRA) and ADMARC in the marketing and storage of maize with a view to ensuring that the smallholder and other stakeholders are adequately empowered to produce and store enough maize as a staple food item, and that strategic reserves, both grain and resources are assured.

Revenue Side

124. Mr. Speaker, Sir, Honourable Members, the following revenue measures will be implemented with immediate effect:

(a) Fees retained by the Malawi Revenue Authority for its operation will be increased from 1.65 percent to 2.5 percent. The amounts are to be applied for operations in order to enhance collection of revenue in customs and income taxes through increased enforcement.

(b) Intensify collection of arrears of Pay As You Earn (PAYE) and MRA should take necessary steps to ensure that offenders are prosecuted in accordance with the law.

(c) The Malawi Revenue Authority should initiate collection of payroll taxes from International Organisations, non-Governmental organisations (NGOs) and donor funded projects, and encourage compliance with respect to collecting and remittance of withholding tax on rentals, goods and services, etc.

(d) Ministries and departments should intensify collection of departmental receipts as well as cost sharing and cost recovery activities, and submit monthly reports of revenue collection to the Treasury along with expenditure and commitment reports.

(e) The road levy on petroleum products will be increased by K1.00 per litre on petrol and K1.00 per litre on diesel. This measure will assist Government to provide increased resources for maintaining the road network in the country. Following this adjustment the price build-up structure will be adjusted.

TAX POLICY MEASURES

125. Mr Speaker, Sir, Honourable Members, in addition to these measures that Government has introduced to support the 2001/2002 budget, some tax measures will also be introduced.
126. Mr Speaker, Sir, Honourable Members, as you may be aware, Government has since early 1990s continuously been reforming the tax structure to ensure simplicity and equity of the tax system, to ensure economic efficiency by promoting economic growth rather than discouraging it, to ensure stable tax policies over time so as not to frustrate investment decisions, and to ensure low administration and economic costs to the nation.
127. With the steadfast drive to continue with tax reforms due to the present economic realities, the overall objectives of the 2001/2002 tax policy measures are to (a) increase peoples' disposable incomes so that they have a higher purchasing power expected to stimulate demand for goods and services, and (b) to stimulate private sector productivity through reduction of duties on factors of production so

that firms can effectively compete in both domestic and international markets.

128. Mr. Speaker, Sir, considering the immediate need for revenues for Government to continue with its expenditure programmes, these are hard decisions but yet a measure of Government's unwavering commitment to bringing about tough but necessary reforms that will ensure a sustainable economic growth the country so urgently requires. Although this policy change may affect revenues negatively in the short term, we are sure that the nation will receive its dividends in the long term. It is consoling to note that income taxes would in many instances have a negative correlation with customs taxes. Theory has constantly been proven right that a decrease in income tax rates increases tax revenue collections on goods and services. For instance, Government is expecting that more money in the hands of the people will improve considerably customs and surtax revenue collections.
129. In order to achieve the objectives set for the 2001/2002 budget, the following tax policy measures will be implemented with effect from 1st July, 2001.

INCOME TAX MEASURES

Revenue Losing Measures

(a) Income tax rate on individuals and corporate incomes will be reduced from 35%, 25% and 15% to 30%, 20% and 10%. This measure will increase the disposable incomes (net of tax income) received by people and firms, consequently increasing the demand for consumption goods and services. Furthermore, Government has increased the income tax zero rated threshold from K2000 to K3000. This means that anyone earning a salary/wage will not pay income tax on the amount up to K3000 per month. Furthermore, Government has decided to expand the income tax brackets from 24,000, K42,000 and K60,000 to K36,000, K54,000 and K72,000. This measure is intended to reduce the tax burden for all salaried employees. Although there will be a loss in revenue on the account of income taxes, this policy will improve the performance of the Surtax (extended) once it is in place.

(b) Withholding tax threshold on interest accruing from savings in commercial bank deposits will be increased from MK500.00 to MK10,000.00. This measure is aimed at encouraging savings.

(c) Dividend Tax Accounting (DTA) system will be abolished. This measure will improve the investment climate by allowing companies to distribute dividends to their shareholders without a penalty.

Revenue Gaining Measures

(a) A 10% withholding tax on distributed dividends will be introduced.

(b) A provisional tax rate for minibus operators of MK40,000 for 16 seater minibus, MK48,000 for a 20 seater minibus and MK55,000 for a 30 seater will be enforced and collected through the Road Traffic Department when road licence renewals are being made. This measure aims at expanding the tax base and bringing a level playing field between corporate transport companies and minibus operators.

CUSTOMS AND EXCISE MEASURES

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

Revenue Losing Measures

- a. Import duty and surtax on capital goods or machines used for manufacturing goods will be completely eliminated by reducing it from 5 percent to free and from 20 percent to zero percent respectively. This measure will increase the competitiveness of Malawi's manufactured products both at the domestic and international markets by reducing the cost of production.
- b. Surtax will be zero-rated on fresh and processed milk. This measure will enable people in the country to afford low priced milk to meet their nutritional requirements.

- c. Excise duty on footwear with outer soles and uppers of plastic or rubber will be removed. This is intended to assist the low income Malawians to afford plastic shoes.

- d. Import duty on agricultural hand tools from the non favoured nations will be reduced from 10 percent to 5 percent and from the most-favoured nations from 5 percent to free.

- e. Excise duty on alcoholic beverages will be reduced by 25 percentage points, from 80% to 55% for all categories and from 60% to 35% for Powers No1.

- f. Excise duty on petroleum jelly will be reduced from 50 percent to 20 percent.

- g. Duty free status on selected goods will be accorded to companies, firms and individuals investing a certain amount of money in areas designated in the Tourism Industry. The qualifying areas will be designated by the Minister of Tourism, Parks and Wildlife. These designated areas will be clearly specified in the Customs Procedure Code. The measure is aimed at promoting tourism.

131. Mr Speaker, Sir, following the measures I have outlined above, I would like to call upon the private sector to pass on the benefits of these reductions in custom duties to the consumers. I have found it necessary to make this call because it has been observed that in some cases, the private sector has not passed on the benefits to the consumers.

132. Mr Speaker, Sir, allow me to now turn to the Revenue Gaining Measures.

Revenue Gaining Measures

- a. Excise duty on selected goods will be increased by 10 percentage points. These goods are as follows: pocket lighters, smoking pipes, perfumes, carpets, textiles, human hair and wigs, articles of apparel (clothing) and accessories made from fur skin.

- b. Excise duty will be increased by 20 percentage points on the following goods: precious stones and metals except those for industrial use, cutlery, and electro-mechanical domestic appliances.

- c. Excise duty on electrical appliances including automatic vending machines, turntables, record players, cassette players and other sound producing apparatus, reception apparatus for television, video monitors, video projectors and video recording apparatus will be increased from 10 percent to 20 percent.

- d. Import duty on crude cooking oil from non-favoured nations will be increased from 5 percent to 25 percent and from the most favoured nations from 5 percent to 10 percent. This measure will reduce the incentive to misclassify of refined cooking oil as crude oil so that the benefits for import duty rate are only charged on crude oil. The local manufacturers who use crude oil as a input into the production of cooking oil will not be affected by this measure because such manufacturers are on duty free list under the industrial rebate scheme. In addition, this measure will assist in reducing the direct selling of crude oil to the public for consumption which is also a health hazard.

Other Measures

- e. A criteria and procedures for granting the remission, exemption, mitigation and deferment of duties will be introduced and gazetted. The criteria aims at establishing a clear and transparent mechanism for granting remissions, exemptions, mitigation and deferment of duties.

133. Mr. Speaker Sir, Honourable members, the above measures will ensure that the Budget is implemented as required.

CONCLUDING REMARKS

134. Mr. Speaker, Sir, let me express my sincere gratitude to all those who contributed so selflessly in compiling the Budget and the Budget Statement, in particular,
- i. The President, His Excellency Dr. Bakili Muluzi, for his wise leadership and counsel in the course of preparing the Budget;
 - ii. the Vice President, the Right Honourable Justin Malewezi, for ably chairing and guiding the various Cabinet Committees on Economic and Budgetary matters, as well as my Cabinet colleagues for their support and constructive inputs throughout the entire Budget process;
 - iii. all our developments partners for the technical and financial support to Malawi in implementing her economic and development programme;
 - iv. men and women in the Ministry of Finance and Economic Planning for their hard work, commitment and dedication to duty in preparing the Budget and the Budget Statement;
 - v. the National Economic Council and the Reserve Bank of Malawi who are part of the economic management team; and lastly
 - vi. all various stakeholders in the Private Sector, Civil Society, Non-Governmental Organisations and academic staff who provided their input to the Budget during the Pre-Budget consultative meetings.

135. Mr Speaker, Sir, in concluding the presentation of the 2001/2002 Budget Statement, I have the honour to assure this August House and the people of Malawi that the Budget I have presented today indeed reflects our determination to consolidate the bold steps we have taken for a better Malawi, and in particular, our determination to ensure the acceleration of poverty reduction and increase in economic growth.
136. 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 on the need for the private sector to take advantage of the concessions in order to revitalise private sector activity. Further, emphasis has been given on the need for parastatals to carry their own weight and improve financial management.
137. Above all, Mr Speaker, Sir, Honourable Members, we have emphasised the need for Government to strengthen cost recovery and cost sharing measures to ease pressure on the Budget and enable Government to increase focus on priority programmes and activities. For some institutions, this is a must otherwise, they will not be able to sustain their operations.
138. Mr Speaker, Sir, Malawi finds itself in the midst of a profound transformation that calls for a change in the way we do business. This paradigm shift is a development imperative in today's world, where the need for leaders to listen to the voice of the people has been clearly established. Since Government is asking the people to make sacrifices, there must be a fair and equitable burden-sharing.
139. Mr Speaker, Sir, I wish to end with the words of the Reverend John Chilembwe:

We ask the Honourable government of our country which is known as Nyasaland, Will there be any good prospects for the natives after the end of the war? Shall we be recognized as anybody in the best interests of civilization? Any true gentleman who will read this without the eye of prejudice will agree and recognize the fact that the natives

have been loyal since the commencement of this Government, and that in all departments of Nyasaland their welfare has been incomplete without us. Everybody knows that the natives have been loyal to all Nyasaland interests and Nyasaland institutions. For our part we have never allowed the Nyasaland flag to touch the ground, while honour and credit have often gone to others. We have unreservedly stepped to the firing line in every conflict and played the patriot's part with the Spirit of true gallantry. But in time of peace the Government failed to help the underdog. And Instead of honour we suffer humiliation with names contemptible. 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 recognize our indispensability and that justice will prevail.

John Chilembwe
On behalf of his countrymen
Nyasaland Time No. 48, 26 November, 1914

140. These words of our national hero clearly demonstrate the need for an all inclusive approach to development. In particular, any strategy of poverty reduction must include the poor themselves in designing the solutions to the problem. This paradigm shift Mr. Speaker Sir, is needed if we are to restore pride and dignity, to lift the burden of poverty, to reverse the economic stagnation and transform our country to a point where all Malawians can have a decent standard of living.
141. In consolidating our bold steps towards the better future for Malawi, the focus of our economic programme and agenda still remains human development through poverty reduction and economic growth. As we travel on this path, 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.
142. Mr. Speaker, Sir, it is instructive to recall that the road to success is always under construction, It is a pilgrim's journey, full of obstacles and pitfalls, but in the end the rewards are indeed great.

143. Mr. Speaker, Sir, I wish to end with the words of the Reverend Dr. Martin Luther King, that: **Justice is indivisible. Injustice anywhere is injustice everywhere.**
144. I thank you for your attention. May God bless you all and bless Malawi.
145. Mr. Speaker, Sir, Honourable Members, I beg to move.

2001/2002 Budget Statement
delivered on Friday, June 22, 2001 by the
Minister of Finance and Economic Planning,
Hon. Dr. Mathews A.P. Chikaonda,
Parliament, Lilongwe, Malawi