

**“FACING OUR REALITIES AND LIVING WITHIN OUR
MEANS IN THE FIGHT AGAINST POVERTY”**

Minister of Finance’s budget speech for the 2002/03 budget

June 2002

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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 2002/2003 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, before I present the 2002/2003 Budget, allow me to make a few general remarks. On 9th January 2002, it pleased His Excellency the President, Dr. Bakili Muluzi, to appoint me Minister of Finance and Economic Planning. I, therefore, wish to express my heartfelt gratitude to His Excellency the President for this appointment. Mr. Speaker, Sir, I am encouraged by the trust that His Excellency the President has in me. As Minister of Finance and Economic Planning, my job is challenging, more so considering the difficult times our economy is going through. I am, however, comforted by the unflinching support and guidance given to me by His Excellency the President, Dr Bakili Muluzi, Cabinet Colleagues and the people of Malawi. The presence of His Excellency the President at this Budget presentation bears testimony to the support and guidance given to me. On my part, I will undertake to serve His Excellency the President, the Government and the people of Malawi to the best of my abilities in our fight against poverty and ensuring that Malawi is on a stable and sustainable economic growth path.

3. Mr. Speaker, Sir, I wish to point out that our hard-won multi-party democracy will not be appreciated by the common Malawian if it does not translate into improved living standards. This, Mr. Speaker Sir, is a big challenge. In this country, the overarching goal is poverty reduction. Through the Budget, Government indicates its priorities and choices in order to achieve this goal. In this budget, the priority list has largely been developed by Malawians through the Malawi Poverty Reduction Strategy Paper (MPRSP) that His Excellency the President, Dr. Bakili Muluzi, launched on 24th April, this year.

4. Mr. Speaker, Sir, Honourable Members, the Ministry of Finance and Economic Planning will coordinate the implementation of the Malawi Poverty Reduction Strategy (MPRS). In this respect, an MPRSP Implementation Unit will be created in the Ministry of Finance and Economic Planning to drive the implementation of the MPRS. In addition, an institutional framework for the monitoring of the implementation of the

MPRS will be established and ensure that essential complementary reforms are made. Please allow me, therefore, to express my heartfelt gratitude to all Malawians who contributed to the MPRSP process.

5. Mr. Speaker, Sir, the preparation of the 2002/2003 Budget has been participatory. It has benefited from contributions made by various stakeholders during the pre-budget consultations that were conducted in all the three regions of the country. I wish to thank my dear Cabinet colleagues, Members of Parliament, various stakeholders in the Private Sector, Civil Society, non-Governmental organisations (NGOs), and the academic community for sharing with me the vision for Malawi during the consultations.

6. Mr. Speaker, Sir, Honourable Members, the theme for the Statement I am presenting today is **FACING OUR REALITIES AND LIVING WITHIN OUR MEANS IN THE FIGHT AGAINST POVERTY**.

7. Mr. Speaker, Sir, as a background to this theme, allow me to reiterate that poverty in this country has reached levels that are unacceptable. The 1998 Integrated Household Survey (IHS), for example, has revealed that 65.3% of Malawians or approximately 6.3 million people are poor. Within this figure, about 28.7 percent are extremely poor. The 1998 Integrated Household Survey has also revealed that the level of income inequality in Malawi is high. The richest 20 percent of the population consume 46.3 percent while the poorest 20 percent consume only 6.3 percent of total goods and services. The key causes of poverty include limited access to land, low education, poor health status, limited off-farm employment and lack of access to credit.

8. Mr. Speaker, Sir, it was, among other things, in recognition of this widespread poverty that the Government of Malawi embarked on developing the Malawi Poverty Reduction Strategy Paper (MPRSP) whose overall goal is to achieve "sustainable poverty reduction through empowerment of the poor".

9. Mr. Speaker, Sir, we cannot sit and expect things to change. Every-one of us has to take part in the fight against poverty whether rich or poor. Poverty reduction assumes a radical change of the mindset of the population in general, public servants, the faith communities, donors, non-Governmental organizations (NGOs), the Judiciary, and politicians from the grassroots to the highest levels. In the fight against poverty, petty jealousy and mere talk without action will lead to nothing. I, therefore, wish to appeal to Malawians to learn to emulate and harness those that

make progress and support them. Government will have a deliberate policy to economically empower local investors as is done in several parts of the world.

10. Mr. Speaker, Sir, Honourable Members, in our fight against poverty, we need, as a nation, to be singing the same song with the same tune. I wish to call upon each one of you to focus on issues that will take our people out of the poverty trap they find themselves in. This is the time that matters of the economy should take prominence in our discussions and not only political rhetoric.

11. Mr. Speaker, Sir, as we interface with and try to economically empower our people, we should impart the philosophy that they have the right to live and the right to feed themselves. This is also in the wisdom of Saint Paul in his second letter to the Thessalonians in which he wrote:

“For while we were with you, we gave you this charge, ‘If anyone does not want to work then he should not eat either.’ For we are hearing that some of you are living in idleness, not working but busy in other people’s affairs. Such persons we direct and charge in the Lord Jesus Christ that, by doing their work quietly, they earn their own living” (II Thessalonians 3:10-12)).

This means that everyone, led by the highest political leader, should think, dream and talk of prosperity and do the best they can to achieve the country’s goal of poverty reduction.

12. Mr. Speaker, Sir, over the years domestic revenue collections have increased at a pace much lower than our demands on expenditures. The economy cannot generate enough resources to match our demands. In recent times, donor inflows have also become unpredictable. It is important, therefore, that as a nation we depend more and more on our domestically generated resources, as pointed out by His Excellency the President when he gave his State of the Nation Address during the official opening of this Budget sitting of Parliament. It is for this reason Mr. Speaker, Sir, that we need to boldly face our reality of meager resources and live within our means and hence the theme of this Budget Statement. Failure to do this will result in Malawi seeking recourse to borrowing and hence result in rising inflation and interest rates. Mr. Speaker, Sir, what Malawi needs is macroeconomic stability as a precondition for economic growth and poverty reduction.

13. Mr. Speaker, Sir, Honourable Members, I will take the opportunity in this Budget Statement to give details of the broad outline of our achievements. I will start by explaining briefly to the House some major economic developments abroad and here at home that are likely to influence the budget framework for the 2002/2003 fiscal year. It is important that I do this as developments abroad do have an impact on our economy. It is also important that we compare our performance to that of the rest of the world.

WORLD ECONOMIC OUTLOOK

14. Mr. Speaker, Sir, it is estimated that the world economy grew by 2.5 percent in 2001. This is in stark contrast with the 4.7 percent growth experienced in the previous year. Across the world, the tragic events of September 11th and their aftermaths, as well as the weakening world economy, contributed to a sharp deterioration in consumer and business confidence. However, despite initial fears of a global recession the impact has been largely short-lived and signs of recovery have been observed in many countries, both in the developed and developing world.

Industrial Countries

15. Mr. Speaker, Sir, economic growth in industrialized countries reached only 1.2 percent in 2001. In the United States of America, output in 2001 grew by 1.2 percent, a fall of 2.9 percentage points over growth in 2000, while unemployment rose from 4.0 percent in 2000 to 4.8 percent in 2001. In Europe, real GDP growth was 1.7 percent in 2001. However, the extent of the slowdown has differed considerably across countries. The downturn has been particularly marked in Germany where growth in 2001 was less than 1 percent and unemployment increased to almost 9 percent. In the United Kingdom and, to a lesser extent in France, growth has been sustained with the UK maintaining 2.2 percent growth rate in 2001.

Developing Countries

16. In the developing world, the poorest nations have been adversely affected by the economic slowdown of the developed countries, primarily through reduced commodity prices and falling external demand as markets for their products have contracted in the United States, Europe and Japan. The impact of the economic downturn on the world's developing regions has varied considerably. Countries in East Asia and, more particularly Latin America, with large manufacturing exports and

close trade links with the United States, were the first to feel the impact. Latin American countries have also been faced with the consequences of the economic crisis in Argentina.

17. In South Asia, which is less integrated in the world economy, the slowdown has had a minor impact with real GDP growth of 4.2 percent in 2001. However, in the newly industrialized economies of Hong Kong, Korea, Singapore and Taiwan, the fall in world demand brought a sharp decline in growth rates.

18. Mr. Speaker, Sir, growth in Africa has been largely sustained despite the weak external environment, with overall economic growth of 3.7 percent in 2001. Growth among the oil exporting countries generally picked up in 2001 as a whole although this was largely supported by higher oil prices at the end of 2000. Sound economic policies have enabled a number of African nations, including Botswana, Senegal, Tanzania and Uganda, to offset the problems caused by commodity price weaknesses. In South Africa, the slow depreciation of the Rand, which had been sliding for some time, accelerated following the September 11th attacks in United States of America, losing more than 20 percent of its value between September and December 2001 while the growth rate fell to 2.2 percent.

THE MALAWI ECONOMY

Economic Performance in 2001/2002

19. Mr. Speaker, Sir, Malawi's economic performance in 2001 was dismal. The preliminary out-turn shows that the economy grew by -1.5 percent compared to a projection of 2.3 percent for the year. This is largely attributed to a substantial reduction in agricultural output. In 2002, the economy is expected to grow by 1.4 percent. Although the forecast for growth in 2002 is 1.4 percent, the main thrust of the Budget I am presenting today and subsequent ones is to accelerate real gross domestic product (GDP) growth rate to at least 6 percent in order to make a dent on poverty.

20. Mr. Speaker, Sir, the annual average inflation for 2001 was 27.5 percent compared to the 20 percent estimate. Most of this inflation came from increases in prices of petroleum products and maize. Despite failing to achieve the inflation target for 2001, inflation has continued to decline. For instance, inflation declined from 33.7 percent in January 2001 to 17.1 percent in May 2002.

21. Mr. Speaker, Sir, recent developments in the foreign exchange market have been as a result of both international and domestic factors. In view of these developments, the Kwacha appreciated from about K80.00 to the dollar in January 2001 to about K62.00 to the US dollar in September 2001, and has since depreciated to about K76.00 to the United States dollar in May 2002.

22. Although inflation has declined, interest rates remain very high. The base-lending rate for the commercial banks, for example, has remained at around 46 percent since July 2001, resulting in lending rates of around 54 percent. These high interest rates continue to stifle private sector investment. Government will, therefore, continue to implement tight fiscal and monetary policies aimed at reducing inflation and lowering interest rates so as to create a conducive macroeconomic environment for private sector participation.

Fiscal Developments in 2001/2002

23. Mr. Speaker, Sir, total revenues and grants as a percentage of GDP were projected at 29.9 percent in 2001/02 fiscal year. Domestic revenues were projected at 18.2 percent of GDP and overall expenditure as a percentage of GDP was projected at 31.8 percent. However, the preliminary out-turn of the budget in the 2001/2002 fiscal year was not as planned.

24. Mr. Speaker, Sir, the preliminary out-turn for domestic revenue as a percentage of GDP for the fiscal year 2001/2002 is 16.7 percent, a decline of 1.5 percentage points from the projected revenue. The low domestic revenue outturn was a result of a number of factors including the exchange rate appreciation that resulted in reduced values for duty purposes, decline in petrol prices and volumes, and the food shortage that negatively affected dutiable imports.

25. Mr. Speaker, Sir, the overall resource envelope was further worsened by non-disbursement of donor balance of payment support to Malawi. It was anticipated that K7.05 billion in donor balance of payments support and K3.82 billion as project grants would be disbursed. The government only received K1.56 billion for the entire fiscal year.

26. Mr. Speaker, Sir, the preliminary expenditure out-turn is 32.6 percent of GDP, an increase of 0.8 percentage point from the approved budget. The slight increase over planned expenditure was a result of the non-disbursement of donor inflows and the urgent need for Government

to import and distribute food to drought victims met through domestic and foreign borrowing.

27. Mr. Speaker, Sir, our expenditures have not been consistent with our domestic revenues. We have not been living within our means. Increased borrowing has led to an unsustainable debt burden and high interest rates. Debt servicing in 2001/02 fiscal year, for example, is estimated at about 25 percent of the total budget for the year. Should the current borrowing level continue, it will result in an increasingly large proportion of domestic revenues going to servicing debt. The country could then run into the danger of reaching a point where all the domestic revenues are being used to service debt. Mr. Speaker, Sir, Honourable Members, this explains why as a country we need to "face our realities and live within our means in our fight against poverty".

Highly Indebted Poor Countries (HIPC) Initiative

28. Mr. Speaker, Sir, Malawi's external debt problems can be tracked back to the late 1970s. During this period, the debt burden went to crisis levels to the extent that Malawi's capacity to accelerate the tempo of economic and social development was adversely affected. Members may wish to know that Malawi's medium and long term outstanding debt was about US\$2.0 billion by end of 1995 and grew almost to US\$2.6 billion by end of 1999, representing an increase of 30 percent.

29. In 1999, the Government conducted a Debt Sustainability Analysis, which revealed that Malawi's debt burden had indeed become unsustainable. Malawi, therefore, applied and qualified for debt relief under the Enhanced Highly Indebted Poor Countries (HIPC) initiative in December 2000. Under the initiative, debt relief resources amounted to around US\$1 billion over a period of twenty years. Malawi started receiving debt relief in 2001.

30. Mr. Speaker, Sir, debt relief resources received to date have been channeled into priority sectors as identified by the MPRSP Process. These areas include Agriculture, Health, Education, Police, Roads, Gender and Labour. Priority pro-poor expenditures in these sectors have been tagged and protected in the budget.

31. Mr. Speaker, Sir, allow me to clear some misunderstanding on the utilisation of the HIPC debt relief resources. These resources are not additional or extra resources that can be used on expenditures other than those identified in MPRSP. In addition, Mr. Speaker, Sir, for debt relief to

Malawi to be irrevocable, the country must reach the HIPC Completion Point. Reaching the Completion Point involves Malawi's economic program supported by the IMF's Poverty Reduction and Growth Facility (PRGF) being on track and having at least one year's satisfactory implementation of the MPRSP. It is critical, therefore, that Malawi's economic program being supported by the IMF's PRGF is on track and that we successfully implement the MPRSP.

Monetary Developments

32. Mr. Speaker, Sir, in order to be consistent with the attainment of macroeconomic objectives for 2001/02 fiscal year, a tight monetary policy stance was to be followed. Accordingly, money stock was to grow by less than 17 percent in 2001.

33. The performance of the monetary program during 2001 was, however, not as expected. Money stock grew by 21.2 percent, an increase of 4.2 percentage points from the program target. The slight increase in money growth was due to increased borrowing by Government. Therefore, Government's total domestic borrowing increased substantially from K4.3 billion in June 2001 to K13.5 billion in April 2002. This level of borrowing was attributed to the non-disbursements of donor funds, coupled with the lower than budgeted domestic revenues.

34. The country's international reserves declined from 4.4 months of import cover at the end of 2001 to 3.1 months by March 2002. The situation was explained by speculation fuelled by the continued non-disbursements of donor funds. The import cover has since May 2002 risen to 3.8 months.

PERFORMANCE OF STATE-OWNED ENTERPRISES

35. Mr. Speaker, Sir, the House may recall that in June 2000, the Ministry of Finance and Economic Planning established a Public Enterprise Reform and Monitoring Unit (PERMU) to monitor the financial performance of parastatals. I am pleased to report, Mr. Speaker, Sir, that the Unit is now fully operational and it has been able to focus on more than the ten major state owned enterprises it was originally intended to cover. There are no longer delays in the two-way flow of information between Government and the Parastatal Sector.

36. Mr. Speaker, Sir, Government message to the commercial parastatals that they should carry their weight is now well entrenched. The Unit, which has proved to be an efficient 'watchdog', has ensured that parastatals are aware that the period for slumber is over and that they now need to declare dividends to Government. Government, through the Unit, will further ensure that profits made by the commercial parastatals are not immediately translated into increased wages and salaries for staff and increased allowances for Board members. Gone are the days when management of parastatals used to think that the remittance of dividends to the Government was a mere courtesy. In line with this, the Government will develop a dividend policy applicable to all parastatals.

General Overview of Performance

37. Mr. Speaker Sir, allow me to briefly give the general overview of some of the key parastatals. The performance, Mr. Speaker, Sir, has been mixed in that some of them have registered profits and started declaring dividends while others have incurred losses.

Agricultural Development and Marketing Corporation (ADMARC)

38. Mr. Speaker, Sir, ADMARC has for the past few years been performing poorly and in 2001/2002, it registered a loss of K225.6 million. This poor performance is attributed to a general reduction in the volume of crops purchased and sold due to unavailability of sufficient working capital and increased competition. Further, the situation was worsened by need to financially sustain some of ADMARC's sick investments, namely, David Whitehead and Sons, Cold Storage, Grain and Milling and Shire Bus Lines, which are now directly reporting to the Ministry of Finance and Economic Planning.

Air Malawi

39. Mr. Speaker, Sir, Air Malawi has been consistently making losses and in 2001/02 it incurred a loss of K25.3 million. Currently, the organisation is undergoing restructuring pending privatisation.

Malawi Development Corporation (MDC)

40. Mr. Speaker, Sir, MDC's performance has improved somewhat following its restructuring. Although the corporation's total revenue fell from K1.9 billion in 2000 to K1.6 billion in 2001, it registered a group net profit of K157 million in 2001 compared to K107 million in 2000. As a

corporation, MDC registered a profit of K29 million in 2001 compared to a loss of K168 million in 2000. As a result, MDC has declared a dividend to Government of K30 million.

Malawi Housing Corporation (MHC)

41. Mr. Speaker, Sir, Honourable Members of the House, the Malawi Housing Corporation (MHC) continues to make losses. In the year 2001/02, the loss was K46 million against the budgeted profit of K65 million. The loss is mainly attributed to non-implementation of the proposed 28 percent rental charge increase, which was taken into consideration at the budgeting stage and failure to adjust expenditures in line with the actual inflow of income in the year 2001/02. However, rentals have since been adjusted to get them in line with market based ones. It is the expectation of the Government that the Malawi Housing Corporation will in future undertake to adjust their rentals in line with the need for the organisation to operate on a commercial basis.

Malawi Telecommunications Limited (MTL)

42. Mr. Speaker, Sir, MTL continues to show signs of recovery. Net profit before tax was K675 million in the year 2001/02 and it has declared a K100 million dividend to Government. To cope with the business environment of today, the entity is being restructured pending privatisation.

Electricity Supply Corporation of Malawi (ESCOM)

43. Mr. Speaker, Sir, ESCOM's financial performance has improved remarkably following a substantial increase in tariffs and the temporary engagement of a corporate management team. In the period to December 2001, the corporation recorded a surplus of slightly about K1 billion. The Ministry of Finance and Economic planning is currently discussing with ESCOM management on the appropriate level of dividend to be paid out to Government.

Water Boards

44. Mr. Speaker, Sir, Northern Region Water Board recorded a loss after tax of K9.9 million. This did not compare favourably with the anticipated loss of K4.7 million. The variance is accounted for by higher than budgeted expenses.

45. Southern Region Water Board recorded a profit for the period of K12.6 million against budgeted profit of K10.7 million. This is attributed mainly to expenditures being far much lower than budgeted.

Malawi Posts Corporation

46. Mr. Speaker, Sir, Malawi Posts Corporation continues to be in financial difficulties. The corporation is currently undergoing restructuring with the assistance of the World Bank.

47. Mr. Speaker, Sir, Honourable Members, although some parastatals performed well in 2001, overall performance still remains below satisfactory. Many parastatals continue to make losses. Allow me to commend those parastatals that have made profits and declared dividends to Government. Let me call upon those parastatals that have not performed well to emulate the good example of those parastatals that have performed well. It is high time these parastatals restructured their operations for effective and efficient delivery of their services. These parastatals must also learn to face realities and live within their means. Let me also call upon Controlling Officers in various Government departments and ministries to ensure that they honour their utility bills.

PRIVATE SECTOR DEVELOPMENT

48. Mr. Speaker, Sir, private sector is the engine of growth. However, its performance has not been satisfactory owing to a number of obstacles. Key obstacles include macroeconomic instability, high transport and infrastructure costs, management constraints, considerable involvement in the economy by Government through statutory corporations, and liberalisation policies that have left our fragile industry vulnerable. Therefore, whenever domestic industry is hurt, the Government will take necessary safeguard measures to assist it. The Government, however, remains fully committed to liberalisation policies.

49. Mr. Speaker, Sir, Government is committed to promoting private sector development. In this respect, Government will ensure that there is a conducive investment climate for private sector participation. I wish to mention that with the support of co-operating partners, Government is working on a Private Sector Development (PSD) project that will address the various constraints highlighted. Among other things, the project will develop a private sector development strategy and action plan.

50. Mr. Speaker, Sir, Government will continue to encourage local exporters to take advantage of regional markets, including the Common Market for Eastern and Southern African States (COMESA) and the Southern African Development Community (SADC). Malawi also stands to benefit from the AGOA initiative. AGOA is a new Trade and Development Act of the United States of America (USA) which offers duty free access to the USA of manufactured products originating from Sub-Saharan African countries.

51. Mr. Speaker, Sir, Malawi was designated an AGOA beneficiary country on October 1st, 2000 after successfully meeting the eligibility criteria requirements as stipulated by the USA Federal Government under AGOA or the Trade Development Act 2000. Malawi became a textile and apparel beneficiary country on August 17th, 2001, after fulfilling a number of requirements. Mr. Speaker, Sir, AGOA does not only cover textiles and apparels: It extends to cover agricultural products such as peanuts, leguminous vegetables, macadamia nuts, mushrooms, tobacco and others. Government has put in place inter-ministerial committees to work on outstanding issues to ensure that Malawi maximises her benefits from AGOA. Let me, therefore, appeal to the private sector to rise to this challenge and benefit from AGOA. Government on its part will do whatever is possible to ensure that the private sector benefits from AGOA.

THE 2002/2003 ECONOMIC PROGRAM

52. Mr. Speaker, Sir, allow me to present the framework for our economic programme for the 2002/2003 fiscal year. The objectives of this budget will be to continue pursuing our medium term development strategy which seeks to reduce poverty through increased access to basic social services, accelerating growth, improving productivity in agriculture and the manufacturing sector, enhanced internal security and ensuring existence of a stable macroeconomic environment.

53. Consistent with these objectives, the programme aims to achieve real Gross Domestic Product (GDP) growth of around 2.0 percent in year 2002 and 4.5 percent in 2003; an average inflation of 9.4 percent in 2002 and 5 percent in 2003. To maintain macroeconomic stability, the overall resource envelope for the 2002/2003 budget is expected to reduce overall deficit to 1.4 percent of GDP from the expected outturn of 8 percent of GDP in 2001/2002 fiscal year.

54. Mr. Speaker, Sir, Honourable Members, in order to attain the inflation targets, the Reserve Bank of Malawi will continue to maintain a

tight monetary policy stance. In pursuit of this policy stance, year-end reserve money growth is targeted to reach 8 percent by December 2002.

GUIDING PRINCIPLES AND CHALLENGES FOR THE 2002/2003 BUDGET

55. Mr. Speaker, Sir, this year's budget is the first to be based on the Malawi Poverty Reduction Strategy Paper (MPRSP). The underlying philosophy of the MPRSP is empowerment. Rather than seeing the poor as helpless victims in need of handouts, the MPRSP sees them as masters of their own destinies. What the poor need, therefore, are not handouts but empowerment.

56. I am reminded, Mr. Speaker, Sir, by the fact that in our traditional custom, upon a young man getting married, gifts include a hoe, a bow and an arrow, implying that the newly wed is empowered to fend for himself and his family. This is what is required. Handouts will simply create dependency on the part of our people. The MPRSP activities reflected in this Budget are, therefore, intended to create the conditions for the poor to reduce their own poverty.

57. Mr. Speaker, Sir, the MPRSP is not an additional or separate poverty fund. Rather, it is a tool for ensuring that all Government expenditure is poverty focused, and that all expenditure by co-operating partners is in line with Government objectives. Ultimately, the objective is that the Government implements only the MPRSP.

58. Mr. Speaker, Sir, the Medium-Term Expenditure Framework (MTEF) that Government has been implementing since 1995 will become an important tool in the design and implementation of the MPRSP. It will also aim to improve the predictability of funding, so that the delivery of key services is not undermined by unpredictable cash flows. Finally, and most importantly, a number of measures will be introduced to further strengthen financial accountability systems. This will include imposing strong sanctions on Controlling Officers who do not comply with budgetary regulations.

59. Mr. Speaker, Sir, the MPRSP will only be a dream indeed if massive injections of financial resources from the developed world are not forthcoming. Further, to achieve the Millennium Development Goals (MDG), Malawi will require substantial financial resources, again from the developed world. It is in this spirit that Malawi subscribes to the ideals of New Partnership for Africa's Development (NEPAD). As Honourable Members might be aware, NEPAD is a holistic, comprehensive integrated

strategic framework for the socio-economic development of Africa. It provides a vision for Africa and how to attain it, and calls upon the rest of the world to partner Africa in her own development on the basis of her own agenda and program of action.

THE 2002/2003 BUDGET FRAMEWORK

60. Mr. Speaker, Sir, Honourable Members, presented before you are the relevant Budget Documents as follows: 2002/2003 Budget Statement as Budget Document No.1, 2002 Economic Report as Budget Document No. 2, Financial Statement 2002/2003 as Budget Document No. 3, and Draft Estimates of Expenditure on Recurrent and Capital Accounts for the financial year 2002/2003 (output based) as Budget Document No 4 A.

61. Mr. Speaker, Sir, total revenues and grants for 2002/2003 are projected at K43.15 billion. Of this amount, K27.14 billion is from domestic resources, and K16.01 billion is from foreign sources in the form of grants and HIPC debt relief while total expenditures are estimated at K45.262 billion. Of the total estimated expenditures, Personnel Emoluments (PE) is estimated at K9.348 billion while Other Recurrent Transactions (ORT), including HIPC resources, are estimated at K14.964 billion. Mr. Speaker, Sir, development expenditure in 2002/2003 is estimated at K12.546 billion, of which K9.853 billion comprises foreign loans and grants while the difference is from local resources.

62. Mr. Speaker, Sir, out of the total budget of K45.262 billion, the allocations to the priority ministries are as follows: 15 percent for Education, Science and Technology; 10 percent for Health and Population; 5.5 percent for Agriculture and Irrigation; 4.1 percent for Water and 7.8 percent for Roads. Mr. Speaker, Sir, an amount of K1.672 billion has been allocated to subvented organisations, with the University of Malawi having the highest allocation of K900 million. Although there has been an increased allocation to the University of Malawi, the University will begin in the 2002/2003 financial year start admitting deserving full fee paying students. These will be in addition to those students who will be on partial and full scholarships. Implementation of these reforms will assist raise the revenue base for the University of Malawi.

63. Mr. Speaker, Sir, in the spirit of the MPRSP, Priority Poverty Expenditures (PPEs) have been identified and will be protected. The PPEs include K101 million for agricultural extension and K225 million for small scale irrigation in agriculture; K100 million for borehole construction and K100 million for dam construction and rehabilitation in water; and K1.4

billion for rural feeder roads. Other PPEs are K54.9 million for small-scale mining and K56.5 million for small-scale fish farming; and K1.64 billion for Education, covering primary and secondary education; K1.6 billion for Health; K556 million for improving the quality of life for the most vulnerable; and K225.5 million for good governance.

64. Mr. Speaker, Sir, Honourable Members, Special Activities cater for transactions that the Ministry of Finance and Economic Planning undertakes on behalf of the Government. Among the items included is an allocation of K150 million to meet the costs of ADMARC's operations of social markets. Honourable Members will recall that costs associated with ADMARC's operations of markets, which are not viable but are necessary under ADMARC's social function have to be met by the Government. This allocation will also cater for restructuring costs of the corporation.

65. Honourable Members are aware that Malawi experienced a serious food shortage in 2001/2002, which necessitated the importation of maize from the region. It is expected that the country will experience another food shortage in 2002/2003 of around 500,000 metric tonnes, which will be partly met by maize imports by donors of approximately 208,000 metric tonnes to meet the requirements of some 3.2 million Malawians that need assistance. Government plans to import about 250,000 metric tonnes in addition to the maize that will be brought in by donors.

66. Mr. Speaker, Sir, The price at which the maize is sold is lower than the price required for the National Food Reserve Agency to at least break-even. An allocation, therefore, of K500 million has been set aside in the 2002/2003 fiscal year to cover partly the loss. Mr. Speaker, Sir, the subsidy element of importing the maize could be higher than estimated. Therefore, unless our co-operating partners come in to support the purchase of the maize, Budget implementation in 2002/03 could be adversely affected.

67. Mr. Speaker, Sir, the problem of food shortage experienced in 2001/2002 and to be experienced in 2002/2003 calls for Government to have a comprehensive food security and nutrition policy in place. The Government is, therefore, reviewing its food security policy. In addition, the Government is reviewing its agricultural policy within the context of the Malawi Agricultural Sector Investment Program (MASIP).

68. Furthermore, in the 2002/2003 growing season, the Government plans to distribute agricultural inputs comprising seeds, fertilisers and legumes enough for 0.1 hectare to about 3 million eligible households. Please allow me to join His Excellency the President, Dr. Bakili Muluzi, to

thank co-operating partners who are supporting Malawi on this program. The Government will also intensify winter cropping and irrigation where there are wetlands or dambos and where water sources for irrigation are available.

69. Mr. Speaker, Sir, the financial position of David Whitehead and Sons is unsustainable. A decision has been made to restructure its operations pending a suitable investor being identified. A provision of K150 million has, therefore, been set aside for the restructuring.

70. Mr. Speaker, Sir, Honourable Members, an allocation of K3.4 billion of HIPC Debt Relief resources will be available in 2002/2003. The proposed allocations for HIPC resources include K800 million for Education (teaching and learning materials, inspectorate, teachers' houses and University teacher education), K800 million for Health (primary health care, drugs and health workers' training) and K425 million for Agriculture (agricultural extension, targeted inputs program and small-scale irrigation). Others include K200 million for Water (construction of boreholes and dams); K400 million for rural feeder roads; K125 million for Technical and Vocational Education; K50 million for small-scale mining; K50 million for small-scale mining; K100 million for Gender, Youth and Community Services; K225 million for the Police (community policing and Police Officers' training); K50 million for Commerce and Industry (promotion of small and medium-scale enterprises (SMEs)); and K50 million for Tourism, Parks and Wildlife. These allocations are made to the priority pro-poor areas as articulated in the MPRSP and they will be protected.

71. Mr. Speaker, Sir, the cross-cutting issues identified by the MPRSP have been mainstreamed in varying proportions. Notably, activities for intervention on HIV/AIDS have been incorporated in all ministries and departments. The National AIDS Commission will provide technical support to all the ministries and departments to ensure that all planned activities are implemented efficiently and effectively.

72. Mr. Speaker Sir, the Government is committed to involving rural people in the management of their own destiny. In this case, the process of decentralisation has to be enhanced. The Government will during the 2002/2003 fiscal year start with two districts in each region in the delivery of services in the education and health sectors. It is hoped that during this process, adequate capacity at district assembly levels will be improved so that more districts can be involved in the delivery of services and hence the management of their own economic activity. This decision is in

addition to the already existing approach where district assemblies have a separate vote and are being funded directly from the Ministry of Finance and economic Planning.

EXPENDITURE CONTROL MEASURES

73. Mr. Speaker, Sir, Honourable Members, for the Budget I am presenting in this August House to be implemented, several measures will be introduced in the 2002/03 fiscal year. These measures are aimed at controlling expenditures, enhancing revenue generation and thus bringing the economy back on track. In order to ensure that ministries and departments remain within the approved allocations, expenditure control measures which applied in the 2001/2002 Budget will be maintained and the following additional measures will be introduced in the 2002/2003 fiscal year:

- i. The Ministry of Finance and Economic Planning will with immediate effect be submitting monthly expenditure reports to the Cabinet Committee on the Economy. Ministers and Controlling Officers whose ministries' expenditures are out of line will be called before the Committee.
- ii. Regular audits and cleaning of the payroll system will be conducted to institute financial accountability and transparency in Government. Within the first three months of 2002/2003, the Ministries of Education, Science and Technology; Agriculture and Irrigation; Health and Population; Lands, Valuation and Surveys; the National Roads Authority; and Housing will be fully audited. These institutions have been singled out because of their high financial outlays.
- iii. To strengthen internal controls and stem some entrenched malpractices, staff rotation will be enhanced through the re-instatement of the Common Services.
- v. Cheque signatories, particularly in large ministries, will be reviewed and that Controlling Officers or their Deputies will be required to personally countersign all cheque payments in excess of an amount to be soon determined once a review of the payments system has been completed.
- vi. The public sector will be streamlined in order to reduce costs. Among other things, Government will review the functions of some

Government ministries and departments, and parastatals and merge and rationalise those that perform similar functions. In this regard, Government has already approved the merging of the Malawi Investment Promotion Agency (MIPA) with the Malawi Export Promotion Council (MEPC), and the Ministry responsible for Poverty Alleviation Programs in the National Economic Council with the Department of Disaster Preparedness, Relief and Rehabilitation to take advantage of economies of scale. The mergers will become effective beginning on July 1st, 2002.

- vii. Government will ensure that commercial parastatals remit dividends to the Government at the end of the financial year in accordance with a dividend policy to be available. This measure comes because most parastatals have not been remitting dividends to Government even when they have made profits.
- viii. Salary increments and adjustment of fees for Board Members as well as purchase of capital equipment shall be subject to approval by Treasury. This measure is proposed because it has been noted that most parastatals do not follow the provisions of Finance and Audit Act.
- ix. Government will review subvented organizations and examine if their continued existence is justified. Moreover, subvented organizations will need to come up with ways of reducing their dependence on Government subvention.
- x. Proceeds from fuel levy will be deposited in a special account with Reserve Bank of Malawi. NRA should submit their requirements taking into account other levies that they collect including grants from donors. The levy will be used solely for its intended purpose but Government would like to see that the draw-down on the levy is consistent with the level of road maintenance and rehabilitation work and ensure transparency.
- xi. Government will review sitting allowances for all Board members in parastatals to eradicate misuse and ensure homogeneity.
- xii. Special audits will be conducted in some parastatals where existence of financial misuse and general mismanagement would expose Government and thus undermine efforts to bring about the required financial discipline in the entire public and parastatal sector.

TAX POLICY MEASURES

74. Mr. Speaker, Sir, in addition to the expenditure control measures that I have outlined, Government is going to introduce some tax measures in the 2002/2003 fiscal year.

75. But before I highlight the measures, please allow me to once again express my concern on the low tax compliance we are experiencing as a country. I have mentioned this in a number of fora with the business community and during the pre-budget consultations. There is the pervasive view from the public at large that payment of taxes is optional. As I speak now a lot of institutions, public and private, owe Government large sums of money due to non-remittance of collected taxes. Mr. Speaker, Sir, this is a pure act of theft and punishable by applicable laws.

76. Mr. Speaker, Sir, Honourable Members, there are also individuals and organisations that are simply not honouring their tax obligations. Mr. Speaker, Sir, I have in mind the many business operators in the country as well as employees of some international organisations, NGOs and small and medium-scale enterprises that are currently not giving to "Caesar what belongs to Caesar". The numerous services that Government provides is financed by tax revenues. The irony is that the same people owing Government are quick at criticising Government for lack of better public facilities or delayed funding. Where do we honestly think Government is going to get money to run its operations?

77. I have, therefore, instructed the Malawi Revenue Authority (MRA), to be vigilant in collecting due revenue. According to the Law, it shall collect all due taxes from any taxable person or institution and any taxable goods and services-"Give to Caesar what belongs to Caesar". Stiff penalties shall be instituted to all those who will not be compliant with tax laws. In addition, audit firms that connive with tax payers will be severely punished and removed from recognition for tax computation. The MRA shall enjoy full support of the Government where collection of taxes is the matter.

78. This year, as Government continues with tax reforms, the objective will be one of rationalising and broadening the tax base to achieve a tax structure that is simple, efficient and equitable. Emphasis will be on consolidating our past efforts in ensuring that the various tax policy measures announced in the last few years are effectively and efficiently implemented. It has always been my belief, Mr. Speaker, Sir,

that we should know where we are coming from to get us where we are going. It is, therefore, important to first of all assess the impact of the measures implemented in the past in order to assist us plan our next steps. It is for this reason that we think we should emphasise on tax enforcement to improve tax compliance before embracing new policy changes.

79. Mr. Speaker, Sir, in order to achieve the objectives set for the 2002/2003 Budget, the following tax policy measures will be implemented:

I. INCOME TAX MEASURES

- i. There shall be an exemption from the 10 percent withholding tax on dividends distributed by subsidiary companies to mother companies. This is a rationalisation measure aimed at ensuring that there is no cascading of tax among companies with integrated structures.
- ii. Except where an agreement exists between an organisation and the Government of Malawi, Malawian employees of international organizations, NGOs and foreign missions will be required to pay personal income tax with effect from July 1st, 2002. Mr. Speaker, Sir, according to the Laws of Malawi, employers are obliged to collect pay roll taxes from their employees as an agent of the Malawi Government. We therefore urge the employers concerned to respect our laws and collect taxes on behalf of government.
- iii. The threshold at which provisional tax begins to affect individual taxpayers will be increased from MK30, 000.00 to MK36, 000.00. This is a rationalisation measures aimed at standardising the provisional tax on individual taxpayers with the zero income tax bracket that now is at MK36, 000.00 per annum.
- iv. The annual value at which a pension is commuted will be increased to MK36, 000.00. This measure is aimed at allowing pensioners to receiving a meaningful monthly pension amount commensurate with the value of money today.
- v. Penalty for late submission of accounts or returns to Malawi Revenue Authority (MRA) will be increased from MK1, 000.00 to MK50, 000.00. The measure is aimed at encouraging people to be submitting returns in time in accordance with applicable laws.

- vi. In order to reduce income disparities between the rich and the poor, an additional personal income tax bracket for taxable incomes in excess of K100,000 shall be introduced and the marginal tax rate applicable shall be 40 percent. The rest of the personal income tax brackets and rates will remain unchanged.
- vii. Evasion of Income Tax will be made a criminal offence.

II. SURTAX

80. Mr. Speaker, Sir, the House may recall that in October 2001, Section XIIA of the Customs and Excise Act was repealed in order to have a stand alone Surtax legislation. This was done to allow for a smooth implementation of the extension of Surtax from manufacturing stage to wholesale and retail stages. I launched the Tax Payers Education and Public Awareness campaign in April 2002 so that the public is informed and prepared for the extension of Surtax. Let me once again emphasise that this is not a new tax. It is just a mere extension of a tax that already existed. Previously this tax was being collected at manufacturing stage only and this was disadvantaging local manufacturers against competing imports.

81. Mr. Speaker, Sir, I will now announce Surtax rationalisation measures that that will become effective from 1st September 2002.

- i. Surtax will be extended to the wholesale and retail stages at the rate of 20 percent. As well as removing disincentives to produce among local manufactures, the measure is a drive to expand the tax base.
- ii. Surtax on exercise books will be taxed at zero percent. This measure is aimed at increasing accessibility of learning materials to schoolchildren.
- iii. In order to rationalise the surtax rates in line with the new Surtax Act , all concessional rates of surtax of 10 percent under Customs Procedure Codes 442, 444 and 476 will be increased to 20 percent.
- iv. Salt will be taxed at zero percent as it is considered to be a basic commodity.
- v. Rentals on commercial properties will be subject to surtax.
- vi. There will be 20 percent surtax on non-life insurance.

82. Mr. Speaker, Sir, please allow me to sound a warning to unscrupulous traders out there who will want to cash in on the extension of Surtax and unjustifiably increase their prices. According to the studies that Government conducted prices should not rise by more than 5 percent because in paying output surtax, traders will be crediting surtax paid on inputs. I, therefore, wish to appeal to the business community not to overcharge.

III. CUSTOMS AND EXCISE MEASURES

83. Mr. Speaker, Sir, allow me now to turn to Customs and Excise measures which will become effective from mid-night tonight:

- i. Excise duty on alcoholic beverages will be increased from 5 percent to 15 percent on opaque beer, from 35 percent to 45 percent on cane spirit and from 55 percent to 65 percent on other alcoholic beverages.
- ii. Excise duty will be increased from 5 percent to 10 percent on passenger carrying motor vehicles with engine capacity not exceeding 1000cc, from 15 percent to 20 percent on engine capacity exceeding 1000cc but not exceeding 1500cc, from 25 percent to 30 percent on motor vehicles exceeding 1500cc but not exceeding 1799cc, from 5 percent to 20 percent on four wheel drive motor vehicles of engine capacity exceeding 1799cc but not exceeding 1999cc, from 25 percent to 35 percent on other motor vehicles exceeding 1799cc but not exceeding 1999cc, from 50 percent to 60 percent on four wheel drive motor vehicles exceeding 1999cc but not exceeding 2999cc, from 65 percent to 80 percent on motor vehicles of 2999cc to 3999cc, and from 65 percent to 100 percent on motor vehicles with engine capacity exceeding 3999cc.
- iii. 20 percent excise duty will be introduced on edible vegetables and tubers, poultry products and meat derived from cattle, swine, goat, sheep and similar animals.
- iv. A 20 percent export duty on raw, unprocessed and unmanufactured tobacco will be introduced. This measure is aimed at encouraging processing of raw tobacco within the country.
- v. Import duty on textiles and fabrics coated with gum of amylaceous substances will be reduced from 10% to 8%. This is as a result of

the Trade agreement Malawi signed under the Mozambique, Malawi, Tanzania and Zambia (MMTZ) and the Botswana, Namibia, Lesotho and Swaziland (BLNS) countries.

- vi. Using the Customs and Excise duty rates applicable on petrol, diesel and paraffin, a fixed amount of tax revenue will be determined at the beginning of the fiscal year that will be regarded as a minimum throughout the fiscal year. This is aimed at stabilising tax revenues.

VI. ADMINISTRATIVE TAX MEASURES.

84. Mr. Speaker, Sir, in addition to the tax policy measures I have outlined, there will be administrative measures which Government will implement to increase tax enforcement by the MRA. These are as follows:

- i. In order to ensure that Ministries and Departments are current with pay roll and withholding taxes, funding for pay roll will only be made when previous month's taxes have been remitted to the Malawi Revenue Authority (MRA).
- ii. The period in which goods are allowed to stay in temporary stores before duty is paid will be reduced from 28 days to 10 days. This measure will come into effect on 1st October 2002. The Malawi Revenue Authority (MRA) and SGS are instructed to process documentation expeditiously.
- iii. Exporters other than producers or manufacturers of the goods being exported will pay surtax and claim surtax upon submission of adequate documentation.

CONCLUDING REMARKS

85. 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. His Excellency the President, 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, as well as my Cabinet colleagues for their support and constructive inputs throughout the entire Budget process;

- iii. All our development 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, Government and academic staff who provided their input to the Budget during the Pre-Budget and MPRSP consultation meetings.

86. Mr Speaker, Sir, in concluding the presentation of the 2002/2003 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 fight poverty and stimulate growth for a better Malawi, and in particular, our determination to ensure that we do all this within the available financial resources. The Budget also recognises our major task of bringing the economy back on track. This is our major priority within the Ministry of Finance and Economic Planning.

87. 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. Meanwhile, the Government wishes to maintain dialogue with the private sector which needs to be nurtured within the current environment. Further, emphasis has been given on the need for parastatals to carry their own weight and improve financial management.

88. Mr Speaker, Sir, Malawi finds itself in the midst of a profound transformation that calls for a change in the way we do business, a change in our mindsets. 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 such that 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.

89. Mr Speaker, Sir, let us remember the theme of our budget statement today, "living within our means and facing our realities". We cannot consume what we do not have nor can we have what we do not own. As a country, should we choose to leave lavishly beyond our means, we should then prepare ourselves for the consequences. As Malawians, let us start planning our destiny today. It is said that the ending is everything. We have to plan all the way to it, taking into account all the possible consequences, obstacles and twists of fortune that might reverse results of our hard work. By planning to the end we might not be overwhelmed by unforgiving circumstances. Quoting the bible, Mr. Speaker, Sir:

"Loyal love and stability are for those who plan well. In all toil there is profit, but mere talk leads only to want" (Proverbs 14: 22-23).

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

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