

11.5.3 The budget deficit incurred during this period was mainly financed through borrowing on the domestic market leading to higher interest rates as noted above. More recently, total expenditure has begun to decline in part due to reduced loan repayments on treasury bills, as well as to cost savings arising from the Ten Point Plan, 70% of which has been implemented according to Government. Nonetheless, the overall deficit (before grants) remains a worrying 14% of GDP, compared to an overall deficit of 9.3% of GDP in 1999. A widening deficit points to the need for tighter expenditure control, especially as government revenues are expected to decline once the new regional trade protocols are fully implemented.

## **12. The Private Sector**

12.0.1 Growth in the private sector is the key to diversifying the economy and increasing employment in agro-processing and other manufacturing, tourism, and other industries. While much is said about encouraging private business, little seems to be happening on the ground. The Private Sector Development Project funded by the World Bank, for example, has been stalled for several years. The Committee heard testimony from the private sector highlighting constraints to business development. Among other things, private businesses are concerned about the level of taxes imposed on them, a function of the limited economic base from which the Government can raise revenues.

### **12.1 The Surtax**

12.1.1 Government has gazetted legislation (Bill No. 2, 2001) to extend the surtax to wholesale and retail trade. This is a commendable effort by government to broaden the tax base, particularly important since international trade agreements to which Malawi is a party will reduce revenue from duty on imports, the largest single source of domestic revenue. Properly conceived, extension of the surtax should lead to significant increases in government revenue as well as benefits for local manufacturers.

12.1.2 Representatives from the private sector who testified before the Committee raised significant questions about Bill No. 2. Some concerns relate to provisions that are unclear and/or place excessive discretionary powers in the hands of implementing authorities. The concerns of the private sector seem to the Committee to be too serious to be adequately addressed by amendments to the Bill during plenary debate in Parliament or by subsidiary legislation after enactment.

12.1.3 The surtax is essentially a value-added tax, and such taxes tend to be regressive in nature, i.e., poorer individuals pay higher percentages of their

incomes than wealthier individuals. The proposed bill includes exemptions for basic foodstuffs and other necessities consumed by the poor. However, the Committee believes that more analysis is needed to be certain about how the tax will affect the poor.

12.1.4 Government is keenly aware of the need for civic education about the surtax to avoid widespread public opposition and tax evasion that would defeat the purpose for instituting the tax.

12.1.5 The Committee explained these concerns to the Minister of Finance and Economic Planning. The Minister emphasised the need for the legislation, but was sympathetic to the idea of referring it to a parliamentary Committee so public hearings can be conducted, issues thoroughly vetted, and amendments drafted as appropriate. This will also afford the opportunity to initiate civic education on extension of the surtax, to which Government is committed.

<p><u>Recommendation 22</u>: Refer Bill No.2, 2001, the Surtax Bill for extension of the surtax to retail and wholesale trade, to a Committee for public hearings.</p>
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### **13. Conclusion**

13.0.1 The Committee urges Parliament to support and Government to designate the twelve programmes recommended by the Committee as Priority Poverty Expenditures for 2001/2002. We hope budget documents will provide the information needed to evaluate the amounts of spending proposed for these programmes.

13.0.2 The Committee supports Government's commitment to enforcing fiscal discipline. We hope budget documents will include a commitment to provide the information cited in this report as essential for tracking and monitoring Priority Poverty Expenditures. We also hope Government will guarantee allocation and expenditure of the full amounts budgeted for Priority Poverty Expenditures from all sources.

13.0.3 The Committee appreciates Government's interest in strengthening the role of Parliament and the public in the budgeting process. We hope Government and Parliament will insist on adequate time for civic input on the proposed budget, as well as enough time for a thorough debate in the House.