

2016/2017 BUDGET STATEMENT

Motion

1. Mr. Speaker, Sir, I beg to move that the estimates on the recurrent and development accounts for the 2016/17 budget of the Government of Malawi be referred to the committees of Parliament before they are considered by the Committee of the Whole vote by vote, and that, thereafter, they be adopted.

Introduction

2. Mr Speaker, Sir, once more, I feel greatly humbled by His Excellency the State President, Professor Arthur Peter Mutharika, for assigning to me the noble responsibility of leading his economic management team. At the outset, I am pleased to present my third budget of the current administration, and to do so at a time when significant progress is being registered towards strengthening the public finance management system, as confirmed by the International Monetary Fund (IMF) in March this year.

3. On the other hand, I stand here to present before this august House yet another budget that has been prepared against the backdrop of various socio-economic challenges facing our country, key among them being the food insecurity crisis occasioned by the El Nino climatic episode that the country has undergone for the second time consecutively. While, as expected, I will touch on this subject in detail later as did His Excellency the President, let me hasten to state that I am pleased to report that some pledges have already started being received by Malawi in response to the proclamation of a State of National Disaster by His Excellency the President. I am therefore confident that, with the cooperation of all Malawians and our development partners, we will, once again, overcome this challenge.

4. Mr Speaker, Sir, the country continues to face significant resource constraints due to continued deep reductions in donor support that was habitually provided to us through the budget. Over and above that, it has been lamentable that our collection of tax and non-tax revenues has also declined

in 2015/16, despite the ever-increasing demands for the delivery of critical public goods and services. In this context, I wish to ask the House to commend the African Development Bank (ADB) for its recent pledge of budget support, once again. Honourable Members will recall that the ADB also came to the country's rescue with budgetary support during the 2014/15 financial year. Similarly, during his visit to Malawi in April 2016, the new ADB president pledged further support for the current and the coming financial years. Malawi is grateful for this generosity. More generally, our ability to ride over the catastrophic climatic episode of last year was due to such support, especially that received from the World Bank, the United States Government, the United Kingdom, and other large bilateral donors. Moreover, Mr. Speaker, Sir we are yet to use the pledged support from China and Japan. We are also proud that Egypt and South Africa, as brotherly African countries, also came to our rescue. I want to emphatically register our gratitude for the assistance received from all our multilateral and bilateral development partners towards the

implementation of various Government programmes, regardless of whether or not such assistance was channelled through the national budget. We remain hopeful that our development partners will continue to provide this support, to assist us in addressing our short-term food security and social challenges, and meeting our enormous developmental needs.

5. Therefore, Mr Speaker, Sir, the budget that I am presenting to this august House is therefore not just concerned with funding Government ministries, departments and agencies, but also seeks to address some of the short and medium-term challenges that we have faced and will continue to face as a result of climate change. This must remain our policy, and all Malawians and development partners must focus on the achievement of this policy if we are to be relevant to this country's needs for some time to come.

6. As part of the drive towards the promotion of a hardworking spirit, it is of utmost importance that the public and private sector resources should be utilised

where they are most productive. It is for this reason that the Government continues to intensify its fight against fraud and corruption, because these societal evils create a huge disincentive for hard work, while at the same time mis-directing resources from productive use. In addition, the payment of Western-style bonuses to top executives in the private sector must be a major Government concern, because it entails a waste of resources that could have been re-invested productively. It also worsens income inequalities, and creates disincentives in other equally important sectors of the economy. The practice in some companies to pay salaries equal to those received by executives in developed countries and grant them huge perks should be roundly questioned, just as it was questioned in those countries in the wake of the 2008 economic meltdown. Surely, salaries equivalent to US\$20,000 per month or more in Malawi cannot be conducive to the needed investments nor to continued social harmony.

7. At this point, Mr Speaker, Sir, I would also like to discourage what has emerged as a persistent culture of demanding more and more of the limited Government resources among the leaderships of some of our public institutions, through enhanced conditions of service. These demands are increasingly becoming insensitive to the economic depression that the country is passing through and, therefore, unpatriotic.

Global, Regional and National Economic Performance

8. Mr Speaker, Sir, before delving deep into budgetary matters, let me share with the House the global, regional and national economic outlook to show that the economic depression that has inflicted Malawi has engulfed the SADC region and affect other countries as well.

The Global Economy

The world economy is becoming increasingly integrated, and sound economic management requires that we should be fully aware of the changes around us. In this regard, I wish to inform the

House that the global economy slowed down in 2015 to 3.1 percent, from 3.4 percent in 2014. The decline reflects a slowdown in emerging market economies, especially commodity exporters, due to low export prices. In 2015, oil and non-oil commodity prices declined by 47.3 percent and 17.5 percent, respectively. However, this decline was partially offset by modest growth in some advanced economies, especially in the Euro area. This was triggered by the same decline in commodity prices, stronger private consumption, as well as expansionary monetary policies.

9. Mr. Speaker, Sir, the world economy is projected to grow by the same 3.1 percent in 2016, but higher growth prospects are projected for 2017. Despite the stronger performance in some emerging markets, growth prospects remain subdued in most advanced economies. In terms of emerging markets, India's growth is projected to strengthen from 7.3 percent in 2015 to 7.5 percent in 2016 on account of recent policy reforms, investment growth, and lower commodity import prices. On the other hand, a slowdown in economic growth is

expected in China, from 6.9 percent in 2015 to 6.5 percent in 2016. Among advanced economies, subdued growth prospects reflect increased uncertainties. As a result, real output growth in the USA is projected to remain at 2.4 percent in 2016, as in 2015. Similarly, growth in Japan is projected to remain at 0.5 percent in 2016, as in 2015, reflecting a drop in private consumption. In the United Kingdom, growth is expected to decline further from 2.2 percent in 2015 to 1.9 percent in 2016.

10. Mr. Speaker, Sir, low oil prices augur well for economic growth for oil importing developing countries like Malawi. The modest growth in developed countries will spur real effective demand for exports. The 2016/17 Budget framework takes this economic forecast into perspective.

Sub-Saharan Africa's Economic Performance

11. Mr. Speaker, Sir, economic growth in the sub-Saharan African region slowed down to 3.4 percent in 2015, from 5.1 percent in 2014. This slowdown was

primarily driven by the declining commodity prices, especially oil prices, as well as lower demand from China, which is the region's largest trading partner.

12. Mr. Speaker, Sir, the region's oil importers registered an average growth of 4.0 percent in 2015 and the majority of them will continue to experience solid growth in 2016. On the other hand, some of region's low income countries generally continued to register commendable growth rates, although others faced challenges. For instance, the Democratic Republic of Congo, Ethiopia, Mozambique and Tanzania registered growth rates of at least 6 percent in 2015, and were expected to sustain this in 2016. On the other hand, growth in Sierra Leone and Zambia slowed down to less than 4 percent in 2015, on account of a slump in the prices of their main export commodities. Similarly, growth for South Africa, Malawi's main import source, closed at below 1.5 percent in 2015, due to electricity load shedding and other supply-side bottlenecks.

13. In 2016, growth for the Sub-Saharan region is expected to remain weak at 3.0 percent, due to the continued slowdown in the global economy. However, it is projected to pick up to around 4 percent in 2017 on account of a mild expected rebound in oil and other commodity prices. An improvement in the outlook for Ebola-affected countries is expected also to support this growth.

Malawi's Economic Performance

Mr Speaker, Sir, it is clear that, were it not for the adverse climatic episodes, the economy of Malawi would have performed much better. Instead, Malawi's real GDP growth slowed down substantially from the rate of 6.2 percent registered in 2014 to 3.1 percent in 2015 due to the erratic weather conditions that disrupted the 2015 harvest. The undesirable performance in the agricultural sector, which declined by 1.6 percent last year, adversely affected the performance of other sectors of the economy, including wholesale and retail trade as well as manufacturing. However, Malawi's economic growth of 3.1 in 2015

percent compares favourably with those of most countries in the SADC and COMESA regions. For instance, South Africa and Zimbabwe only grew by 1.3 percent and 1.5 percent, respectively.

14. As a result of the slow growth, unstable macroeconomic conditions persisted in 2015, despite showing signs of improvement relative to 2014. The annual average inflation rate for 2015 was at 21.8 percent, down from 23.8 per cent in 2014. This reflected the combined effect of food scarcity, a higher level of liquidity in the economy, as well as the unexpected depreciation of the exchange rate during the tobacco season. The weakening of the Malawi kwacha against major trading currencies was occasioned by a general strengthening of the US dollar and speculation among currency traders on the local market. The Kwacha depreciated from K450 per US dollar in February 2015, to K765 per dollar a year later. However, Honourable Members may wish to note that domestic currency depreciation was worse in other countries, including some within the region. For instance, the Zambia

Kwacha depreciated by almost 90 percent between February 2015 and February 2016. The South African Rand also depreciated from ZAR11.63 to ZAR15.76 during the same period.

15. Mr. Speaker, Sir, the economic slowdown in 2015 also had a negative impact on the national budget. At midyear, for instance, domestic revenue underperformed by 4.1 percent against the target of K312.4 billion. However, Honourable Members should take note that the underperformance in revenue collection also reflects weaknesses in the tax administration system which must be addressed. I will revert to this point later.

16. Moving forward, Mr Speaker, Sir, as projected by the IMF, the Malawi economy is expected to rebound from the real GDP growth rate of 3.1 percent in 2015 to 5.1 percent in 2016. Although the economy has been depressed by the El Nino weather episode which particularly adversely affected smallholder agricultural production, commercial agriculture has registered an increase. Growth in 2016 has

also been anchored by a good performance in the services sectors notably, the wholesale and retail trade sector, the information and communication sector, and the financial and insurance services sector.

17. As Honourable Members are aware, Mr Speaker, Sir, Malawi's inflation has decelerated to 20.9 percent in April 2016.

Strategic Policy Issues

18. Mr Speaker, Sir, allow me to draw the attention of the House to some of the key strategic policy issues which the house could focus on during the debate.

Climate Change Mitigation: Creation of the Greenbelt Authority

19. Mr Speaker, Sir, the adversities of the last two growing seasons are more than enough demonstration that the effects of climate change are here to stay with us, and that there is need to adapt in the most comprehensive manner in order to effectively break the cycle of perpetual food insecurity in this country. For this reason, as His Excellency the State President

emphasised in his opening speech for this seating of Parliament, the Government has resolved to intensify irrigation farming in order to transform the economy from the excessive dependence on rain-fed agriculture, as a lasting solution to the challenge of climate change. The move will also increase the number of harvests per year to more than the current single harvest. This could substantially increase the country's rate of economic growth.

20. Honourable Members of the House are invited to note that feasibility and technical studies for the Shire Valley Irrigation Project are progressing well, and it is expected that the World Bank and the African Development Bank will soon be approving the financing for the project. Once done, the implementation of this project will constitute one of the most transformative development projects in the country. Furthermore, it is also expected that the Bwanje Valley Irrigation Scheme that has been proposed to the Chinese Government for funding will be implemented in the foreseeable future. This is also true of the Songwe Valley Irrigation Project. Projects such as these will be open

to large-scale farmers on terms and conditions that will be agreed with the Government.

21. Mr Speaker, Sir, to coordinate these and many other large-scale irrigation infrastructure projects that will be necessary to fully pursue this agenda of transformation, the Government has decided to formally establish the Greenbelt Authority (GBA) as a stand-alone public agency. The authority will be the official agent for the construction of these large-scale irrigation infrastructural projects throughout the country in line with the Government's Irrigation Masterplan, while small-scale irrigation projects will continue to be implemented by the Ministry of Agriculture, Irrigation and Water Development. Accordingly, the Treasury has established Vote 078 to allocate resources for the administrative and operational expenses of the authority with immediate effect. This will be part of the 2016/17 budget. The large-scale irrigation infrastructure projects will be part of the Government's development programme. The House will note, therefore, that the

irrigation plans that were announced by His Excellency the President are scheduled to be implemented immediately.

22. Mr Speaker, Sir, the implementation of smallholder irrigations projects in the country will continue under the supervision of the Ministry of Agriculture, Irrigation and Water Development. The Government will continue to support winter cropping among these farmers, and will distribute subsidised fertilizers and treadle pumps. However, Honourable Members will agree with me that this support has been provided to smallholder farmers over a long time now, and it will be important to evaluate performance. In this regard, the Ministry of Agriculture, Irrigation and Water Development will analyse these projects and determine how best they should be transformed in order to justify future allocation of public resources.

Addressing Food Insecurity

23. Mr Speaker, Sir, as I have already mentioned, Malawi is facing yet another wave of food insecurity, this time

occasioned by the El Nino climatic episode. The second round crop estimates recently released by the Ministry of Agriculture, Irrigation and Water Development showed that maize production during the 2015/16 growing season has declined by an estimated 12.4 percent relative to production in 2014/15. Maize production has been estimated at 2.4 million metric tons before adjusting for post-harvest losses. Importantly, it is estimated that the country requires an additional 790,000 metric tons of relief food to support an estimated 8.4 million people. An additional 250,000 metric tons is required for sale in ADMARC markets, while another 250,000 metric tons is required to restock the strategic grain reserves. The production of other food crops such as rice, wheat, sorghum and millet has also been generally poorer than last year. As a result of this adverse outturn, His Excellency the State President, Professor Author Peter Mutharika, declared a State of National Disaster in Malawi on 12 April 2016 in order to mobilise local and international support to save the lives of the affected people. Apart from Malawi, El Nino has also created food shortages in several

other countries in the Southern African region, notably Madagascar, South Africa and Zimbabwe.

24. Mr. Speaker, Sir, I wish to announce that the 2016/17 budget formally identifies Government intervention to the current food crisis as a key priority area. In this respect, the budget includes an allocation of K35.5 billion to the purchasing of food.

25. Mr. Speaker, Sir, our plans on how to address vulnerability to food shortages are normally based on estimates produced by the Malawi Vulnerability Assessment Committee (MVAC). My Ministry and our collaborating partners are currently preparing the MVAC Report to determine the exact size, needs and distributional characteristics of the needed food supplies to the people. Certainly, development partners' responses to His Excellency's declaration and call for assistance will depend on the MVAC estimates which will not be available until June 2016. However, the Government has already started making some tentative plans so that action may proceed straight away, as has been done by

other countries in the Southern African region that have also been affected by the drought. In this case, we have negotiated with large-scale farmers who have committed to produce maize for sale to the Government through winter cropping.

26. In addition, ADMARC has also been empowered to purchase local maize for immediate sales, a process which has already started and is progressing well. This support is typically provided through Government guarantees for ADMARC to borrow from commercial banks to purchase food for sales to the public.

27. Honourable Members will appreciate that it is not possible for the Government to shoulder the full cost of the food shortage. The U.K. and the ADB already pledged their support in response to His Excellency the President's disaster call. The United States Government has already pledged support amounting to about US\$63 million for humanitarian food assistance, which will be managed by the World Food Program (WFP). The ADB has also pledged US\$18 million. Moreover, the assistance pledged by the

Chinese Government (of over US\$9 million) and by the Japanese Government of US\$7 million is still available to support the current crisis. The IMF has also provided support amounting to US\$49 million through the Augmentation of Access facility, which allows the Government to borrow more money from the Reserve Bank of Malawi specifically for this purpose. The World Bank currently conducting a post-disaster needs assessment in the country, to determine their level of support through the Crisis Response Window facility. Honourable Members will further recall that this facility was used by the World Bank to provide support amounting to US\$80 million in response to the flood disaster of 2014/15, and the Government anticipates that the World Bank will be equally supportive this year. Indications of more support are currently being firmed up by the British Government, the WFP and other donors. With the support of the United Nations Development Programme and other development partners, an Emergency Response Plan has also already been developed.

28. Mr. Speaker, Sir, as indicated, the sum of MK35.5 billion has been allocated for the procurement of maize in the 2016/17 budget. Of this amount, MK6.0 billion is in support of the winter cropping initiative to purchase maize from large scale farmers through contract farming. The total allocation for maize procurement is additional to the supplemental resources that the Treasury continues to provide in the current fiscal year for immediate relief. Apart from other forms of support that the Government is receiving in response to the food security challenge, the House will be pleased to note that development partners cooperating under the Multi-Donor Trust Fund in Agriculture have indicated that they may provide additional resources specifically in support of winter cropping.

Boosting Rural Incomes

29. Mr Speaker, Sir, in view of the fact that smallholder farmers in rural areas have had drastically reduced agricultural production due to the drought, it follows that their incomes have also been reduced at a time when they will need resources to

purchase food. The budget for 2016/17 is a vehicle through which resources will be directed towards an enhanced Public Works Programme. In this regard, at least MK500 million will be made available to each district, from the resources provided by the European Union and the World Bank. Over and above the usual works traditionally carried out under the programme, such as the construction and rehabilitation of roads as well as afforestation, the Government plans that, where necessary, the enhanced Public Works Programme should be used to construct infrastructure facilities like hospital wards in places where the need has arisen. Other facilities that may be constructed are guardian shelters in hospitals and hostels at community day secondary schools. These projects will be constructed on a labour-intensive basis to benefit as many people as possible.

Reforming the Farm Input Subsidy Programme

30. Mr Speaker, Sir, the Farm Input Subsidy Programme (FISP) has been pivotal in the achievement of national food security

during periods of good climatic conditions for agriculture. On the other hand, the implementation of FISP has generally been a fiscal challenge because of the associated exchange rate risk which has been wholly borne by the Government, leading to significant cost overruns every year. An additional challenge has been the targeting mechanism. Various studies have revealed that only about 50 percent of the actual beneficiaries of the programme were eligible beneficiaries. Motivated by these challenges, the Ministry of Agriculture, Irrigation and Water Development implemented pilot FISP reforms during the 2015/16 growing season, from which positive lessons have been drawn. There is now need to make deeper structural and financial improvements to the system so as to improve its effectiveness and reduce costs.

31. Mr Speaker, Sir, in order to address the aforesaid FISP implementation challenges while ensuring that genuine beneficiaries of the programme continue to receive support, I am pleased to inform the House that the Government instituted some reforms in the

implementation of FISP. In particular, from the next growing season, the majority of districts that are easily reachable will be served by private sector fertilizer retailers. Those that are not accessible will continue to be served by the Smallholder Farmers Fertilizer Revolving Fund of Malawi and ADMARC.

32. In view of the fact that during the past ten years the number of poor people has declined significantly, scope of the programme will be reduced to 900,000 beneficiaries instead of the traditional 1,500,000. The House will be pleased to note that the programme will continue to supply Urea and NPK fertilizers for maize. Some 60 percent of the volumes will be imported by private traders and sold directly to farmers, while the remaining 40 percent will be implemented through the Smallholder Farmers Fertiliser Revolving Fund of Malawi, with support from ADMARC.

33. The private participants in the programme will be chosen by tender and given licences by the Ministry of Agriculture, Irrigation and Water Development to trade

in designated districts. The involvement of the public institutions is very important in ensuring that hard-to-reach parts of the country are served. Mr Speaker, Sir, one of our lessons from the pilot FISP reform of last year was that the private sector can withdraw and frustrate the programme at a crucial stage during the agriculture season. In such eventualities, it is crucial for public institutions to take over supply in the affected districts.

34. The two public institutions will be expected to procure fertilizers directly from manufacturers. They will therefore issue tenders internationally and will also be supervised by the Ministry of Agriculture Irrigation and Water Development. Moreover, the Government will provide coupons with a stated value per bag of fertiliser or pack of seed, while farmers will be required to pay the difference between the market price and the coupon value to the Treasury. Programme funding will be based on actual coupons presented by suppliers. In this way, the Government will no longer be responsible for exchange rate variations.

35. Mr Speaker, Sir, let me also inform the house that subsidised legume seed will also be provided under the programme in the next growing season and the Government would like to encourage farmers to grow as many legumes as possible, because of the multiple advantages of these crops. First, legume production is very rewarding to farmers. Prices as high as K600 per kilogram have been realised by farmers this year, while the input and labour requirements for these crops are characteristically lower than those of other crops. Second, legumes have a ready international market, especially India, such that they have huge potential to resolve our foreign exchange challenges. Finally, legume production is extremely useful for restoring soil fertility and lowering the demand for fertiliser use. The Ministry of Industry, Trade and Tourism will be responsible for organising the marketing of legumes domestically and overseas, and, together with the Treasury and the Reserve Bank of Malawi, they will ensure that the foreign exchange earned flows back into Malawi.

Strengthening National Development Planning

36. Mr Speaker, Sir, you will recall that, in my 2015/16 Budget Statement presented in this very House, I indicated that the Government was planning to establish a national planning commission as an independent body for strategic thinking on matters of national development. I am pleased to report that significant work has been done to achieve this objective, and it is proposed that the commission be called the National Development Planning Commission. The work done by my ministry has determined that there is need to establish the commission through both a Constitutional provision and a separate law. To this effect, I will soon be introducing two bills on this matter in this House. I request the Honourable Members to support this important initiative in order to ensure that the implementation of our national development agenda is informed by comprehensive expert analysis and sustainably insulated from political change.

National Registration

37. Mr Speaker, Sir, previous Governments have not taken firm steps to introduce the national identity card, despite the enormous merits of doing so. Notwithstanding the resource constraints that we face, this investment cannot be delayed any further, especially in view of the need to ensure that the card should be useful during the 2019 national elections. In particular, the investment will serve the Government a significant amount of money that would otherwise be required for voter registration for the elections, while permitting the use of the card for many other important purposes such as the registration of civil servants to avoid the recurrence of “ghost workers”, identification of beneficiaries in the various subsidy, cash transfer and loan programmes, and well as screening individuals’ access to public services. Accordingly, the Government has resolved to proceed to rollout the national identity card in collaboration with development partners. In order to ensure that the card can optimally serve multiple purposes, a decision has been made to

invest in the best chip-based and durable technology. The total budget for the National Identity Cards Project is estimated at US\$51.2 million, almost 70 percent of which is required within the next two fiscal years (that is, in 2016/17 and 2017/18). I am pleased to inform the House that an allocation has been made to support this effort in the 2016/17 budget, and the Government is negotiating with its Development partners to supplement the resources under a cost-sharing arrangement.

Public Finance Management Reforms

38. Mr Speaker, Sir, I now turn to the subject of public finance management reforms. Various commentators, including the IMF, have admitted that we have made significant progress over the past year in strengthening the country's public finance management system, although we recognise that more still needs to be done. To mention a few areas, we have now strengthened the functionality of the Integrated Financial Management Information System (IFMIS) through equipment enhancements and the

incorporation of key accounts into it. We have also progressed on the procurement of new software, for which adequate funding has now been identified. Honourable Members will be pleased to know that we have also completed our work on the reconciliation of the backlog of transactions running up to June 2015. The National Audit Office is following up on these items for the backlog up to December 2014, including the stock of K577 billion worth of unreconciled items that have been the subject of an ongoing public debate. The backlog for January to June 2015 is being tracked by the Central Internal Audit Unit. Moreover, since July 2015, we have established a system that allows some of the reconciliations to be carried out by ministries, departments and agencies, and that ensures that we do not generate another backlog of unreconciled items. The IMF is closely monitoring this process.

39. Further to this, Mr Speaker, Sir, we have now submitted all financial statements up to the 2014/15 financial year to the Auditor General, and have submitted a Treasury Minute to the Public Account

Committee to indicate the status of the Treasury's follow-up on prior audit findings and the responses provided by controlling officers. We have also successfully conducted two tailor-made courses on fiscal management at the Malawi Institute of Management (MIM), attended by controlling officers, chief directors and other key finance and audit officials. The aim of these courses was to raise the levels of awareness of and compliance with the financial rules and regulations. Significant amounts of technical assistance and training have also been directed towards the Accountant General's Department and the Central Internal Audit Unit.

40. Finally on the issue of financial management, Mr Speaker, Sir, there have been frequent complaints about funding from various quarters. I wish to inform the House that we have had discussions with controlling officers on the matter, and it is clear that most of the concerns are managerial rather than being due to the absence of funding. In some cases, for instance, officers have expected to be funded according to the budgets that they

initially submitted to the Treasury, instead of what was approved by Parliament. Therefore, I wish to advise Honourable Members against supporting these complaints without first asking for full information. Instead, Members should be interested in establishing how the available resources are being managed within the Government.

Programme Based Budgeting

41. Mr Speaker, Sir, in our quest to integrate planning with budgeting, the budgeting approach is undergoing an improvement to strengthen the link between resource allocations and results for ministries and departments. The approach provides a framework for performance measurement through defined targets on specified programme deliverables in a transparent and accountable manner. The approach also allows Parliament to carry out its oversight function more efficiently, since resources are tied to specific results that can be tracked. Furthermore, it is our anticipation that improved budget scrutiny by the various stakeholders will help in

budget implementation as controlling officers will be held more accountable for resources provided.

42. Mr Speaker, Sir, Programme-Based Budgeting was being piloted over the past two financial years, and is now ready to be rolled out to all ministries and departments. The roll-out will be completed in due course when the reform will be extended to agencies. In order to ensure a seamless transition from the previous Output-Based Budgeting, officials from my ministry have held extensive workshops with all key stakeholders to introduce the concept of Programme-Based Budgeting. These stakeholders include finance officers from the various MDAs, controlling officers, and some among yourselves, Honourable Members. I am aware that Honourable Members of the Budget and Finance Committee and the Public Accounts Committee, as well as chairpersons of all other committees of Parliament have attended these workshops. I would like to take this opportunity to thank the Honourable Members for their clear support for this reform. My Ministry stands ready to

respond to any issues that may arise in this regard specifically, and throughout this budgetsitting of Parliament generally.

Performance of the 2015/16 Budget

43. Mr Speaker, Sir, let me now briefly discuss the performance of the budget for the current financial year. At this point, I invite members to refer to the new Programme-Based Budget Document that shows detailed performance by each vote. As Honourable Members will recall, total expenditure and net lending in the 2015/16 budget was initially set at K923.8 billion excluding expenditures under the Malawi Rural Electrification Project (MAREP). This figure was revised downwards at mid-term to K902.3 billion when the memorandum item is excluded, and to K917.2 billion inclusive of this memorandum item. Given the need to procure food items for immediate relief, the revised amount may be adjusted upwards to the extent of this expenditure. However, the figure of total revenue and grants was revised upwards from K763.5 billion to K784.8 billion at mid-year. This was on account of a projected

increase in grants of K33.8 billion from K97.1 billion to K130.9 billion, while domestic revenue was projected to decline from K666.3 billion to K653.9 billion, to the astonishment of both the Treasury and the IMF. As explained during the mid-term review, the revised budget was formulated to respond to the projected shortfall in domestic revenue. The performance of revenue has not improved since.

44. Honourable Members will be pleased to note that, unlike last year when the wage bill exerted pressure due to the recruitment of teachers, it has been kept under control this year and the revised figure of K222.3 billion for personal emoluments will hold to the end of the financial year. The implementation of payroll administration measures, as well as a scale down in the recruitment of mostly non-essential staff, have been jointly central to this outturn. The removal of suspected “ghost workers” from the payroll after the recent headcount has also assisted to reduce the wage bill. Similarly, it is expected that the provision for interest on debt will be within the revised figure of K116.2 billion.

45. Mr. Speaker, Sir, other recurrent expenditures are projected to increase from the approved K350.0 billion to K365.6 billion, notably because expenditure on FISP increased from 41.5 billion to K63.9 billion. This was due to the exchange rate depreciation experienced during the year. This is one of the reasons why drastic FISP reforms will be implemented during next year's budget.

46. Mr Speaker, Sir, the outturn suggests that the overall deficit of K138.2 billion in 2015/16 is projected to be lower than in the approved budget by about K28 billion. Moreover, Honourable Members may wish to note that, at 3.9 percent of GDP, the deficit is depicting a declining trend, from 6.2 percent of GDP in 2013/14. Equally, the domestic debt stock has declined as a percentage of GDP from 19.5 percent in the 2013/14 to 14.0 percent by the end of December 2014/15. This is an excellent result of fiscal operations which, if sustained, would bring the domestic debt stock to less than 12.5 percent of GDP, which is the internationally accepted threshold.

47. To relate these financial developments to real budgetary outcomes, Honourable Members are, once again, encouraged to consult the relevant documents that adequately cover this material. In particular, the attention of the House is once again drawn to the newly introduced Programme-Based Budget Document, which is marked as Volume IV. This document does not only provide the outcome of the Budget in figures, but also contains details of the actual performance of the programmes being implemented by ministries or departments for which these expenditures were incurred.

The 2016/17 Draft Budget

48. Mr. Speaker, Sir, before I go further in discussing the proposed 2016/17 budget, I wish to explain the factors and priorities that have been taken into account in the preparation of this budget. Firstly, Mr. Speaker Sir, the proposed budget reflects the agreements made between the Government and the IMF within the context of the seventh and

eighth reviews of the Extended Credit Facility arrangement. Most importantly, while the budget seeks to sustain efforts to achieve macroeconomic stability, it also allows for a level of net domestic financing (or borrowing) that permits the Government to respond to the food insecurity crisis occasioned by the El Nino climatic episode that the country has undergone. As such, year-end net domestic financing (NDF) in 2016/17 is set at MK60 billion, compared with the lower limit of MK25 billion set in the 2015/16 budget. Further, the lower limit for the current fiscal year has also been relaxed to finance immediate food purchases.

49. Secondly Mr. Speaker, Sir, the proposed budget is based on several assumptions regarding the macroeconomic outlook for the next financial year. Projected real GDP growth is at 5.1 percent while nominal GDP will grow by 24.0 percent. Moreover, we project that the average inflation rate in 2016/17 will be 17.4. These assumptions have been agreed with the IMF.

50. Thirdly, Mr Speaker, Sir, the proposed budget has been based on the Government's short and medium-term policy priorities as outlined in the 2016/17 Economic and Fiscal Policy Statement. These priorities are equally motivated by the objective of ensuring that the country maintains a program with the IMF, while addressing some pressing socio-economic challenges that are evident. Therefore, the budget seeks to:

- a. increase domestic resource mobilization so that tax revenue in tandem with the rate of growth in nominal GDP. The IMF hold the view that other similarly placed countries have achieved such a target;
- b. ensure that adequate resources are allocated to enable maize procurement, and to support irrigation farming;
- c. ensure that the wage bill is maintained below 7 percent of

nominal GDP, while allowing the critical recruitment of teachers, doctors, nurses and security officers, as well as a modest salary increase for lower grades of the Civil Service; and

- d. ensure that resource allocations to the health, education and other critical social sectors remain adequate and a significant proportion of the budget.

51. In order that the economy resumes robust growth rates, it is important that everybody be accustomed to modest salary level as was the case for a long time after independence. The results then were high national savings, and investment ratios and discernible growth rates.

52. As I have explained, the Government, with support from various development partners, is working tirelessly to put in place a robust financial management system. It is expected that the European Union and the World Bank

will resume general Budget support during the course of the 2016/17 fiscal year. Such resources will be applied towards critical activities that the proposed budget is unable to include. We undertake to revert to Parliament with the proposed utilization of any additional budgetary resources that may become available in the course of the fiscal year. As His Excellency the President has repeatedly said, it is important for Malawians to recognize that budget support from bilateral donors is unlikely to resume. We must learn to manage our affairs within the available resources. This is not the time to expect large yearly salary increments from the Government. Our efforts to strengthen the PFM system are motivated to ensure that public money is used according to what it is intended and productively so as to improve the lives of Malawians.

53. Mr. Speaker, Sir, we shall be distributing the necessary Budget documentation, including the new Programmed-based Budget Document immediately today.

54. And now Mr. Speaker, Sir, let me present the 2016/17 budget. Total revenue and grants during the 2016/17 fiscal year are estimated at K965.2 billion or 22.2 percent of nominal GDP. Of this amount, some K708.8 billion will be tax revenue, K66.0 billion will be non-tax revenue, while K190.4 billion will be grants from our cooperating partners. Thus, MK774.8 billion or 80.3 percent of these resources will be domestically generated, while the remaining 19.7 percent will represent donor grants. Compared with the 2015/16 revised budget, tax revenues are projected to increase by 21.8 percent, reflecting the fact that nominal GDP, which is the base for most of the taxes, will grow by 24.0 percent. Tax on income and profits will account for 55.4 percent of total tax revenue, while tax on goods and services will generate 37.2 percent. On the other hand, non-tax revenue is shown to be lower relative to the 2015/16 revised budget estimate of K71.9 billion, because the 2016/17 figure excludes the rural electrification levy which funds MAREP, estimated at K13.5 billion in 2015/16. Moreover, it is projected that

the benefits of the anticipated implementation of the newly formulated Dividend and Surplus Policy will occur with a lag. The key non-tax revenue sources will be fuel levies, parastatal dividends and departmental receipts.

55. Mr Speaker, Sir, as I indicated, the estimate for tax revenue, as projected by the IMF, is higher than what was suggested by the Malawi Revenue Authority (MRA), which was about MK698.0 billion. In my view, although planning on the basis of the optimistic IMF projection could create the risk of a higher domestic financing outturn in the event of a shortfall in actual collections, it seems prudent to argue that MRA has the capability to collect more revenue than it currently does as a proportion of GDP. MRA is, therefore, being requested to rise to the needs of the country at this crucial moment when the enhancement of domestic resource mobilization is critical for the attainment of our national priorities.

56. Overall, at MK190.4 billion or 4.4 percent of GDP, there is a 45.5 percent increase in grants compared with the 2015/16 revised budget provision of K130.9 billion. This is due to a high rise in project grants that have been pledged, particularly by the EU. Moreover, the House may wish to recall that, during his recent visit to Malawi, the President of the African Development Bank committed to provide budgetary support (a program grant) worth US\$18 million, which is approximately equivalent to MK13.6 billion. This projection for program grants represents a 33.8 percent decline over the projection made for 2015/16 of MK20.5 billion. The World Bank and the European Union may also provide budget support once they finalize their own evaluations of the public finance and economic management framework during the course of the calendar year. The House is informed that the pending budgetary support amounts from the two multilateral donors are being treated as memorandum items which, once they materialize, will be used to fund specific expenditure items.

57. Turning to total expenditure and net lending during 2016/17, Mr. Speaker, Sir, this is projected to be MK1136.4 billion or 26.1 percent of nominal GDP. This represents an increase of 23.9 percent over the 2015/16 revised expenditure. Of this amount, recurrent expenditure will be MK815.5 billion or 18.7 percent of GDP, which is higher than the 2015/16 allocation by 16.8 percent. Moreover development expenditure will increase by 57.0 percent from MK217.5 billion to MK317.4 billion, or 7.3 percent of GDP. Up to K279.8 billion or 82.2 percent of the development budget will be provided by development partners through loans and grants, while local resources will account for the balance of K37.6 billion or 11.8 percent. Therefore, the donor contribution to the development programme is anticipated to increase by 62.0 percent relative to 2015/16. Importantly, Honourable Members should note that the development expenditure provision constitutes 27.9 percent of the budget and is higher than the 25 percent that is the internationally accepted threshold. It

is also in excess of the estimated wage bill of K264.4 billion. Therefore, the proposed budget is optimally “developmental” using both criteria.

58. The House’s attention is also drawn to the fact that some further resources are available from the unused proceeds of project loans. Net of loan amortisation, we plan to draw K111.2 billion for expenditure on projects for which the money is in the total resources available within the expenditure figure. The total available resources therefore amount to K1,086 billion.

59. In addition, Mr Speaker, Sir, the sum of MK3.5 billion has been set aside as net lending. Of this amount, MK3.0 billion will support university students with loans administered by the Higher Education Students' Loans and Grants Board, representing an increase of 100 percent from the MK1.5 billion provided in 2016/16. The balance of MK500 million in net lending will be allocated to the councillors’ motor cycle loan facility.

60. In terms of direct allocations to key line ministries, Mr Speaker, Sir, the amount of K198.5 billion has been allocated to the Ministry of Agriculture, Irrigation and Water Development; K147.6 billion to the Ministry of Education, Science and Technology; and K95.8 billion to the Ministry of Health. All these key vote allocations represent increases relative to the revised expenditures for 2015/16. Moreover, Mr Speaker, Sir, Honourable Members are reminded that these allocations exclude the sums that will be spent through local councils and subvented organisations in these sectors. They also exclude donor support outside the budget. As demonstrated in the Annual Economic Report which will be presented as part of the budget documentation, the allocations to the social sectors have generally increased.

61. Mr Speaker, Sir, allow me to indicate that some K530.5 billion or 46.7 percent of the proposed total expenditure and net lending amount of K1,136.4 billion constitutes statutory

expenditures. These are expenditures which the Government is legally prohibited from postponing each year, mostly dominated by wages and salaries, pensions and gratuities, and debt servicing costs. Therefore, Honourable Members should be aware that there is very limited room for meeting our non-statutory recurrent and development needs in the coming year. This is a very important factor that should be considered in analysing the allocations. Most importantly, the fact that the budget is getting smaller and smaller than government needs every year creates a fundamental need for the prioritisation of Government operations to ensure that only essential and affordable operations may be financed. I believe that this is the opportune time to seriously review Government functions with a view to streamlining operations within the available resources, in order to deliver better quality public services on a sustainable basis.

62. At this point, let me emphasise, Mr Speaker, Sir, the importance of prudence by controlling officers in the implementation of the budget. Given that significant resources will be allocated towards the purchase of maize during the next fiscal year, and in view of the constrained space for non-statutory expenditures, it is important that ministries, departments and agencies must be prepared for diminished resources in real terms. This is particularly so in terms of allocations for other recurrent expenditures. Nonetheless, it is the expectation of the Government that MDAs will plan their programmes and activities within the available resources, and that they will neither over-commit nor create unauthorized arrears.

63. Compared with the estimated revenue and grants position of MK965.2 billion, Mr Speaker, Sir, the proposed total expenditure and net lending of MK1,136.4 billion implies a projected overall negative fiscal balance of MK171.2 billion, which represents 3.9 percent of

GDP. The deficit will be financed through net foreign loans worth MK111.2 billion and net domestic financing of MK60 billion. As indicated, the domestic borrowing target has already been agreed with the IMF.

Highlights of the 2016/17 Recurrent Budget

64. Mr. Speaker, Sir, in terms of key recurrent expenditure items, the House is invited to note several highlights of the proposed Budget. To begin with, due to the increase in the stock of public debt, we have projected an increase in public debt charges from MK116.2 billion in 2015/16 to MK143.5 billion in 2016/17. This increase is a key limitation to the availability of resources for actual expenditure on goods and services. Nonetheless, the House will be pleased to note that the interest payment on public debt is projected to remain stable at around 3.3 percent of GDP, which is very small compared with the internationally acceptable threshold of 10 percent.

Thus, overall, we remain among the least public debt encumbered countries.

65. Secondly, Mr. Speaker, Sir, as already intimated, the wage bill in 2016/17 is projected at MK264.4 billion, representing 6.1 percent of nominal GDP and 23.3 percent of total expenditure and net lending. This is very much in line with the international best practice which requires that the wage bill should be kept below 7 percent of GDP and below the level of development expenditure. The House is invited to note that there will be an average salary adjustment of about 15 percent in the year, but this will only target the lower grades of the Civil Service. Moreover, the recruitment freeze in the Government shall remain in force, except for the recruitment of an estimated 10,500 primary school teachers and 477 secondary school teachers. This recruitment of teachers was postponed in the 2015/16 fiscal year, although most of the processes were already concluded. Mild recruitments in the health and agriculture sectors (particularly of

extension service workers) have been considered to avoid the disruption of frontline service delivery. Another recruitment priority area that has been considered is that of security institutions, particularly the Malawi Police Service and the Malawi Defence Force, to ensure that security is not compromised.

66. Mr Speaker, Sir, I have also already indicated the depth of the FISP reforms that the Government will implement during the coming financial year. From a Treasury perspective, let me emphasise that it is critical to fix the coupon value while allowing the farmer contribution to vary according to market trends. With the totality of the reforms in mind, the 2016/17 FISP has been allocated the sum of MK31.4 billion. This is a significant reduction from the 2015/16 revised budget allocation of K63.9 billion. Honourable Members will be pleased to note that there are further indications that development partners collaborating under the Multi-Donor Trust Fund in Agriculture may also provide resources specifically in support

of the seed component of the reformed programme.

67. Mr Speaker, Sir, the 2016/17 budget also makes a provision of K50.2 billion for the payment of pensions and gratuities. This is only adequate to sustain payments under the existing Government Pension Scheme because of our inability to migrate to the National Pension Scheme due to resource limitations. Moreover, the sum of MK5.2 billion has been allocated to the National Identity Cards Project, representing an estimated 40 percent of the Government Contribution to the project for the year. Negotiations are underway between the Government and development partners to lower the Government share of the total cost, and the Government offers to ring-fence its contribution in the budget. In addition to this provision, the sum of MK780 million has been allocated to the National Registration Bureau for operating expenses.

68. As for road maintenance and rehabilitation, Mr Speaker, Sir, the sum of MK20.6 billion has been allocated towards this important activity. Of this, some MK8.0 billion has been earmarked for selected roads in the four major cities. The cities of Blantyre and Lilongwe have been allocated MK2.5 billion each, while Mzuzu and Zomba have been allocated MK2 billion and K1 billion, respectively.

Highlights of the 2016/17 Development Budget

69. Mr Speaker, Sir, the development budget allocation of MK317.4 billion covers many projects that will be implemented across the public sector. While there are many small development projects included, Honourable Members are invited to note some of highlights of the proposed development budget, as I now present them

70. In Agriculture, Irrigation Water Development, a total of MK 117.5 billion has been allocated to various projects.

Of this amount, MK115.9 billion will come from development partners, while MK1.6 billion will constitute local resources. The key projects included are the Shire River Basin Management Project, the Agriculture Sector-wide Approach Support Project, the Smallholder Irrigation and Value Addition Project, the Rural Irrigation Development Programme, and the Smallholder Agriculture Infrastructure Support Project.

71. Excluding resources provided through subvented organizations, Mr Speaker, Sir, a total of MK22.3 billion has been allocated to various projects in Education, Science and Technology, consisting of MK19.7 billion in donor funds and MK2.6 billion in local resources. The funds are directed towards key activities including the rehabilitation of conventional secondary Schools, construction of teacher training colleges, construction and expansion of selected community day and conventional secondary schools, expansion and

rehabilitation of public universities and establishment of Mombera University.

72. Mr. Speaker, Sir, a total of MK35.9 billion has been allocated for road construction, consisting of MK28.7 billion in donor funds and MK7.1 billion in local resources. As indicated by His Excellency the State President, some of the roads under consideration are Zomba-Jali-Kamwendo-Phalombe Chitakale Road, Jenda-Edingeni Road, Chiringa-MiseuFolo-Chiradzulu Road and Lumbadzi-Dowa-Chezi Road. While these are the clear priorities of the Government, consideration will also be made of Thabwa Road, Nacala Corridor, Mzuzu-Nkhata-Bay Road, Livingstonia-Njakwa Road, Old Lilongwe Airport-Kasiya Road, as well as design study of Mthuthama Road and Rumphu-Nyika Road.

73. In Transport and Public Works, Mr Speaker, Sir, an amount of MK34.1 billion has been allocated for development projects, of which MK32.4 billion will be from donors under the Trade Facilitation

Project and for airport equipment upgrading. Among the notable projects as mentioned by His Excellency the President is the commencement of Chileka Airport, the rehabilitation of Mzuzu Airport, and the possible design of the new Mzuzu Airport.

74. An allocation of MK12 billion will be made towards health sector projects. Resources have been provided for Phalombe Hospital and the Lilongwe Cancer Centre, among other health sector projects. Moreover, in the Natural Resources, Energy and Mining sector, the total development budget allocation is MK13.1 billion. This will almost entirely come from donors, and will be provided for the Energy Sector Support Project and the Mining Governance and Growth Support Project.

75. Mr Speaker, Sir, the sum of MK3 billion out of the local resources has been set aside for district council development project initiatives, to support Councilors' efforts to develop their respective local areas. These resources will complement

the Constituency Development Fund (CDF) which is managed by respective Members of Parliament. An additional amount of MK1.5 billion has been allocated towards the construction of the Commercial Court. This project stalled on account of arrears owed to the contractor. The matter has been resolved and the allocated amount should finance the completion of the project. This project is fully locally funded. In addition, the sum of MK1.6 billion has been allocated to projects under the Community Colleges Programme, in addition to an amount of about MK650 million for programme operations. Further, the European Union will support technical and vocational training under a new six-year programme that will be funded under the 11th European Development Fund (EDF) through which €540 million will be allocated to Malawi.

76. Therefore, Mr Speaker, Sir, while appreciating the continued on-budget and off-budget support that both the World Bank and the EU provide to this country, it is our hope that these

development partners will come forth to assist us with the budgetary support that would permit the country to meet many outstanding yet very crucial expenditure needs.

Tax Policy and Administrative Measures for the 2016/17 Budget

Overview

77. Mr. Speakers, Sir, I now turn to the tax policy and administrative measures that will support domestic resource mobilization for the 2016/17 budget. From the outset, let me reiterate that, once again this year, we are expected to generate adequate local resources to finance more than 80 percent of our activities due to the absence of predictable budgetary support. Consequently, the tax measures that I shall be announcing will concentrate on broadening the tax base, improving tax administration, removing economic distortions to spur production, and encouraging tax compliance to generate more domestic resources.

Comprehensive Review of the Tax System

78. Mr. Speaker, Sir, as Honourable Members may recall, last year I announced that we had suspended undertaking a comprehensive review of the tax system due to the unprecedented natural calamities of floods which were followed by drought. I wish to inform the House that we have commenced the review of our tax system this year with technical assistance from our cooperating partners, notably the IMF and GIZ. The IMF were in the country in January 2016 to undertake a scoping study of our tax system. Some of the tax policy changes that I shall be announcing today have benefited from the input that we received from our cooperating partners. Let me further inform the House that the comprehensive tax review aims at creating a simple, efficient, transparent and fair tax system through tax base broadening; rationalizing the taxation of international investment to ensure competitiveness while preventing base erosion; integrating tax policy with

national development strategies; streamlining tax incentives; modernizing and stabilizing the current tax legislation, as well as eliminating obsolete and contradictory measures to provide taxpayer certainty, among other objectives.

79. Mr. Speaker, Sir, it should be noted that the Customs and Excise tax measures that I will announce today will be effective from midnight tonight, whereas the VAT and Income Tax measures will be effective on 1st July 2016, once the relevant bills are passed by this House.

Value Added Tax Measures

80. Mr. Speaker, Sir, over the last decade, 32 African countries have introduced Value Added Tax (VAT) as their main broad-based consumption tax. Malawi introduced VAT in August, 2005. SADC member states are developing guidelines for VAT's best practices. VAT has therefore gained popularity because it is considered to be a revenue-efficient

tax with a self-policing mechanism through the credit method - where one's input-tax is another's output-tax. Some scholars have termed VAT as the workhorse for governments in domestic resource mobilization. The January 2016 review of the Malawi tax policy conducted by the IMF has strongly recommended a shift in the reliance of domestic revenue from taxes that fall on labour and investment to taxes that fall mainly on consumption. VAT is one such consumption tax and SADC has also made a similar recommendation for its Member States.

81. Mr. Speaker, Sir, Malawi's VAT, unfortunately, has failed to live up to the expectations of being a productive, stable and efficient source of government revenue since it was introduced, on account of many reasons. One of the reasons is that VAT has been used in Malawi as a social security tool through the introduction of numerous exemptions and zero-ratings on goods and services deemed to be used by low income earners in society.

82. The numerous exemptions and zero-ratings on goods and services have not only eroded the tax base and compromised revenue generation capabilities, but they have also acted as a subsidy to consumers who have purchased the zero-rated goods and services. Due to our inability to ring-fence goods such as laundry soap, the higher income earners have also had access to zero-rated goods. Effectively, low income earners have subsidized high income earners. The fallacy of exemptions and zero-ratings is that the exempted or zero-rated product or service is not really cheap as, in the case of exemptions, exempted goods or service will always come with VAT that is not claimable and ends up being passed on to the final consumer. In the case of zero-rated goods, delays in refunds act as a tax on the supplier of the product who may have to borrow money to pay for VAT and has to wait for months to get a refund. Effectively, suppliers of zero-rated products load the costs of delay in getting refunds in the prices of their goods or services, which erodes the subsidy effect.

83. Mr. Speaker, Sir, in order to address this challenge, Government is introducing the standard VAT rate of 16.5 percent on a number of products which are currently zero-rated or exempted. This measures will expand the tax base, restore the integrity of the tax system by removing distortions that favour some products against others, and remove the causes of high refund bills that MRA is sometimes not even able to honour.

84. Mr. Speaker, Sir, one of the areas that is gaining prominence in Malawi is the mining sector, as evidenced from the growing exploration appetite and the increase in the number of exclusive prospecting licenses awarded to date. Currently the VAT rules and regulations do not allow a person who is engaged in mining exploration to be registered for VAT. A person is eligible for VAT registration only when he has begun to supply taxable goods or services.

85. Mr. Speaker, Sir, as you are aware, it takes time for a mine to be operational and during exploration

phase, a miner (prospector) will have incurred VAT which he is not able to claim because he is not registered for VAT. To address this problem, which has acted as a disincentive for investors, we propose amending the VAT Act to allow the mineral exploration phase to be eligible for VAT registration and, therefore, qualify for VAT claims. This measure will not only relieve a VAT cash flow burden on miners, but will also act as an incentive in the mining sector and this is likely to spur the mining industry to greater heights.

Customs and Excise Act Amendments

86. Mr. Speaker, Sir, there are numerous amendments to the Customs and Excise Regulations which will appear in the Government Notice to be published in support of the 2016/17 Budget. I do not intend to list down these changes to the Customs and Excise Regulations. The Commissioner General of the Malawi Revenue Authority will publish these changes through public notices after the changes have been gazetted.

Let me appeal to members of the public to follow-up these changes by logging in MRA's website, or by requesting for copies of the changes from MRA's corporate office, or by reading in the local newspapers, or even by obtaining copies of the notices from the Government Printer.

Amendment to Customs Procedure Code 445

87. Mr. Speaker, Sir, under the Customs and Excise (Tariffs) Order, the Government has created special transactions called Customs Procedure Codes (CPC) which allow dutiable goods to be cleared duty-free because of bilateral and multilateral agreements, such as the Vienna Convention. CPC 445 covers Agreements with other governments, organization, institutions or persons. The total revenue foregone under this CPC has averaged 0.27 percent of the GDP over the years. From midnight tonight, CPC445 is amended to cover agreements with other governments, multilateral organizations

and only those industries designed as priority industries.

Removal of Customs Duty on Power Voltage Regulators

88. Mr. Speaker, Sir, Government has embarked on the diversification of sources of energy from hydro-power to solar, biogas, and wind, among others.

In order to support investment in solar renewable energy supplies, the 5 percent import duty on power voltage regulators has been removed. Let me hasten to state that, with this measure, all duties on solar gadgets will have been removed.

Removal of Import Duty on Surgical Gloves

89. Mr. Speaker, Sir, surgical gloves are very important in hospitals, especially when performing an operation on a patient. For this reason, and to align with the COMESA external tariff, the 10 percent import duty on surgical gloves is hereby removed.

Customs and Excise Bill

90. Mr. Speaker, Sir, I will now mention briefly the Customs and Excise Act amendments that will be presented in this House in the form of a bill. Firstly, as Honourable Members are aware, the Government has allowed the private sector to be licensed as Customs Agents to transact business with the MRA on behalf of the importing or, exporting community. Mr. Speaker, Sir, I shall be presenting a bill to this House to allow the Commissioner General of the Malawi Revenue Authority to suspend or issue an administrative penalty to a Customs Agent who has violated any conditions attached to his license. The Commissioner General, may, depending on the gravity of the offence, even revoke a license, especially where it has been established that such an agent has deliberately violated the conditions attached to his license.

91. Secondly, Mr. Speaker, Sir, in a bid to encourage compliance with excise tax provisions, operators licensed under

the excise regime shall be subjected to distraint or garnishment where it has been proved that all actions to recover money properly due to Government have failed to yield positive results. Garnish orders or distraint actions are provided for under the VAT and Taxation Acts. The bill that will be presented to this House will seek to extend distraint action or garnish order to be applied to excise licensed operators to enforce compliance.

92. Thirdly, Mr. Speaker, Sir, the Malawi Revenue Authority accepts payment of income tax using personal cheques in order to encourage compliance and to reduce cost of doing business in Malawi. The same facility has been applied for the settlement of customs and excise liabilities. Unfortunately, some tax payers have abused this positive gesture from MRA. In order to reduce the costs of collecting moneys from dishonoured cheques and also to pay for the value of money, Mr. Speaker, Sir, I shall be presenting a bill that will levy a 30% penalty of the amount on the cheque that has been returned by the bank.

This penalty will be additional liability to the full taxes or duties due.

93. Mr. Speaker, Sir, prior to 2014, the Malawi Excise tax regime had a two tier structure that provided a lower excise rate for locally manufactured cigarettes. The objective of this two tier structure was to encourage local production of cigarettes with its attendant advantages of value addition, job creation, export diversification and foreign exchange earnings. Recently there has been a noticeable increase by investors to manufacture cigarettes in Malawi using locally grown tobacco. Mr. Speakers, Sir, to support and encourage the interest shown by investors in cigarettes manufacturing, we are reverting to the two-tier excise tax regime that prevailed prior to amendments in 2014. The two tier excise tax regime will be as follows:—

- (i) Levying of US\$10 per 1000 sticks of cigarettes for locally made cigarettes;

OR

Levying of US\$10 per 1000 sticks of cigarettes for imported cigarettes with 70% locally grown tobacco content.

- (ii) For all other cigarettes outside (i) above, the excise tax rate applicable shall be the equivalent of US\$ 20/1000 sticks of cigarettes.

94. Mr. Speaker, Sir, the excise tax regime to be applied to cigarettes that I have presented puts the Malawi excise tax structure in line with the rest of our neighbouring countries which shall, therefore, reduce smuggling of cigarettes to Malawi.

Income Tax Measures

95. Mr. Speaker, Sir, I now turn to income tax measures. Honourable Members may wish to know that, since the late 1960s, life insurance in Malawi has enjoyed a tax rate of 21 percent, which is lower than the standard corporate tax rate of 30 percent. This tax incentive was meant to encourage

Malawians to develop a culture of taking life insurance policies, and to encourage companies in Malawi to invest in this sector. It is pleasing to note that, currently, not less than 5 companies have invested in life insurance business operations.

96. Mr. Speaker, Sir, as tax incentives must have sunset clauses, and because there is a fair representation of companies on the market providing life insurance products, it is now time to unify the corporate tax on life insurance investments with those of other businesses by increasing the rate from 21 percent to 30 percent.

97. Secondly, Mr. Speaker, Sir, similar to life insurance, the Government introduced an exemption on interest earned on income for the first K10,000.00, with the intention to encourage a savings culture. Currently commercial banks have been running promotions that aim at enticing Malawians to open savings accounts. As a result, there has been an uptake of both commercial bank operations and opening up of savings accounts in Malawi.

Therefore, as with the life insurance case, the Government has resolved to remove the tax exemption on interest earned on income for K10,000.00.

98. A third income tax measure, Mr. Speaker, Sir, relates to mining. Honourable Members may wish to know that, as a country, we have a mining fiscal regime that was enacted at the time of independence, hence one that is out of tune with current national and international developments in the mining sector. To address this problem, I shall be presenting to this House, Mr. Speaker, Sir, a bill that aims at providing clarity in the determination of taxable income, incentives and proposals to transfer the administration and collection of royalty from the Ministry of Mines to the Malawi Revenue Authority.

99. Further, the mining fiscal regime bill will also separate provisions for the taxation of mining projects even if the projects are owned by the same company, so that each project should pay its fair share of tax. To bring transparency in the tax incentives provisions that are granted to mining

investors and to ensure equal and fair treatment, the fiscal regime for the mining sector will grant tax incentives to qualifying investors. The House may wish to note that the fiscal regime lays bare all tax incentives, details for claiming depreciation allowances, and determination of assessable income, thereby promoting transparency and accountability.

Tax Clearance Certification

100. Mr. Speaker, Sir, in a bid to improve tax compliance, we are proposing that people who do business with Government ministries, departments and agents should be required to produce a tax clearance certificate before transactions are concluded. Indeed this will encourage tax compliance by the private sector, especially the informal sector, as it is envisaged that people who shall do business with Government will be required to go to the Malawi Revenue Authority to obtain the tax clearance certificate before a transaction is concluded.

Recovery of Tax Where Transaction Has Been Concluded Fraudulently

101. Mr. Speaker, Sir, there are incidences when transactions are concluded between MRA and the private sector but no tax clearance certificate is presented or there has been a fraud. Currently there is a penalty of K50, 000 that is imposed on any person that fraudulently facilitates the conclusion of a tax clearance certificate. Mr. Speaker, Sir, this penalty is too small to deter would be offenders. I shall be presenting a bill to this House amending the penal sum to five times the amount prejudiced or K10, 000,000 -00 whichever is greater.

Conclusion

102. Mr Speaker, Sir, Malawi is now at a point where critical decisions have to be made, not just by the Government but by all Malawians. The future of our country is entirely in our hands. That future demands of us to think carefully about what role each one of us is playing to change our fate, as individuals, institutions and a people. The surest way to secure that

future for posterity is by working hard to change our lives, and by remaining patriotic to our country. On its part, the Government is committed to ensuring that the necessary incentives are created for all Malawians to pursue and realise their full opportunities and potentials. The budget for 2016/17 has been formulated to achieve that Governmental objective.

103. I, therefore, wish to conclude my statement by reiterating that a change in the mind-set of our people is necessary now, more so than ever before. Unless that change occurs sooner rather than later, Malawi will not be able to cope with the bigger challenges that lie ahead, including the enormous challenge of a fast growing population.

104. Mr Speaker, Sir, I beg to move.

2016/17 BUDGET STATEMENT

delivered in the

NATIONAL ASSEMBLY OF THE REPUBLIC OF MALAWI

by

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

at

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