



2011/12 BUDGET STATEMENT

delivered in the

NATIONAL ASSEMBLY OF THE REPUBLIC OF MALAWI

by

THE MINISTER OF FINANCE

HONOURABLE KEN E. KANDODO, MP

at

THE NEW PARLIAMENT BUILDING

LILONGWE

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MOTION

1. Mr. Speaker, Sir, I beg to move that the Estimates on Recurrent and Development Accounts for the 2011/12 Budget be referred to the Committee of the Whole House, be considered Vote by Vote, and that thereafter, be adopted.

INTRODUCTION

2. Mr. Speaker, Sir, I am deeply honored to present to this August House the budget that will run from 1st July 2011 to 30th June 2012. Time has come when we must account to the citizens of Malawi what we have achieved since I presented the 2010/11 budget to this August House. As is traditionally the case, it is expected of me therefore to provide some highlights of what has been achieved to date since 1st July last year in the area of economic and public finance management.

3. Mr. Speaker, Sir, it has now become customary for my Ministry to undertake pre-budget consultations before coming up with the budget framework. I am pleased to report to the house that between 6th and 8th April 2011, I undertook consultations with people from all walks of life in Malawi regarding their aspirations for the 2011/12 Budget that I am about to present to you today. I visited Mzuzu in the North, Lilongwe in the Centre, and Blantyre in the South. These consultations provided me with an opportunity to meet a cross section of the Business Community, members of the Academia; members of the Civil Society Organizations, Non-Governmental Organizations, and Faith-Based Organizations. Subsequently, I also met Members of the following Parliamentary Committees: Budget and Finance Committee and the Public Appointments and

Declaration of Assets Committee. I also met representatives of the bilateral and multilateral institutions that are currently providing us with financial and technical support.

4. I wish to acknowledge that in all these consultations, I received many useful ideas and contributions that helped us in finalizing the budget and I am grateful for all the contributions made by the various stakeholders. I am pleased to report that we have taken on board many of the proposals that we received from the various contributors. However, I must point out that, in view of the varied nature of the contributions, it was not possible to incorporate everything in this year's budget. As a Ministry, we keep a record of these contributions and we will be considering any outstanding proposals in future budgets.

5. Let me also pay tribute to officials from my Ministry and those of other Ministries and Government Departments who worked tirelessly in consolidating the 2011/12 budget. My gratitude also goes to the Cooperating Partners, both bilateral and multilateral institutions, for continuously supporting us through technical and financial assistance. Their support has been invaluable and has made a difference in the lives of our people over the years.

6. Mr. Speaker, Sir, let me preface my statement by highlighting some of the achievements made by this Government from July 1st last year under the able stewardship of His Excellency the State President, Ngwazi Professor Bingu wa Mutharika and the Democratic Progressive Party. As is traditionally the case, further details of these achievements are provided in the budget documents which will be circulated to Honourable Members soon after my presentation.

7. Mr. Speaker, Sir, guided by the requirement to grow by at least 6 percent per annum as stipulated in the Malawi Growth and Development Strategy, I am pleased to report to the Honorable House that, since 2004 when His Excellency the State President Ngwazi Professor Bingu wa Mutharika took over the mantle of leadership of this country, the Malawi economy has continued to register unprecedented economic growth rates. Growth in the real Gross Domestic Product (GDP) has remained above the 6 percent mark which is deemed to be the threshold for poverty reduction. Indeed, the GDP has averaged 7.6 percent since 2005 and in fact reached remarkable levels of 9.7 percent and 8.9 percent in 2008 and 2009, respectively. The rate of inflation has remained in single digits since 2007 allowing the Bank rate to decline from 15 percent since November 2007 to 13 percent in 2010. As a result, we have managed to keep the Malawi Kwacha exchange rate relatively stable against the United States Dollar despite the challenges resulting from the recent global financial and economic turmoil.

8. Mr. Speaker, Sir, our economy has been transformed from being a perpetually food deficit nation to a food surplus one where Malawians are guaranteed of food security and incidences of malnutrition and nutritional disorders continue to dissipate; the number of people living below the poverty line has declined from 60% in 2004 to less than 40 percent. Both maternal and infant mortality rates have equally been reducing. In addition, we have made significant strides in bringing the HIV/AIDS pandemic under control with presently about 350,000 people living with HIV/AIDS receiving free Anti-retroviral Treatment (ART).

9. On infrastructure development, Mr. Speaker, Sir, I wish to report that we have constructed and rehabilitated more roads, class room blocks, teachers'

houses, hospitals, clinics, irrigation schemes and boreholes all of which have improved the quality of life of the ordinary people. It is for this reason that Malawi is now referred to as a success story and many countries are trying to learn from us.

CHALLENGES IN 2010/11 FISCAL YEAR

10. Mr. Speaker Sir, before I proceed with my speech, allow me to pay tribute to the State President for the State of the Nation Address which summarized the State of the Nation and laid out the principles that will anchor Government policies and actions for this year's budget. Therefore, Honourable members might wish to be advised that this Budget Statement derives from the principles elaborated by the State President. Allow me at this juncture, Mr. Speaker, Sir, to elaborate in more detail and specificity some challenges that we have faced in the implementation of the 2010/11 budget and how those challenges threaten the implementation of the 2011/12 budget. Mr. Speaker, Sir, although Malawi has performed exceptionally well, we are still facing challenges relating to the foreign exchange situation; tobacco marketing; availability of fuel; energy and youth employment.

FOREIGN EXCHANGE SITUATION

11. Mr. Speaker Sir, the problems to do with foreign exchange in this country can be partly attributed to high rates of economic growth that we have experienced in recent years. Part of this economic growth has translated into high demand for imports. Unfortunately, our export base has remained narrow in that we continue to rely on the same traditional exports of tobacco, tea, sugar and recently cotton. In aggregate, the export value has not kept pace with import demand. Mr Speaker Sir,

the Honourable members may wish to know that at the moment, Malawi's exports represent 20% of our GDP while imports are the equivalent of 39% of GDP, we have a trade deficit equivalent to 19 percent of GDP. In turn, this trade deficit has resulted in dwindling international foreign exchange reserves and foreign exchange shortages which have resulted in procurement challenges of strategic imports especially fuel. In addition, our banks are taking longer to settle foreign invoices and some importers cannot secure credit lines or establish letters of credit.

Measures to be Taken to Improve Foreign Exchange Availability

12. Mr. Speaker, Sir, in order to deal with the problem of foreign exchange shortages, Government will enhance and introduce supply side measures that will unlock the export potential of Malawi and increase the supply of foreign exchange on the market. In the budget we have already included some K1.6 billion to be invested in the cotton industry in the farming season and we believe this will allow us to generate extra foreign exchange by the next season.

Establishment of export pre-finance and guarantee scheme

13. As a way of promoting the export sector, Government will establish export pre-finance and guarantee scheme to provide working capital and medium to long term loans to exporters. The scheme will focus on small-scale, non-traditional exporters who venture into processing and export of non-traditional commodities like gemstones or non-traditional agricultural products like pigeon peas, wheat, soya and paprika.

Enhancing export tracking

14. Mr Speaker, Sir, our investigations have shown that for the goods that Malawi is currently exporting, the country is not getting the full value due to transfer pricing through over valuation. To arrest this problem, the Government will introduce reference pricing which will be used to value exports and validate declarations made on CD1 form as exports are discharged through our Borders. Government is also working towards signing double taxation agreements with countries of final destination for Malawi's major exports. Through these double taxation agreements, MRA will be able to obtain price and volume information on Malawi's exports to those countries and will use that information to determine cases of transfer pricing.

Encouraging Remittances from Malawians in the Diaspora

15. Mr. Speaker, Sir, one untapped source of foreign exchange is Malawians in the diaspora. Although these Malawians are allowed to operate foreign currency denominated accounts with banks of their choice in Malawi, they have tended to use informal channels. As such we will soon come up with concrete incentives to encourage Malawians living abroad to use formal channels to remit funds to their families or for investment. Government is contemplating possibilities of promoting investment participation by the Malawian diaspora including schemes for easing red-tape in accessing real estate, like allocation of plots in urban centres for Malawians in the diaspora who operate FCDAs.

Waiver of the 60/40 retention/conversion rule

16. Businesses have from time to time requested for a waiver of the 60/40 retention/conversion rule in order for them to meet foreseen foreign obligations. The Reserve Bank of Malawi has granted such waivers on a case-by-case basis. In order to complement efforts to encourage non-traditional exports and speedy repatriation of proceeds, the Reserve Bank of Malawi will waive the retention/conversion rule for those exporters that demonstrate a good track record of exports and repatriation of proceeds.

TOBACCO

17. Mr Speaker Sir, it will be remiss of me to proceed without highlighting the economic threat that we face due to uniquely low tobacco season. The 2011 tobacco marketing season may turn out to be one of the worst in our history. Since the opening of the Auction Floors in March, prices have been very low, and the rejection rates have been very high. As at 31 May, the total volume of tobacco traded on the auction floors was 34.4 million kgs while we had traded 78.95 million kgs at the same time last year representing a 56.5 percent drop in volume. Similarly, whereas the average price of all tobacco was US\$1.90 last year, this year the average price is only 93 cents. As a result, our foreign exchange earnings from tobacco have fallen by 78.8 percent from US\$150.6 million last year to a mere US\$31.9 million. At this rate, our projected earnings from tobacco have been reduced from \$450million to about \$300million. And this is based on a more optimistic projection.

18. Mr. Speaker, Sir, the tobacco industry has offered many reasons for this turn of events including the fact that some buyers did not have confirmed orders at the beginning of the season, that buyers had stocks from last season; that there has been an increase in incidences of non-tobacco related materials; and that the quality of tobacco has been poor due to poor handling. However, the most important factor affecting our tobacco appears to be over production. There is overproduction at the global level as well as at the national level. Mr Speaker Sir, I wish to invite our nation to do soul searching on the issue of tobacco in order to salvage the future of this very important crop. What can and should we do to control the number of growers and amount of tobacco being produced? We need to institute effective measures that will address illegal production of tobacco, improve quality and certainly to eliminate instances of Non tobacco-related materials.

FUEL

19. On the issue of fuel, Mr. Speaker Sir, there are two main sources of pressures. The first source of problems, Mr. Speaker Sir, is the increasing demand for fuel due to the increase in number of cars being imported into the country. Honourable members may wish to note that due to our unprecedented economic growth, Malawi is now registering up to 3000 vehicles a month. Current figures indicate that the combined daily demand for fuel stands at 1.124 million litres which translates into the country's monthly demand for fuel at 33.6 million litres. This increase in fuel demand has been aggravated by an increase in fuel prices due to the unrest in the Middle East. Crude prices have risen from about US\$80 per barrel in 2010 to US\$115 per barrel by May 2011. At the May 2011 prices the value of Malawi's monthly fuel imports is now US\$30.5million while at the same

time last year (May 2010) the same volumes were valued at US\$21.4million. As such the country requires, approximately, US\$366 million to meet the annual demand for petroleum products.

20. The second problem is one of logistics. Mr. Speaker Sir, the Honourable members may wish to know that Malawi does not have the internal fuel reservoirs with a storage capacity of the recommended 15 days. As a result we normally have three days fuel reserves and most times fuel goes straight from the tankers to filling stations without stopping at storage facilities. A consequence of this lack of storage capacity, Mr. Speaker Sir, is that any disruption to the fuel supply chain, be it congestion at the port or along the way, immediately translates into a dry-out at the pump. It was in realization of this problem that Government has created the National Oil Company of Malawi (NOCMA) whose job it will be to construct and then manage strategic fuel reserves.

ENERGY

21. Mr Speaker Sir, another chronic problem that Malawi continues to face is erratic power supply. As members of this house are aware, Malawi's electricity generation capacity is 283 megawatts while demand for electricity is far higher. As a result, across the country, rolling blackouts are the order of the day and these have negatively impacted industrial output, raised the cost of doing business by forcing companies to buy stand-by generators and has helped to increase the demand for diesel. At the household level, this problem has affected our way of life.

22. In recognition of this problem, the government has decided to use US\$55million dollars from the national budget to construct Kapichira II hydro electric plant. As we speak, a Chinese contractor Gezhouba Construction has been engaged and will complete the works in 30 months. Government also signed a compact agreement with the Millennium Challenge Corporation of the United States of America on 7th April 2011. Through the compact, ESCOM's generation transmission and distribution capacities will be improved.

YOUTH UNEMPLOYMENT

23. Mr Speaker, Sir, let me turn to another very important challenge that has been growing in magnitude – youth unemployment. A conference of African Ministers of Finance held in Lilongwe last year noted that across the world, and in Africa as well, there is “jobless growth”. That is, economies are growing fast but the economic growth is not translated into creation of decent jobs for young people. Malawi is not immune to this phenomenon. According the most recent census, the Malawi population is relatively young, with the youth comprising more than half the population. Every year approximately 130,000 young people are now entering the job market. Unfortunately, our formal sector is unable to create jobs at a rate sufficient to absorb these labour market entrants. As a result, we are now witnessing increasing unemployment and underemployment, even among university graduates who are taking long to secure employment.

24. Mr. Speaker, Sir, it is important to prepare our youth for non-formal employment through expansion of vocational education and training centers. In addition, we need to provide access to finance for those that might want to be self employed. It was in realisation of this phenomenon that this Government created

the Malawi Youth Enterprise Development Fund to assist young people, who want to be self employed, with seed capital and the training necessary to equip them with requisite business skills. But government recognises that more needs to be done if we are to gainfully employ our youth and build a better Malawi where those looking for jobs find them. Government will therefore be intensifying efforts to secure financing for the SME sector but also resources to extend the network of technical colleges.

ASSUMPTIONS UNDERLYING THE 2011/12 BUDGET

25. Mr. Speaker, Sir, Now let me turn to the major assumptions underpinning the 2011/12 Fiscal Year Budget. I will start with the Global Economic Outlook as reported by the International Monetary Fund (IMF).

Global Economic Outlook

26. Mr. Speaker, Sir, according to the April 2011 World Economic Outlook of the IMF, global economic recovery continued more or less as predicted in October 2010 and has remained unchanged from the forecast made in the January 2011 update. Global economic growth fell to about 3.75 percent during the second half of 2010 from about 5.25 percent during the first half. As the fears of depression receded towards the end of 2009, confidence later picked up in the second half hence businesses started rebuilding their depleted stocks resulting into a sharp rebound in industrial production and trade which lasted through the first half of 2010.

27. The World Economic Outlook indicates that this recovery is in two parts; with larger output gaps in advanced economies who suffered large financial shocks and closing or closed gaps in emerging and developing economies. However, unemployment has remained relatively high and commodity prices especially food, due to weather related supply shocks, and oil prices have resurged thereby exerting pressure on inflation in emerging and developing countries. In both 2011 and 2012, the global economy is expected to grow at about 4.5 percent per annum, representing a modest downward revision in growth from an earlier projection of 5 percent made in 2010. Advanced economies are projected to grow at only 2.5 percent while the emerging and developing economies are projected to grow at a higher rate of 6.5 percent. This growth will be as a result of improvements in financial markets, buoyant economic activity in many emerging and developing countries and growing confidence in advanced economies notwithstanding new volatility caused by fears about disruptions to oil supply.

Sub-Saharan African Region

28. Mr. Speaker, Sir, moving closer home, information from the Sub-Saharan Africa region indicates that growth recovery in the region is progressing steadily. The region is projected to grow by 5.5 percent in 2011 from 5.0 percent in 2010. This is mainly driven by rising commodity prices on the international market. In 2012, Sub-Saharan African GDP is estimated to grow by 5.9 percent. However, uncertainties still remain. The rising oil and fuel prices may affect growth performance in fuel net importing countries while rising food prices may affect poor households in food net importing countries as well. It is conceivable that the rising oil prices may raise inflation expectations.

Developments in the Malawi Economy

29. Mr. Speaker, Sir, let me now turn to the domestic economy. During 2010/11 fiscal year, we continued to see unprecedented economic growth that has characterized this Administration since 2004. The Malawi economy grew by 6.7 percent in 2010 after yet another remarkable performance in 2009 when the economy grew by 8.9 percent driven by strong performance in mining, information and communication and construction sectors. The economy is projected to continue growing faster than the region at 6.9 percent and 6.6 percent growth rates in 2011 and 2012 respectively. These growth rates are expected to be anchored by strong performance in agriculture sector as it rebounds, as well as mining and construction sectors.

30. Mr. Speaker, Sir, in line with the strong economic performance, government still remains committed to maintain low inflation levels. In 2010 the average rate of inflation stood at 7.4 percent anchored by food surplus which resulted in depressed food prices. Inflation is projected to decline further to 7.0 percent in 2011 and 6.9 percent in 2012 due to expected increases in agricultural production, as well as fiscal prudence and tight monetary policy.

31. Mr. Speaker, Sir, sustaining higher growth rates requires overcoming obstacles to growth. Among the major challenges facing the economy is the issue of diversification of the economy away from traditional exports. For your information, Mr. Speaker Sir, although the tobacco selling season is in progress,

low prices combined with a high rate of rejection at the floors means the country is not going to benefit much from the golden leaf this year.

32. Mr. Speaker, Sir, since tobacco has been our major foreign exchange earner from time memorial, the time has come for the country to diversify away from tobacco to other export commodities especially those that can be promoted within the short to medium term. It is in this regard, that government is thinking of investing heavily in other potential non traditional exports such as cotton, wheat and pulses which are on high demand worldwide.

Monetary Sector Performance

33. Mr. Speaker, Sir, monetary policy in 2010 was geared towards safeguarding the current price stability whilst ensuring that sufficient credit is availed to the private sector. The single-digit inflation rate achieved since 2007 persisted in 2010 and 2011. As such, the Reserve Bank reduced its Bank rate from 15.0 percent which was effected in November 2007 to 13.0 percent since August 2010. The commercial banks responded positively by reducing their prime lending rates from 19.25 percent to an average of 17.67 percent in September 2010. Consequently, private sector borrowing from the banking system increased by 18.7 percent on an annual basis, to K127.4 billion in March 2011, which in turn induced an annual growth in net domestic credit of 28.7 percent to K245.9 billion in the same month. Reflecting availability of excess liquidity in the system, the all type Treasury bills yield also declined from an average of 10.17 percent in June 2010 to 6.91 percent as at end December 2010 and dropped further to 5.93 percent

in March 2011. As a result, the growth in broad money accelerated from 12.8 percent in June 2010 to 21.3 percent as at end March 2011.

34. Mr. Speaker, Sir, following the successful first review of the IMF supported Extended Credit Facility programme in December 2010 which unlocked donor inflows, external reserves of the economy rose from 2.5 months of import cover in June 2010 to 3.0 months in December 2010, before sliding back to 2.2 months in March 2011. Consequently, during the period the Malawi Kwacha remained relatively stable against the United States Dollar.

35. Mr. Speaker, Sir, pressure on inflation is, however, mounting from rising global oil prices following the political turbulence in the Middle East and North Africa as well as growing demand for oil from emerging economies such as China and India. The Reserve Bank shall, therefore continue to institute tight monetary policy stance during the rest of 2011 and 2012, aimed at maintaining price stability in order to minimize costs to the private sector associated with high and volatile inflation. This policy stance will be anchored by reserve money which is programmed to grow in tandem with nominal GDP. The prevailing low tobacco prices at the auction flows however pose a challenge on the foreign exchange reserves accumulation efforts. Consequently, the Reserve bank may face some limitations in intervening in the foreign exchange market through sales of foreign exchange as a monetary policy tightening tool. Open Market Operations shall therefore remain the primary monetary policy instrument. Furthermore, the Reserve Bank shall also ensure that the nominal exchange rate remains stable so as to provide a favourable environment for continued private sector growth.

FISCAL PERFORMANCE FOR THE 2010/11 BUDGET

36. Mr. Speaker, Sir, let me now turn to the fiscal performance of the 2010/11 budget. As the Honourable Members are aware, it is a tradition in this House that before a new Budget is presented, a detailed account of the current Budget is first presented to the House. I am therefore profoundly delighted this afternoon to give an account of the 2010/11 Budget. All supporting documentation will be circulated to the Honourable Members shortly after my presentation. Let me also point out that my Cabinet Colleagues and I will avail ourselves to answer any questions that the Honourable Members may wish to raise regarding the 2010/11 budget implementation.

Revenues and Grants in 2010/11 Financial Year

37. Mr. Speaker, Sir, as the Honourable Members are aware, Total Revenues and Grants approved for the 2010/11 Budget were K287 billion. Of this sum, K202 billion, representing 70 percent, were locally Generated Resources while K85 billion or 30 percent were Grants. Domestic Revenues comprised Tax Revenues amounting to K171 billion (or 85 percent) and Non-Tax Revenues amounting to K31 billion (or 15 percent). Grants comprised K19.9 billion Program Grants or Budget Support, K33.6 billion Dedicated Grants and K31.8 billion Project Grants making a total of K85 billion.

38. As at the Mid Year, Domestic Revenues, both Taxes and Non Taxes, had over performed. Tax Revenues over performed by K3.5 billion with a collection

of K84.8 billion against a Mid Year target of K81.3 billion. Non Tax Revenues had over performed by K3.1 billion with a collection of K18.4 billion against a target of K15.3 billion. As I reported then, Tax Revenues over performed on account of efficiencies in the Malawi Revenue Authority (MRA) arising from the reforms that the institution has been undertaking and improvement in tax payer compliance, while Non Tax Revenues over performed on account of efficiencies in Revenue Collecting Government Departments. As a result of the over performance in Taxes and Non Tax Revenues, Domestic Revenues were revised upwards at Mid Year to K213 billion comprising K175 billion Tax Revenues and K38 billion Non Tax Revenues.

39. It is pleasing to report to this Honourable House that although we have not closed our books for the 2010/11 financial year prospects show that domestic revenues will perform marginally well. This is largely on account of improved tax payer compliance, effective tax administration measures and improvement in accounting and management of non tax revenues. We therefore remain optimistic that at the end of the financial year, these projected revenues will be realized in full.

40. As for Grants, Honourable Members may recall that, the performance at Mid Year was less than impressive. From a Target of K55 billion, only K40.9 billion was received, meaning that Grants under performed by K14.1 billion. The major under performances were in Dedicated Grants especially Health Sector SWAP Grants which under performed by K8.3 billion against a target of K10.1 billion and Project Grants which had disbursed K10.9 billion against a target of K18.3

billion resulting in a shortfall of K7.4 billion. On the other hand, Program Grants or Budget Support over performed by K3 billion. From a Mid Year target of K11.9 billion, Government received K14.9 billion. The underperformance in some Grants categories was purely a timing difference and we expect all the Grants to come through by the end of the financial year. It is on this basis that the revision at the Mid Year was simply a drop of K1 billion from an earlier projection of K85 billion to K84 billion. The major adjustments were on two Grants categories, namely, Dedicated Grants and Program Grants. Dedicated Grants increased by K2.1 billion from K33.6 billion to K35.7 billion on account of increased support from the European Union while Program Grants contracted by K3 billion from their original estimate of K19.9 billion to K17 billion. To the end of the financial year, we expect all the Grants will come through.

41. At this juncture Mr. Speaker, Sir, allow me to join His Excellency the State President in thanking most profoundly all the Development Partners for the support they continue to give to the Government of Malawi. In particular, let me thank the European Union (EU), the United kingdom (DFID), the Kingdom of Norway, the African Development Bank and the Federal Republic of Germany for providing Budget Support in 2010/11 Fiscal Year.

42. Allow me also to acknowledge the various Development Partners who provided us with pooled funding for implementing various programs. Under the Farm Input Subsidy Program, let me thank the support from the Government of the Kingdom of Norway, the Irish Aid, the European Union and the United Kingdom (DFID). In the National Aids Response, let me acknowledge the support

from the Government of the Kingdom of Norway; United Kingdom (DFID); the World Bank and the United States Government through the Global Fund for HIV/AIDS. In the Health Sector Wide Approach, let me acknowledge the support from the Government of the Kingdom of Norway; United Kingdom (DFID); the Federal Republic of Germany (KfW), the Flemish International Cooperation Agency and the United Nations Population Fund (UNFPA). Apart from the Health Pool partners, let me also acknowledge the support of various health discrete partners including the African Development Bank, USAID ,the Centre for Disease Control and UN Agencies.

43. In the Education SWAp, let me acknowledge the support of various pool funding partners which included: the United Kingdom (DFID), German Development Cooperation, the World Bank, the Education Fast Track Initiative, and UNICEF. Apart from the pool funds partners, the Government received support from the Education SWAP discrete partners which included: the People's Republic of China, the African Development Bank, Japanese International Cooperation Agency, Canadian International Cooperation Agency, USAID, World Food Program, the OPEC Fund for International Development, the Arab Bank for Economic Development in Africa and the Saudi Fund for Development. To all our Development Partners, I wish to sincerely thank you for your support.

44. Let me also acknowledge the support from the Government of India, the Australian Government, the European Investment Bank, the Peoples Republic of China, the African Water Facility, the European Water Facility, the Dutch Government, the Governments of Japan and the International Fund for Agriculture

Development in the area of Green Belt Irrigation and water Development and other areas.

45. Mr Speaker, Sir, let me now briefly turn to Malawi's working relationship with the International Monetary Fund. As this August House is aware, Malawi has had a very amicable, long-standing working relationship with the Fund along-side other multilateral institutions namely. I am indebted to the International Monetary Fund for the lead role it plays in catalyzing assistance from the rest of the other Development Partners, especially with regard to Budget Support.

46. Mr Speaker, Sir, Honourable Members, I owe an explanation to this Respectable House and the Malawi Nation at large, regarding where we stand on the implementation of the Extended Credit Facility Programme as negotiated and agreed with the IMF. Honourable Members may wish to be informed that after successfully concluding the first review of the Programme for the period ending June, 2010, new challenges have emerged that are standing in the way for an early conclusion of the subsequent review for the period ending December, 2010; to the extent that my Budget Statement is being read in the midst of uncertainty surrounding the availability of Budget Support from some Development Partners.

47. Mr Speaker, Sir, while the Budget I am presenting to this August Assembly has been flexed to minimize the potential threats to macro-economic stability arising from this uncertainty, the Government of Malawi remains committed to its

good working relationship with all Development Partners and will stay engaged with the IMF to ensure that the outstanding issues are resolved.

Expenditures in 2010/11 Financial Year

48. Mr. Speaker, Sir, let me now discuss how expenditures have performed during the 2010/11 financial year. Total Expenditures and Net Lending were budgeted at K297 billion at the beginning of the financial year. Of this sum, K216.9 billion (or 73 percent) were Recurrent Expenditures while K77.9 billion (or 27 percent) were Development Budget Expenditures. At the Mid Year, following the revisions in Revenues and Grants, total Expenditures and net lending were revised upwards to K310 billion comprising K222.6 billion for Recurrent Expenditure and K85 billion for Development Expenditure. As at Mid Year, total Expenditure and Net Lending had underperformed by K11.1 billion mainly on account of Donor funded projects which had underperformed by K10.8 billion. The underperformance on these projects was mainly explained by delayed disbursements in donor inflows but it is projected that by the end of the financial year, all these resources will have been received and that all the projects will be implemented. As a Fiscal target, the intention remains to repay domestic debt by 1.5 percent of GDP.

ACHIEVEMENTS IN THE 2010/2011 FINANCIAL YEAR

49. The following have been achieved in the 2010/2011 financial year;

Agriculture and Food Security

- Government has successfully implemented the Farm Inputs Subsidy Program (FISP) under which 160,000 metric tons of fertilizers were distributed to 1.6 million farm families. The program has led to excess maize production of approximately 1.2 million metric tons;
- Government purchased maize from smallholder farmers amounting to 53,000 metric tons through ADMARC and National Food Reserve Agency (NFRA) and all this maize has been stored in the Strategic Grain Silos;
- Our Smallholder farmers also increased production of various agricultural outputs including crops such as rice (12 percent), sorghum (37 percent), sweet potatoes (14 percent) and pulses (15 percent); and livestock of all species, fish, and horticultural crops;

Green Belt Irrigation and Water Development

- Government constructed 660 boreholes and rehabilitated 220 boreholes, giving a total of 880 operational boreholes countrywide;
- Government rehabilitated 912 taps, and completed rehabilitation of Chilobwe, Kalitsiro and Lizulu gravity-fed piped water supply schemes;

- Government constructed and rehabilitated water treatment works at Mapelera, Livunzu and Mbadzi. Water works at Lufiya in Karonga, Ntonda in Ntcheu and Nkhamanga in Rumphi have been completed. Works on Zomba Eastwater scheme and Mpira Dam in Balaka are in progress;
- Government has constructed 21 Small Community Earth Dams, and is completing the construction of the Lichenza Dam in Thyolo, and rehabilitated 6 Hydrological Stations;
- Government extended the piped water supply system by 195km with 4,139 new connections made including extensions to the Mzuzu and Likoma water supply systems.

Transport Infrastructure Development and Nsanje World Inland Port

- Government continued with the construction and rehabilitation of roads both in Cities and all other areas in the country;
- Government continued with the rehabilitation of both Chileka and Kamuzu International Airports; and
- Phase I of the Nsanje World Inland Port Development was completed project was completed.

Energy Supply and Generation

- Government commenced the construction of Kapichila II Power Station and within the next few months, when the construction is complete, an additional 64 Megawatts of electricity will be added to the main grid bringing the total to well beyond the current demand. This project will be complemented by investments in the energy sector through the Millennium Challenge Cooperation (MCC);

Integrated Rural Development

- Government completed the construction of Neno and Nthalire Growth Centres in Neno and Chitipa Districts respectively. Government also continued with the development of Nambuma Growth Centre in Dowa;
- Government completed the construction of 5 modern markets at Thyolo Boma, Matawale in Zomba City, Dwangwa in Nkhotakota and Ekwendeni in Mzimba.

Local Development Fund (LDF)

- Through the LDF, the following were achieved :-
 - 985 Primary School Staff houses have been constructed in rural areas country-wide, of which 524 staff houses are fitted with a solar power system;

- The following were constructed: 143 school blocks, 46 health centres, 116 water facilities such as boreholes and gravity fed water systems, 76 roads, police units, shelters and several other social and economic amenities;
- 471 projects have been implemented in various sectors;
- A total of 3,063 savings groups have been mobilised from Public Works beneficiaries (which had 58,917 members of which 61% are women), with total savings amounting to MK 92.6 million);
- Works begun to reconstruct 150 school blocks and 200 teachers' houses in Chitipa and Karonga under the Earthquake Response programme;
- K600 million in cash transfers has been disbursed to 250,266 beneficiaries through the Public Works Programme;

Education, Science and Technology

Pre-Primary and Primary Education

- Government recruited and deployed to rural schools over 5,000 teachers who are being given an incentive of rural teacher's allowance at K5,000 per month. A total of 37,562 teachers are receiving these allowances;

- Government paid over 2,400 teachers in 544 primary schools Double Shifting allowances at K5,000 per month per teacher;
- Government procured and distributed to all the 5,144 primary schools teaching and learning materials;

Secondary Schools

- Government provided Bursaries to 6,938 secondary school students and also provided Grants to 20 Grant Aided Secondary Schools;
- Government upgraded 18 Community Day Secondary Schools, and constructed 18 Girls Hostels and Rehabilitated 8 Secondary Schools.

Higher Education

- Government continued with the project of constructing a new Nursing Campus in Blantyre;
- Government constructed new lecture theatres and hostels at Kamuzu College of Nursing at Lilongwe Campus;
- Government constructed schools of education at Mzuzu University, Chancellor College and the Polytechnic; and
- An Annexe of the Law School at Chancellor College was completed and opened.

Vocational Training

- Government has rehabilitated Soche, Salima, Lilongwe and Nasawa Technical Colleges;
- Through TEVETA, Government has paid bursaries to over 477 needy students in Technical Colleges, and provided skills training to over 1,834 orphans and vulnerable youths.

Teacher Training

- Government completed the construction of Machinga TTC at Liwonde which is currently training teachers; and
- Government supported the training of over 4,136 Primary School teachers of which 36 percent are female teachers; A further 4,100 student teachers where 33 percent are women, have enrolled under open and Distance learning programme; Another 4,000 teachers are being trained in Primary Child Family Schools Programme.

Complimentary Basic Education

- Government provided Community Based Education to 8,100 learners in 270 Centres in 5 Districts, namely, Ntchisi, Salima, Kasungu, Chikhwawa and Nsanje;

- Provided Adult Literacy Classes to 132,000 learners in 8,000 centres spread across 34 education Districts; and
- Developed an English curriculum for Adult Literacy classes

Public Health, Sanitation, Malaria and HIV/AIDS Management

- Government increased Basic Emergency Obstetric Care (BemOC) services from 71 to 98 facilities; trained skilled birth attendants; distributed 1,885,670 Insecticide Treated Mosquito Nets (ITN) to pregnant mothers and children under the age of 5 years; completed the construction of 75 staff houses under Umoyo Housing project and also completed phase two of the rehabilitation of Zomba Central Hospital;
- Government also supported the training of over 752 health workers in Christian Hospitals Association of Malawi (CHAM) colleges and the Malawi College of Health Sciences through the provision of scholarships for the student's tuition, board and lodging expenses;
- Government provided life-prolonging drugs of free ARV's to over 366,000 people.

PROSPECTS FOR THE 2011/12 BUDGET

50. Mr. Speaker, Sir, the 2011/12 Budget has been formulated based on four fundamental assumptions. Firstly, the Budget is underpinned by the global,

regional and domestic macroeconomic conditions which I have already referred to earlier in my statement. Secondly, the Budget is based on the priorities of the MGDS II document. As the Honourable Members are aware, Government has formulated a new MGDS II document which has nine Key Priority Areas as follows: Agriculture and Food Security; Greenbelt Irrigation and Water Development; Education, Science and Technology; Transport Infrastructure and Nsanje World Inland Port Development; Climate Change, Natural Resources and Environmental Management; Integrated Rural Development; Public Health, Sanitation and HIV/AIDS Management; Youth Development and Empowerment and Energy, Mining and Industrial Development.

51. As the Honourable Members may be aware, recent macroeconomic achievements in our Country are directly attributed to the implementation of the Malawi Growth and Development Strategy (MGDS). Government deemed it prudent that since the MGDS I was coming to an end in 2010/11 Fiscal Year, a new MGDS Strategy should be formulated to guide the implementation of Government programs beyond 2010/11 Fiscal Year. The process of formulating this new strategy was highly consultative and participatory as various key Stakeholders in the Country including Development Partners were consulted. I have no doubt that just as the Country benefitted from the implementation of MGDS I, we will also benefit from MGDS II which becomes operational from 1st July 2011 to 30th June 2016.

52. Thirdly, Mr. Speaker, Sir, the 2011/12 Budget presumes that Government will continue to pursue fiscal discipline and prudent financial management. The

Budget is forecasting a domestic debt repayment target of K15.4 billion which is 1.5 percent of GDP. This level of repayment is in line with the Extended Credit Facility program with the International Monetary Fund (IMF).

53. Fourth, the 2011/12 Budget will be based on a number of Budget Reform measures as follows:-

Budget Reform Measures in 2011/12 Fiscal Year

(i) Zero Deficit Budget.

54. As was announced by His Excellency the President, the 2011/12 Budget will be a Zero Deficit Budget meaning that Government will finance all its Recurrent Expenditures using its own domestic resources. Mr Speaker, Sir, contrary to the notions that have been expressed that the idea of implementing a Zero Deficit Budget is far fetched or unrealistic, Government believes that we have reached a stage where this concept is feasible. It must be understood that we are not saying that all expenditures will be met from domestic resources. Malawi will continue to require donor support, particularly for projects or development expenditure. But we will strive to meet all recurrent expenditure from domestic revenues, without resorting to borrowing or cutting essential public service delivery.

55. Mr. Speaker, Sir, because the economy has been growing strongly in the past six to seven years, Domestic Revenues have been growing as well. These revenues have more than quadrupled from K51.7 billion in 2004/05 Fiscal Year to

K213 billion in 2010/11 Revised Budget mainly as a result of economic growth, efficiencies in revenue collecting bodies and increased compliance by many tax payers. Over the same period, Grants have only increased modestly from K51 billion in 2005/06 Fiscal Year to K84 billion in 2010/11 Fiscal Year. As a result of the strong growth in Domestic Revenues, coupled with various expenditure control measures which have contained growth in Recurrent Expenditure in favour of Development Budget expenditure, it has become naturally possible that for the first time in the history of Malawi, Government is able to finance all its Recurrent Expenditure using its own Domestic Resources without any recourse to either domestic or foreign borrowing or cuts in public service delivery. This picture will become clearer Mr Speaker, Sir, as I present the figures for the 2011/12 Budget. Just to mention though that this has been made possible owing to the fiscal prudence this Administration has been instituting since it took over the leadership of this country.

56. Let me also emphasize the point made by His Excellency the State President in the State of Nations address that the Zero Deficit Budget does not mean that we do not need support from our Development Partners. As a matter of fact, we need their support to help us develop the Country much faster. What the Zero Deficit Budget is advocating is fiscal discipline in that we cover all the Recurrent Expenditure while at the same time allocating more resources including those from Development Partners towards the Development Budget Expenditure. Mr. Speaker, Sir, we are where we are due to tight fiscal discipline and this must continue. Furthermore, what the Zero Deficit Budget means for the contractual recurrent expenditures by the Development Partners such as those in SWAPs, is that we expect Development Partners to continue to honour their pledges and

support the agreed expenditures. However, where such resources fall short, Government will come in with its own resources and provide the services so that none of those services suffers.

57. In the Development Budget, Government will solicit support from our Cooperating Partners to complement its own efforts. However, what the Zero Deficit Budget means is that no single project will be mobilized unless resources backing up those expenditures have been received either from domestic resources or from Development Partners. This being the case, all Government financed projects will be implemented as planned without hitches, however, for all donor funded projects, they will be mobilized only when resources have been disbursed. This Mr. Speaker, Sir, is a prudent way of managing Government resources and expenditures. Honourable Members may wish to be informed that in the past, when the Budget had been passed, Government would simply go ahead and implement projects believing that all the resources that are backing up those expenditures would come through. But when the resources, especially from Development Partners, were delayed or did not come through, Government would find itself in an awkward situation because by that time it would already have incurred expenditures using borrowed resources which are expensive. In this way, Government ends up with high domestic borrowing stock position or is forced to make unplanned expenditure cuts in other areas.

58. Mr. Speaker, Sir, excessive borrowing caused by delays or lack of disbursement by Development Partners has had negative consequences on the National Budget before. You may recall that prior to 2004, domestic debt position

was unsustainable, as interest sky rocketed. High domestic borrowing led to crowding out of the private sector in the money market such that there were times especially before 2004 that resources were not available for the private sector. To avoid all these problems for now and the future, Government has introduced the Zero Deficit Budget approach so that none of these problems resurface.

The Medium Term Expenditure Framework (MTEF)

59. The second Budget reform measure, Mr. Speaker, Sir, in the 2011/12 Budget is the Medium Term Expenditure Framework (MTEF) approach to Budgeting. By this I mean that apart from providing Budget details for the 2011/12 Budget, projections for the two outer years, namely, 2012/13 and 2013/14 have also been provided. The inclusion of budget details for the two outer years is only for planning purposes. Annual Budgets will continue to be presented before the National Assembly for approval as has always been the case. This reform has been found necessary as most projects and programs take more than one year to be completed, it was considered necessary to revitalize the MTEF type of budgeting so that allocations for the two outer years are also indicated. This measure is good for implementers of Government programs and projects because they will be able to know in advance their expected allocations in subsequent Fiscal Years, hence, help in better planning of programs and projects.

Emphasis on Development Expenditures

60. The third Budget Reform, Mr. Speaker, Sir, is that the 2011/12 Budget has paid particular attention to the Development Budget Expenditure especially those

which are being financed by Government's own resources. The 2011/12 Budget has allocated more resources to these projects so that infrastructure development in the country is accelerated in the 2011/12 Fiscal Year. Government has been able to achieve this by constraining expenditure on ORT in favour of Development Budget expenditure. In this regard, the 2011/12 Budget is a Pro Development Budget as opposed to a Consumption Budget.

Expenditure Control Measures

61. The fourth Budget Reform, Mr Speaker, Sir, is that both the Revenue and Expenditure projections in the 2011/12 Budget have been underpinned by specific measures that enhances revenue collection as well as contain Government expenditure respectively. On the expenditure side, these measures include the following:

- (a) Measures that ensure Government derives competitive and favourable pricing in all its procurements of Goods and Services;
- (b) Measures that control expenditures on travel both within and outside Malawi;
- (c) Measures that control expenditures on compensations arising from Court cases and industrial labour disputes;
- (d) Measures that control over expenditures on Pensions and Wages;

(e) Measures that control spending on luxury items; and

(f) Measures that control unplanned expansion in the Payroll.

Improvements in Budget Documentation

62. Mr. Speaker, Sir, the Government has made improvements in the Budget Documentation. First, the Output-Based Budget Document has been improved dramatically. The structure and contents of this Document have been improved in that programs and sub-programs of Ministries and Departments are now more strongly linked to core functions of Ministries and Departments.

63. Secondly, for each vote, concerted efforts have been made to strongly link the provisions to outputs. This being the case, for all the provisions in 2010/11 fiscal year, the Document has clearly indicated all the outputs that have been achieved vote by vote and the same has been made for all the proposed provisions for 2011/12. This information is invaluable for scrutinizing the provisions. During implementation of the Budget, this information will be critical for objective assessment of performance.

64. Thirdly, the size of the Budget documentation has been improved radically. As the Honourable Members are aware, in the past each Honourable Member of Parliament was issued with printed copies of the Budget in excess of 5,000 pages, and it proved bulky and cumbersome to refer to all these documents as well as make constructive scrutiny of the Budget. Honourable Members of the Budget and

Finance Committee and other Members complained to me about this and drawing from these concerns, we have made the following improvements to the documents. The first improvement is that for those tables we could merge without losing any information, we have merged them. Secondly, the Detailed Budget document which had Volume One to Five has been downsized by way of providing details in this document to item level, such as internal travel, and not to sub-item level, such as hotel charges. This mechanism has reduced the printed copies to less than half. The other details to sub-item level have been provided in the CD-Roms that have been included as part of the Budget documentation. Considering that all Honourable Members have laptop computers, everyone should be able to get all the detailed information from the CD-Roms. We will continue to improve on Budget documentation to ensure it is user-friendly and less bulky.

Revenues and Grants for the 2011/12 Budget

65. Mr. Speaker, Sir, let me now begin to present the details of the 2011/12 Budget. Total Revenues and Grants are projected to amount to K307.7 billion in 2011/12 Budget, up from K287 billion in the 2010/11 Approved Budget. In 2012/13 and 2013/14 Fiscal Years, Total Revenues and Grants are projected to rise further to K333 billion and K360 billion respectively. Of the Total Revenues and Grants in 2011/12 Fiscal Year, K242.5 billion are Domestic Revenues representing 79 percent and the balance of K65 billion representing 21 percent are Grants. Comparing with the 2010/11 Fiscal Year, when the contributions from Grants were about 30 percent, this means that contribution of Grants in 2011/12 Budget has fallen by about 9 percent. Similarly, in 2012/13 and 2013/14, the

contribution of Grants appear to be going down further as they will contribute 17 and 13 percent respectively. It is worth noting though that it is expected that additional confirmations of Grants for the two outer years will be made in the course of the period leading to those fiscal years.

66. On Domestic Revenues, Mr. Speaker, Sir, in the 2011/12 Financial Year, Tax Revenues are projected to account for K203.5 billion or 83 percent of the total domestic resources. Non Tax Revenues are expected to account for K39 billion or 17 percent of total domestic resources. Compared with the 2010/11 Fiscal Year, Tax Revenues are increasing by K32 billion while Non Tax Revenues are increasing by K8 billion.

67. Let me mention Mr. Speaker, Sir that the expected domestic revenues are adequate to cover recurrent expenditure in case we have challenges under budget support. This is in line with the zero deficit policy as announced by His Excellency the State President Professor Bingu Wa Mutharika

68. Mr. Speaker, Sir, let me inform the Honourable House that the increase in domestic revenue mobilization expected in the 2011/12 fiscal year is on account of improvements in tax administration as well as, tax and non tax policy measures which I will announce in the course of my statement

69. Grants in 2011/12 are projected at K65 billion, comprising K19.8 billion Program Grants, K28.3 billion Dedicated Grants and K17 billion Projects Grants. Compared with the 2010/11 Fiscal Year, Grants in the 2011/12 financial year have declined. The major contraction is in the Dedicated Grants which have contracted by about K5 billion and Project Grants which have gone down by K15 billion. Program Grants, however, are expected to remain the same at K19.8 billion. In 2012/13 and 2013/14 Fiscal Years, Grants are projected at K60 billion and K48 billion respectively. These projections though are not final as some commitments may come through in the course of the ensuing fiscal years.

Expenditure in 2011/12 Fiscal Year

70. Mr. Speaker, Sir, let me now turn to the 2011/12 Fiscal Year expenditures. Total Expenditure and Net Lending are projected to be K304 billion in 2011/12 compared to K310 billion in 2010/11 Revised Budget Estimates meaning that total expenditure and net lending will go down in 2011/12. In 2012/13 and 2013/14 Fiscal Years, total Expenditure and Net Lending are expected to increase to K319 billion and K326 billion respectively.

71. Recurrent expenditure are projected to be at K234 billion in 2011/12 Fiscal Year and rising further to K255 billion and K278 billion in 2012/13 and 2013/14 Fiscal Years respectively. Comparing with the 2010/11 Revised Budget, Recurrent Budget expenditures are up by 5 percent in 2011/12 reflecting expenditure increases in selected budget lines such as Wages and Salaries which have been adjusted upwards; Pensions and Gratuities; and a relatively small

increase in running costs of Government. Government has however contained expenditures of many budget lines in line with its policy decisions of controlling waste in public spending. Mr. Speaker, Sir, let me also mention that wages and salaries could have been higher had it not been for the new policy of paying salaries and allowances through commercial banks.

72. Development Budget Expenditure in 2011/12 are projected to amount to K69 billion comprising K40.4 billion Part II Development Budget Expenditure which are financed by resources from the National Budget and K29 billion Part I Development Budget Expenditures which are financed by our Development Partners overall. The Development Expenditure has gone down by K8 billion mainly on account of contraction in Development Part I projects which are funded by Development Partners. This category contracted by K19.4 billion from K48.9 billion in 2010/11 to K29.4 billion in 2011/12. Comparing with the 2010/11 Fiscal Year, Part II Development Budget projects have substantially increased by K8.5 billion to K40.2 billion reflecting Government's policy decision to put special emphasis on investing in Development Projects. Mr. Speaker, Sir, as a result of this emphasis on Development Budget expenditures, we expect to see increased investment in infrastructure developments across sectors of our economy in the next financial year. This is in line with Government's policy of shifting resources from consumption to Development in order to accelerate infrastructure development in the country.

KEY ALLOCATIONS IN THE 2011/12 BUDGET

73. Mr. Speaker, Sir, allow me now to comment on some of the key allocations in the 2011/12 Budget.

Public Service Reforms

74. Mr. Speaker, Sir, in line with Government's commitment and policy of improving the welfare of Civil Servants, I wish to announce that the 2011/12 Budget has resources for adjusting upwards salaries for Civil Servants and Members of Parliaments. Government will increase salaries of Civil Servants by 7 percent of which 3 percent, is normal wage creep salary adjustment which is given to Civil Servants in December every year in line with their Conditions of Service. This increase Mr. Speaker, Sir, is consistent with inflation and is likely going to cushion Civil Servants from vagaries of increasing cost of living and maintain a decent living standard. Cumulatively therefore since 2004 when His Excellency the President took over the leadership of this country, salaries of Civil Servants have gone up by over 195 percent.

75. In addition to the salary adjustment, I also wish to announce that the Budget has an allocation of K3 billion for new recruitment into the Public Sector. The recruitment to be prioritized will be in the areas of Education, Health, Internal Security and Agriculture. In Education, over 5,000 teachers graduating from various Training Colleges will be recruited and deployed to various schools across the country especially in rural areas. In the Health sector, over 1,000 health care

workers and personnel, including nurses and doctors will be recruited and deployed in various Health Centres, Facilities and Hospitals across the Country. In the Malawi Police Service, over 500 men and women will be recruited, trained and deployed in various Police Units across the country to guarantee peace and security in our homes, communities, business premises and the Country as a whole; and lastly in Agriculture, Extension Workers and other Experts will be recruited to provide research and extension services to our farmers.

76. Mr. Speaker, Sir, the 2011/12 Budget has also made an allocation of K500 million to cater for scholarships and professional development of Civil Servants and Academic Staff Members of Public Universities. These resources Mr. Speaker, Sir, will help to ensure that both the Civil Service and the University of Malawi (UNIMA) and Mzuzu University (MZUNI) have well trained and highly qualified staff. The 2011/12 Budget also has K50 million for a Mandatory Public Administration Course for Senior Officers in Government to improve their delivery of public services.

77. Mr. Speaker, Sir, whilst I am on this point, let me also comment on the issue of payment of salaries to Civil Servants through Banks as has been observed and debated upon over the past five to six months. As the Honourable Members are aware, in November last year, Government issued a circular requesting that all Civil Servants open Bank Accounts through which their salaries would be paid. Government had decided to do this because it had discovered at that time that people who had exited the Civil Service through various means such as deaths, resignations, retirements and dismissals were still being maintained on the

Government Payroll. Our investigations in major Ministries and Departments revealed these observations and we estimated that Government was losing in excess of K2 billion annually due to salary payments to these categories of employees. All Civil Servants were therefore requested to open Bank Accounts by February 2011 to curb the malpractice.

78. However, because many Civil Servants opened their Bank Accounts late and also that in some cases, some communicated Bank details that were incorrect, coupled with teething problems associated with any system change, all these factors resulted in delayed processing of salary payments for many Ministries and Departments in the months of February and March. However, since April, the situation has improved and we have gone back to normality. Out of a total number of employees on the Government payroll of 170,000 as of the month of May 2011 about 148,000 were paid through Bank Accounts representing 87 percent of the Civil Service. The remaining Civil Servants are mostly Chiefs, Teachers and Pensioners who will continue to be paid outside the Banking system until 30th June 2011. These people, without Bank Accounts, continue to be paid using the old system of cash payments. Let me also report that while salaries for February and March had delayed as already indicated, salaries for the month of May for all those that are being paid through the banks were remitted to their respective Banks before Friday, 27th May 2011. This is a big improvement and I wish to guarantee that with the collaboration of all Ministries, Departments and Banks, all Civil Servants should be paid their monthly salaries in the month that they have worked. Mr. Speaker, Sir, allow me to thank all the Civil Servants most sincerely for their patience and understanding while we were introducing this new system, which as I have indicated had its teething problems. Government believes that the

Civil Servants, and the country as a whole, stands to benefit greatly from the new payment system.

79. Mr. Speaker, Sir, with regard to the actual number of Ghost Workers we have removed from the Government payroll following the implementation of payment of salaries through Banks, I wish to inform the Honourable House that a total of verified Ghost Workers amounting to 4,878 have been deleted. These Ghost Workers were costing Government in excess of K2 billion loss annually. Another 8,868 possible Ghost Workers are also being investigated, and once verified, the total savings Government will be making through this payment mechanism could be in excess of K3.6 billion annually. This, Mr. Speaker, Sir, is an enormous saving which the Government could not continue losing through the anomalies I have already referred to. Any savings we make on the payroll will be applied towards the development of our Country.

Agriculture and Food Security

80. Mr. Speaker, Sir, let me now turn to Agriculture and Food Security sector. In 2011/12 Budget, the sector has been allocated a sum of K38.3 billion up from K32.7 billion from the approved Budget of 2010/11. This allocation represents 12.6% of the total Budget. Key allocations in this Sector include the Farm Inputs Subsidy Program (FISP) which has been allocated K17.4 billion to procure 140,000 metric tons of fertilizers comprising 70,000 metric tonnes of UREA and 70,000 metric tons of NPK Fertilizers to distribute to 1.4 million farm families. Another allocation of K3.6 billion has also been allocated to Ministry of

Agriculture for the procurement of hybrid and improved maize seed varieties which will be distributed as part of the Farm Inputs Subsidy program as is traditionally the case. Mr. Speaker, Sir, deserving Smallholder Farmers are therefore guaranteed that they will receive coupons for procuring fertilizers and maize seeds. As His Excellency, the President announced in the State of the Nation Address, the fertilizers under this program will be sold at a uniform subsidised price of K500 per bag.

81. Agriculture has also been allocated K1.2 billion in the 2011/12 Budget to cater for the procurement of maize from smallholder farmers across the Country. Just like in 2010/11 Fiscal Year, this money will be given to ADMARC to procure this maize on behalf of Government. Once procured, this maize will be stocked in the Strategic Grain Silos. To support storage capacities of individual smallholder farmers across the Country, the 2011/12 Budget also has an allocation of K686 million in the Agriculture Sector for the procurement of pesticides for maize storage which will be distributed to farmers in the course of the financial year. This is to ensure that the excess maize the Country has produced should not be wasted. Let me urge all smallholder farmers in the Country to take necessary measures to ensure that not only is their maize properly stored, but it is also properly used.

82. Mr. Speaker, Sir, Ministry of Agriculture has also been allocated K1.6 billion for the promotion of Cotton production in Malawi. As the Honourable Members are aware, this year has been a surprisingly good year for the cotton industry. Cotton lint has fetched prices as high as US\$5.0 per kilogram in export

prices while local prices for seed cotton, the product sold by our farmers, have surged from as low as K30 per kilogram last season to about K120 per kilogram this season. This development is unprecedented and has also improved incomes of many farmers who grew cotton in the previous season. In order to build on what has been achieved at national and household level, the 2011/12 Budget has allocated K1.6 billion to support farmers to produce high quality cotton lint for domestic and export purposes. These resources Mr. Speaker, Sir, will be used to procure cotton fertilizers and seeds which will be distributed to smallholder cotton farmers on loan to be repaid at the time of selling their seed cotton to ginneries. These resources will be given to ADMARC and other Malawian Cotton Ginneries who will administer the loans to farmers. Our estimate is that these resources will assist smallholder cotton farmers who will cultivate over 200,000 hectares of cotton fields which could generate over US\$300 million of foreign exchange in the next twelve months. With the business linkages that cotton has, from the field to ginning, spinning and weaving factories and textiles manufacturing plants, the cotton industry has enormous potential to create employment, produce a variety of products which will contribute to the industrial production and to generate foreign exchange for the country. Given that most of the agricultural land in Malawi is suitable for cotton production, it will be possible to scale up production over time and enable our smallholder farmers to migrate from tobacco to cotton production. Mr. Speaker, Sir, it will be necessary that our ginneries should have direct access to export markets in Asia so that Malawi should directly benefit from high export prices. The Ministry of Agriculture will need to establish an appropriate support structure for the cotton industry.

83. Ministry of Agriculture has also been allocated about K5 billion for various core functions of the Ministry including supporting agricultural research and extension services; supporting the livestock sub sector; promoting the production of various field and horticultural crops; supporting fish farming initiatives including the Presidential Initiative on Aquaculture.

Green Belt Irrigation and Water Development

84. Mr. Speaker, Sir, the Greenbelt Irrigation and Water Development has been allocated K7.4 billion in 2011/12 Budget, up from the approved Budget of K5.1 billion in 2010/11 Fiscal Year. In addition to these resources, there is K7 billion which will come from the Indian line of credit as irrigation equipment for the Green Belt Irrigation initiative. In total, therefore, the Green Belt Irrigation and Water Development will experience an unprecedented and record investment in one Fiscal Year amounting to over K14 billion. With this investment Mr. Speaker, Sir, we envisage accelerated irrigation development in the country. Old irrigation schemes will be rehabilitated and new ones will be developed to support all year round production of crops for domestic and export markets. We believe these efforts will dramatically increase the incomes and improve the livelihoods of many farmers across the country and contribute to the development of our country.

85. Within the allocation to the Green Belt Irrigation and Water Development priority area, K2.8 billion has been allocated to the Second National Water Development Program for expanding and improving infrastructure for the supply

of drinking water in the Cities of Blantyre, Zomba, Lilongwe and Mzuzu. The money will also be used to improve water supply systems in various Districts across the Country. Another K125 million has also been allocated to the sector for the construction and rehabilitation of Boreholes in various communities in the Country.

Education, Science and Technology

86. Mr. Speaker, Sir, Education, Science and Technology has been allocated K54 billion in the 2011/12 Budget, up from K42 billion in 2010/11 approved Budget, representing 18 percent of the total Budget. In the Recurrent Budget, Education has been allocated K47.4 billion which is 24.4 percent of the total Recurrent Budget of the 2011/12 Fiscal Year. Part II Development Budget Expenditure has more than doubled from K2.1 billion allocated in the 2010/11 financial year to K5.9 billion in 2011/12. The increased allocation in Development Budget Expenditure is to support infrastructure developments in various education facilities in the Country. In particular, construction of Teachers' Houses has been allocated K700 million; Construction of Girls Hostels in various Secondary Schools across the country has been allocated K500 million; rehabilitation of workshops in 7 Technical Colleges has been allocated K50 million; Rehabilitation of Secondary Schools has been allocated K550 million, Rehabilitation of Primary Schools has been allocated K2.2 billion; Rehabilitation of Teachers Training Colleges has been allocated K110 million; Upgrading of Special Needs Education Institutions has been allocated K150 million; Construction of Teacher Training College in Chiladzulu has been allocated K100 million; Bursaries for Secondary Schools has been allocated K210 million. Construction of Community Day

Secondary Schools K729 million; Phalombe Teacher Training College K231 million; and construction and expansion of Community Day Secondary School K200 million.

87. In addition to these infrastructure developments, the education sector has also been allocated K4 billion for purchases of Teaching and Learning materials for distribution in various schools. As already announced, resources have been set aside in the 2011/12 Budget for the recruitment and deployment of 10,360 teachers in various schools across the country. The Rural Teachers allowances budget line has also been provided with resources so that deserving teachers in rural areas continue to receive these allowances. The 2011/12 Budget has also allocated K300 million towards TEVETA so that the tertiary education supported by the institution is also broadened. An amount of K500 million has been allocated for expanding the school meals program so that many pupils in various primary schools access these school meals. Our experience so far has shown that this program is encouraging many children to attend school and has also reduced the pupil drop out rate. It is on this basis that this program will be expanded in 2011/12 fiscal year.

88. The 2011/12 Budget has made an allocation of K9 billion for the two public universities. These resources will enable the two universities to maintain the existing students and also enrol in excess of 3,000 students up from 2,000 that were enrolled in 2009. The Budget has also included K450 million for kick starting infrastructure developments for the Lilongwe University of Agriculture and Natural Resources (LUANAR). As it was announced by His Excellency the

President, the Malawi University of Science and Technology (MUST) is being financed through a loan from the People's Republic of China.

89. Specific outputs to be achieved in the development budget for Ministry of Education, Science and Technology include; commencement of construction of 3 Teacher Training Colleges in Rumphi, Mchinji and Chinkhwawa, completion of the construction of 8 Girls' Hostels, upgrading of 2 CDSSs into full secondary schools by bringing in the necessary infrastructure, and for the construction of 12 more CDSSs. This budget will also complete the rehabilitation of 4 national secondary schools. From the same allocations to the development budget, 680 classrooms currently under construction will be completed. The Rehabilitation of 7 Teacher Training Colleges will be undertaken using these resources. In addition, there will be training of about 12,000 Adult Literacy Instructors and 400 Literacy Supervisors as the Government tries to achieve the requirements in these areas. A Special Needs Institute will also be constructed during the year.

Transport Infrastructure and Nsanje World Inland Port Development

90. Mr. Speaker, Sir, let me now turn to Transport Infrastructure and Nsanje World Inland Port Development. In the 2011/12 Budget, this priority area has been allocated resources amounting to K32 billion. Of these resources, K10.9 billion are resources for the maintenance and rehabilitation of City and Municipal roads in our Cities and Municipalities.

91. Mr. Speaker, Sir, Development Part II road construction projects have been allocated resources amounting to K13.7 billion. In the Central Region, roads that will benefit from these resources include: construction & upgrading of Msulira-Nkhota-kota Road with an allocation of K1.3 billion; design, tendering and award of contracts for Lilongwe City West Bypass (Bunda Turn-off - Chinsapo - Kaunda Road) with K80 million; the periodic maintenance of the M1 road where focus will be between Lilongwe and Nsipe with an allocation of K850 million; the Presidential Way extension to Area 18 Roundabout to Paul Kagame Junction and the Parliament Building to Kamuzu Central Hospital roundabout with an allocation of K650 million; upgrading and construction of Lumbadzi-Dowa Road has been allocated K800 million; finalizing the Bunda –Mitundu Road with an allocation of K40 million; Mtunthama-Wimbe-Kapelula-Nkhotakota Road with an allocation of K500 million; and design, tendering and awarding of contract for the Ntcheu-Tsangano- Mwanza road.

92. In the Northern Region, the roads to be constructed using these resources include; the Karonga - Chitipa Road; rehabilitation of Chiweta - Mlowe road with K120 million; rehabilitation of Kasitu - Rupashe - Kakwale road with K180 million; upgrading and construction of Jenda – Edingeni with an allocation of K500 million; rehabilitation of Mzuzu-Bulala-Usisya road with K500 million; construction of Mzimba-Eswazini-Mzarangwe road with K1.3 billion; and construction of Ekwendeni-Ezondweni-Mtwaro-Njakwa Road with K600 million.

93. In the Southern Region, roads to be constructed include Chikwawa – Nchalo road with an allocation of K500 million; Zomba-Jali- Phalombe-Chitakale road

with K550 million; Thyolo-Thekerani-Muona Bangula road with K900 million; Zomba - Blantyre road; feasibility study for Chilinga-Mloza Road, upgrading of Chiradzulu - Chiringa road with K1.5 billion; finalizing works of upgrading Malowa-Goliati Chiperoni road; upgrading of Bangula - Nsanje Road; Mwanza – Chapananga - Chikwawa road; and rehabilitation of Illovo – Midima Roundabout. As for the dual carriageway on Masauko Chipembere Highway in Blantyre, works are in progress and expectations are that works will be completed by July 2012.

94. In the aviation sector , K320 million has been set aside for the continuation of the maintenance and upgrading works at the two International Airports of Chileka and Kamuzu; K200 million has been allocated for the acquisition of Airport Navigation System for KIA; and K60 million has been provided for the upgrading of the Geodetic system. In the Rail sector, K200 million has been allocated for the continuation of rehabilitation works of railway infrastructure. In the Marine sub sector, K130 million has been put in the Budget for the construction of a Jetty at Likoma and rehabilitation of Jetty at Nkhata-Bay. The Shire Zambezi waterway has been allocated K150 million for feasibility study of the water way, physical planning activities such as plot demarcation, and supervision of phase II works by Government.

Integrated Rural Development

95. Mr. Speaker, Sir, under the Integrated Rural Development priority area, the 2011/12 Budget has an allocation of K2.5 billion for the Rural Infrastructure Development Program and K600m for the Development of Rural Growth Centres.

The Rural Growth Centres to benefit from these resources include; Nthalire in Chitipa, Neno, Nambuma in Lilongwe, Chitekesa in Phalombe, Malomo in Ntchisi, Mkanda in Mchinji, Chapananga in Chikhwawa and Jenda in Mzimba. The Budget has also allocated K200 million for the development of Urban and Rural markets in various districts.

Constituency Development Fund

96. Government will continue with the implementation of small projects under the Constituency Development Fund (CDF) for general constituency development. In the 2011/12 budget, in order to further promote development at the local level, the Constituency Development Fund has been increased by K1 million per constituency, bringing the total to K4 million per constituency. Government expects that these funds will be used in the most prudent manner in line with the laid down procedures for the benefit of the people we are representing in this August House.

Local Development Fund

97. The Government will continue to implement projects under the Local Development Fund with resources that will be locally generated and from donor resources. A total allocation of K4.9 billion has been earmarked for the Local Development Fund. Of this amount, K1.1 billion is from locally generated resources while K3.8 billion is from Development Partners. Under the Community Window, K1.7 billion has been allocated out of which K700 million

is for the construction of 1,000 primary school teachers' houses while K180 million is for the reconstruction of 100 school infrastructure projects under the crisis response programme, and formation of 1,000 community savings and investment groups.

98. Under the Local Authority Window, K660 million has been allocated for public works programme and 220,000 people are expected to benefit.

99. Under the Urban Window, K1.7 billion has been allocated to support local economic developments where about 6,000 (with at least 30 percent female headed) households are expected to increase their average incomes by 20 percent; 4,000 small business start ups; and 80 physical infrastructure and investments will be put up.

100. The Performance Window has been allocated K868 million to financially support 6 local Councils for the enhancement of local Governance at National, Local Authority and Community levels.

101. Considering that access to these resources are competitive and they depend on the quality of project proposals, I wish to urge fellow Members of Parliament to work with our respective communities and Councils to come up with those winning proposals which can be financed by these resources.

Public Health, Sanitation and HIV/AIDS Management

102. In the area of Public Health, Sanitation and HIV/AIDS Management, the 2011/12 Budget has allocated K43 billion. The Development Budget alone has been allocated K5.5 billion up from K3.5 billion in 2010/11 Budget. Councils have been allocated K10 billion and this is almost a billion Kwacha higher than the allocation for 2010/11 Fiscal Year. Resources to Councils are for delivering health services in District hospitals and health facilities across the country. As the Honourable House is aware, Government has changed its HIV/AIDS drug combination from those that have been observed to have more side effects to those deemed to have fewer side effects. Although these new combinations are relatively expensive, Government has considered it necessary to procure these drugs to ensure better health for all affected citizens.

103. Mr. Speaker, Sir, the increased Development Budget expenditures in the health sector will be used for the following projects: K1.1 billion is for the construction of houses for health care workers; K350 million is for the rehabilitation of Zomba Central Hospital; K300 million is for construction of Laboratories; K350 million is for the construction of the New Phalombe District Hospital; K800 million is for the construction of New Nkhata-Bay District Hospital; K250 million is for the construction of the New Dowa District Hospital; K50 million is for Cancer Center; K100 million is for the rehabilitation of Nsanje hospital; K150 million is for rehabilitation and upgrading of Health facilities; K100 million is for the rehabilitation of Queen Elizabeth Central Hospital; K120 million is for the rehabilitation of Kamuzu Central Hospital. Construction of New Chikhwawa District Hospital has been allocated K50 million to cater for the

designs of the hospital; Zomba Referral Hospital has been allocated K50 million for infrastructure improvements; and K250 million has been allocated for procuring various medical equipment including Dialysis machines, scanners, ventilators and other equipments for Intensive Care Units at referral hospitals such as Kamuzu Central, Queen Elizabeth and Mzuzu Central.

104. Mr. Speaker, Sir, the 2011/12 Budget has also allocated K500 million to cater for the training of Nurses and other Medical personnel at the Malawi College of Health Sciences and CHAM Colleges. This is a continuation of the support Government started in 2010/11 Fiscal Year, and Government intends to sustain this support for the foreseeable future. Basic Emergency Obstetric Care (BEmOC) has also been allocated K180 million and these resources are to be used for the care of women and newborns during pregnancy, during delivery, and the time after delivery, and to respond to unexpected complications during delivery.

105. Mr. Speaker, Sir, listening to what I have just said, Honourable Members may agree with me that this is the largest investment in the Health Sector in one Fiscal Year. This has been done in order to rehabilitate, construct and improve infrastructure for health service delivery in the country. Honourable Members will notice from the Budget Documents that we intend to make comparable large scale investments in the health sector infrastructure in 2012/13 and 2013/14. Over time, Mr. Speaker, Sir, I have no doubt that this approach will radically change the face and effectiveness of our hospitals across the country. It is the expectation of Government that as infrastructure is being rehabilitated and improved, our people will also take good care of these structures and where possible the private sector and other organizations can also join Government in improving our hospitals.

Youth Development and Sports

106. Under Youth Development and Sports, Mr. Speaker, Sir, Government will continue to implement activities and programs that ensures that the Youth actively participate in social economic development of the country. To this effect, the Youth Enterprise Development Fund (YEDEF) loans will continue to benefit more Youths. Approximately, K1 billion has been earmarked for disbursement to various Youth Groups in 2011/12 Fiscal Year. Government will also improve the Neno Youth Centre using K80 million which has been allocated in the 2011/12 Budget. Government will also improve various sporting infrastructure including; Kamuzu Stadium which has been allocated K260 million; Mzuzu Youth Centre K20 million; Indoor Sports Complex in Lilongwe has received K30 million and rehabilitation of other sporting facilities amounting to K30 million.

Construction of Public Buildings

107. Mr. Speaker, Sir, the 2011/12 Budget also has resources for the construction of Public Buildings. The Budget has K600 million for the construction of various structures around the International Conference Centre and Five Star Hotel. An amount of K600 million has been provided for the construction of a Government Complex building at Capital Hill to ease pressure of office accommodation. Once completed, some of the Ministries and Departments that are housed outside Capital Hill will be moved into this building and therefore will reduce expenditure on office rentals. The Budget also has K400 million for the construction of a Commercial Court in Blantyre. Government also plans to conclude a loan agreement with the Republic of China for the construction of a state of the art

Judicial Complex in the City of Lilongwe within 2011/12 financial year. The Budget also has K400 million for the construction of a new Maximum Security Prison in the City of Lilongwe to replace Maula Prison. This project once completed will ease the pressure of bed space in our Prisons. A sum of K150 million has also been allocated for the construction of Prison Cells and Staff Houses in the Malawi Prison Service. K115 million has also been allocated in the Budget for the refurbishment of Magomero College and K50 million has been allocated for the construction of Hostels for the Neno Elderly Care Centre.

108. In addition to these infrastructures, the 2011/12 Budget has also allocated resources towards specialized programs and projects in Government. One such program is the National Registration exercise which has been allocated K240 million which will be used for the development and distribution of 3,000 copies of regulations and operating procedures for national registration. The other program is the E-Government Project which has been allocated K100 million. Through this program, Government will be increasing the information communications and technology (ICT) capacity in government so that information sharing and storage among government departments and officials is brought up to speed with the best practice in the region.

REVENUE POLICY MEASURES FOR 2011/12 BUDGET

109. Mr. Speaker, Sir, let me now turn to the tax and non tax revenue policy measures underpinning the domestic revenues which will finance the 2011/12 Budget. The policy measures under Customs and Excise Tax are effective from

midnight tonight whereas the Value Added Tax (VAT) and all other Taxation measures will become effective on 1st July, 2011.

110. Mr. Speaker, Sir, Honourable Members, the revenue policy measures that I am about to announce for the 2011/12 Budget are designed to achieve the following key national objectives:

- To broaden the tax base and increase tax compliance through the streamlining and simplification of the tax structure in conformity with best practice;
- To protect the Malawi society from hazardous practices such as dumping and alcohol abuse by minors;
- To address climate change and other environmental challenges that the country is facing due to deforestation and carbon emissions; and
- To enhance revenue collection through the pricing of services rendered by Government Ministries and Departments in a manner that reflects prevailing market conditions.

NON TAX REVENUE MEASURES

Departmental Fees and Charges

111. On Non Tax Revenues, Mr. Speaker, Sir, Government has revised fees and charges collected on services rendered by various Ministries and Departments, in order to achieve cost recovery thereby improving service delivery by these

Ministries and Departments. The Ministries and Departments that will have their fees and charges revised include; Departments of Physical Planning, Surveys and Lands under the Ministry of Lands, Housing and Urban Development, Department of Culture and Department of Parks and Wildlife under Ministry of Tourism and Parks, Ministry of Labour and Departments of Registrar General, Immigration Department (excluding passports), Geological Survey, Mines, Malawi Police Service, Civil Aviation, Marine, Judiciary, Fisheries and Office of Director of Public Procurement.

Re-afforestation Levy

112. Mr. Speaker, Sir, another measure in the area of non-tax revenue is the introduction of a re-afforestation levy of 0.2 US cents per kilogramme of tobacco bought and will be levied on buyers of tobacco. This levy will be collected by Tobacco Control Commission on behalf of the Government. The Honourable House will agree that our forest reserves are being depleted at an alarming pace, thus an immediate response to manage and replant more trees is paramount. The tobacco industry has been targeted due to high usage of wood products by tobacco industry.

TAX REVENUE MEASURES

113. Mr. Speaker, Sir, allow me to present tax measures for the 2011/12 fiscal year as follows:

INCOME TAX MEASURES

Investment and Other Allowances

114. Mr. Speaker, Sir, allow me to inform this August House that currently there are companies that make profit but declare tax losses as a result of investment allowances and other incentives that Government grants them. These losses are carried forward for as long as the company offsets the tax loss. Sometimes this takes more than 5 years. Mr. Speaker, Sir, to ensure that these companies contribute to Government coffers, a minimum tax will be re-introduced for all business entities, including individuals in sole proprietorship, partnership and companies, that make a loss for tax purposes. The minimum tax rate will be 1% of turnover, for turnover under MK50, 000,000 and 2% of turnover for turnover greater than MK50, 000,000.

115. Mr. Speaker, Sir, consistent with the foregoing, Government has reduced Investment allowances from 100% to 40% for new and unused industrial buildings and plant and machinery; and from 40% to 20% for qualifying used assets for sectors such as manufacturing, tourism, energy and agriculture.

116. Mr. Speaker, Sir, Honourable Members may wish to note that for many years, a training allowance has been granted to companies as an allowable expense in addition to the actual expenditure on training. This led to a double subsidy to companies on training expenses resulting in the depletion of the

revenue base through direct deductions and declaration of tax losses in some cases. Accordingly, training allowance as an allowable expense has been abolished; however the actual expenditure on training will remain an allowable deduction.

117. In the same vein, Mr. Speaker, Sir, Government has reduced International transport allowance from 25% to 15%; however, the actual expenditure on international transport will remain an allowable deduction. Mr. Speaker, Sir, allow me to inform this August House that Government will continue to monitor the efficacy of these allowances to ensure that they are rational and justifiable.

Withholding Taxes

118. Mr. Speaker, Sir, the Honourable House will recall that in the last budget statement, Government abolished the issuance of Withholding Tax Exemption Certificates to suppliers of foodstuffs and other goods. This measure yielded good results since the suppliers were encouraged to submit returns and comply with their tax obligations. On the other hand, Mr. Speaker, Sir, this measure gave the tax administrators the opportunity to develop a risk profile of tax payers. It is in this regard, Mr. Speaker, Sir, that Government will re-introduce the issuance of Withholding Tax Exemption certificates to compliant taxpayers in order to facilitate their business transactions. Criteria for issuance of the certificates will be developed by the Commissioner General of the Malawi Revenue Authority which will include all of the following requirements:

- The applicant has timely filed an income return for all the years since commencement of the business;
- The applicant has paid all outstanding taxes due including VAT and Customs duties;
- The taxpayer has been audited for tax purposes; and
- The applicant has complied with any special or general directions or has fulfilled any special conditions which the Commissioner General considers necessary.

Tax Clearance Certificates

119. Mr. Speaker, Sir, as Honourable Members are aware, there are now many business transactions that have to be approved by Government Ministries and Departments. Most of these approvals are granted without ensuring that all taxes due have been paid. This results in revenue losses, thereby depriving Government of the much needed domestic resources. In order to address this challenge, business entities will now be required to produce a valid Tax Clearance Certificate to be issued by the Commissioner General of the Malawi Revenue Authority for the following transactions:

- Externalization of funds to non- resident service providers whose source is deemed to be Malawi;

- Renewal of Temporary Employment Permits;
- Renewal, extension or transfer of mining license or transfer of a mineral right by Ministry of Energy and Natural Resources;
- Renewal of Tourism Licence by Ministry of Tourism;
- Renewal of Energy Licence by MERA;
- Renewal of Telecommunications licenses by MACRA;
- Change of ownership of a company;
- Renewal of the registration of public transport conveyances at Road Traffic Directorate; and
- Renewal of any other business licences issued by Government Ministries and Departments including other Statutory Regulatory bodies.

Income Tax

Pay as You Earn (PAYE)

120. Mr. Speaker, Sir, this Government recognises the need to increase the disposable income of low income earners. This does not only improve the savings culture by the society, most of whom are unbanked, but also improves their

standard of living through increase in purchasing power. It is in this regard, Mr Speaker, Sir, that this Government has decided to increase the tax free lump sum in the PAYE threshold from K10, 000 to MK12, 000 per month . The next MK 3,000 will be taxed at 15% and the rest at 30% as is currently the case.

121. Mr. Speaker, Sir, in the same spirit, Government will also increase the threshold for withholding tax paid on casual labour from MK 500 to MK 12,000 per month to be consistent with the new PAYE threshold. This measure will not only increase the disposable income of Casual Labourers but align their pay to the PAYE bracket.

122. Mr. Speaker, Sir, the 14th schedule of the Taxation Act provides for casual labour or services as being liable to withholding tax. In order to simplify implementation of this provision and to avoid the current interpretation problems, an amendment will be made to separate casual labour and services as standalone items liable to payment of withholding tax at 20% as stipulated under this schedule.

Rental Income

123. Mr. Speaker, Sir, to a large extent, most landlords neither declare their rental income nor submit returns on the same, whilst the withholding tax rate has been low for some time now. It is in this regard that Government has increased the rate of withholding tax on rentals from 10% to 15%. This will encourage landlords to

submit returns on their rental income where all relevant expenses are deductible and tax payable is determined. Mr. Speaker, Sir, let me encourage individuals or landlords to submit returns to benefit from the claims that may be derived upon the computation of allowable expenses for tax purposes.

Capital Gains from Sale of Shares

124. Mr. Speaker, Sir, under the current taxation law, capital gains from sale of shares traded on the stock exchange which have been held for more than a year are exempted from income tax. This August House will appreciate, Mr. Speaker, Sir, that the trading of shares has been going on in the country for a long period, therefore time is now ripe to lift this exemption. In this regard, capital gains from the sale of shares will be subject to taxation regardless of the time of disposal.

Export Processing Zones

125. Mr. Speaker, Sir, this Honourable house is aware that companies operating in Export Processing Zones (EPZs) are given various incentives under the Customs and Excise, VAT and Income tax. Let me elaborate, Mr. Speaker Sir, that besides all the incentives under the Customs and Excise and VAT, the current law exempts these companies' profits from paying corporate tax. Mr. Speaker, Sir, in order to uphold the integrity and fairness of the tax system, Government has reviewed some incentives applicable to EPZs as follows:

- All companies under EPZ will be subject to the standard corporate tax at 30% as provided in the Taxation Act.
- The additional 15% investment allowance given to companies operating under EPZ will be abolished.

However, all other incentives provided to EPZs under the Customs and Excise Act will remain applicable.

VALUE ADDED TAX

126. Mr. Speaker, Sir, let me now turn to Value Added Tax measures.

127. Mr Speaker, Sir, due to regional integration commitments under SADC and COMESA, trade taxes are being phased out and Governments have now to increasingly rely on domestic taxes such as VAT since trade taxes will no longer be a significant source of revenue. It is therefore, inevitable and best practice that VAT which is considered as the primary future tax should be simple and clean, in terms of rates and exemptions.

128. Mr. Speaker, Sir, in order to remove distortions in the VAT structure, operations and transactions, there is need to introduce VAT on various goods that were previously exempt. In this regard, Mr. Speaker, Sir, a standard VAT rate of 16.5% has been introduced on the following goods which were previously exempt: water supply, ordinary bread, meat and edible meat offal, milk and dairy

products, residues and waste from food industries, saw dust and wood waste, newspapers, hessian cloth, machinery and mechanical appliances and spare parts, and fees, charges, commissions, and discounts on financial services. Mr. Speaker, Sir, some of the transactions in the financial sector such as banking and life insurance services will continue to be VAT exempt. However, it should be noted that the banking sector may not claim their input VAT. On the other hand, Mr. Speaker, Sir, medical machinery which will remain VAT exempt.

129. Mr. Speaker, Sir, allow me to explain that the net impact of introducing 16.5% VAT on the above mentioned exempt items is that the price would in effect go down because most registered VAT operators will now be able to claim input VAT which was previously a cost to their business. In this regard Mr. Speaker, Sir, I would like to appeal to the Consumer Association of Malawi as well as other regulatory institutions to assist Government in ensuring that traders do not take advantage of this measure to raise prices.

130. Mr. Speaker Sir, Government is introducing VAT at the standard rate of 16.5% on motor vehicles for transport of goods which are less than 15 tonnes, industrial and construction machinery and spare parts, trailers, semi trailers, and table salt. These products were previously zero rated.

131. Mr. Speaker, Sir, Government would like to promote local manufacturing and increase the availability of hospital syringes, as these are critical for the health sector. Government will, therefore, zero rate syringes for VAT purposes.

Similarly, other furnishing articles and sand fly nets which were previously exempt will be zero rated for VAT purpose.

132. Mr. Speaker, Sir, the other measures being presented under VAT are aimed at aligning the VAT Act with the Taxation Act. In this regard, Government has amended the VAT Act to cater for penalties to third parties who fail to comply with garnishment. The amount of penalties for compounding of offences will be increased from MK 50, 000 to MK 100, 000.

133. Mr. Speaker, Sir, Customs Procedure Codes (CPCs) have been used by Government to promote growth of targeted sectors such as education and transport by allowing the duty free importation of various items. Indeed, as a country, we have seen expansion in most of these sectors over the past few years. However, as an exit strategy and part of cleaning up of the VAT system, Government intends to introduce the standard rate of VAT of 16.5% on the following goods which were zero rated under various CPCs: goods carrying motor vehicles for the horticultural enterprise, educational, health, tourism institutions and NGO's, passenger carrying motor vehicles for NGO's, motor vehicles for faith based organisations, motor vehicles for new and returning residents, sports equipment imported by the Malawi National Council of Sports, goods for use in water supply, goods for use in electricity generation and distribution, and goods for use by Government. However, Mr Speaker, Sir, donations of whatever description to Government, as well as pharmaceuticals will remain zero rated for VAT purpose under this CPC. Mr. Speaker, Sir, it is important to state that the other incentives under Import duty and Excise tax will continue to apply for these CPCs.

134. Mr. Speaker, Sir, for the remaining CPCs, Government will convert the zero rated goods into exempt; unless the concerned entity produces a product or offers a service on which the standard VAT rate of 16.5% is already applicable. The full list of the VAT status on goods under CPCs will be produced by the MRA in a Government notice.

EXCISE TAX

135. Mr. Speaker, Sir, allow me to now turn to Excise tax measures.

136. Mr Speaker, Sir, as Honourable Members may recall that, in the 2010/11 budget, we increased Excise Duty on alcohol and cigarettes in order to address the increased inflow of cheap alcohol and cigarettes which not only hurt the local industry but also encourages alcohol abuse. Mr. Speaker, Sir it is worrisome to note that the problems still exist and to address this problem further, Government has introduced a single specific Excise tax on Cigarettes regardless of the type of packaging. Imported cigarettes will attract a specific Excise duty rate of US\$30 per 1000 sticks while cigarettes with more than 70% local content will attract an Excise tax of US\$15 per 1000 sticks. Mr. Speaker, Sir, Excise tax on other cigarettes and other manufactured tobacco will be increased to 200%.

137. Mr. Speaker, Sir, Excise tax on all alcoholic beverages has been increased by 10%. In addition, alcohol packed in sachets and plastic bottles will now attract an Excise duty of 150%. This measure is designed to assist in addressing the

problem of alcohol abuse by minors. Honourable Members should be aware of the extent of this problem in our country. Mr. Speaker, Sir, I wish to appeal to all Government Ministries and Departments to put in place administrative measures to control the distribution, sale and consumption of alcohol by minors.

138. Mr. Speaker, Sir, in order to control the use of industrial alcohol for the production of alcohol, Government will impose strict conditions for the purchase and use of ethanol produced for industrial, pharmaceutical and scientific purposes.

139. Mr. Speaker, Sir, this Honourable House will appreciate the abundant forest resources that this country is endowed with. It is important, Mr Speaker Sir, that we not only avoid depletion of these resources but control and benefit from their use. It is in this regard Mr. Speaker, Sir, that Government has introduced an Excise tax of 50% on locally used timber. Exported timber will attract an Export Duty of 100% of export value. Government has an obligation to protect its remaining forest reserves. Honourable Members only have to travel to Chikangawa Forest in Mzimba to see the extent of deforestation taking place at that Forest reserve. These measures must therefore be seen in that context.

140. Mr. Speaker, Sir, this August House is aware that still mineral water attracts an excise duty where as flavoured mineral water doesn't. In order to create fairness in the taxation of this product, Government has therefore introduced an excise duty of 20% on flavoured mineral water.

141. Mr. Speaker, Sir, Government continues to honour its commitment to address climate change issues through the reduction of pollution and dumping caused by the proliferation of old motor vehicles. Government has, therefore, increased Excise Duty on passenger carrying vehicles which are more than 8 years old by 10% and those that are less than 8 years old with engine capacity of greater than 2000 CC by 5%.

142. Mr. Speaker, Sir, in order to protect the Malawi society from dumping, Government has introduced a 25% Excise duty on rags and Excise duty on used clothing, furniture and toys has been increased to 25%.

143. Mr. Speaker, Sir, this Government recognises the importance of agriculture and it intends to vigorously promote Agricultural production and processing. It is in this regard, Mr Speaker, Sir, that Government has removed Excise tax on sacks for packing agricultural produce. Mr Speaker, Sir as will be presented later import duty on the same has been reduced from 25% to 15%.

CUSTOMS DUTIES

144. Mr. Speaker, Sir, let me now turn to Customs measures that will be implemented in the 2011/12 Budget.

145. Mr. Speaker, Sir, as this August House is aware, the commendable economic progress which the country has achieved in the recent years has led to an increase in non-commercial travelling amongst the public. The threshold for raising a bill of entry is currently at MK 50, 000. The requirement to raise a bill of entry implies that the traveller has to engage a customs clearing agent to clear their goods through customs. Considering the growth in the number of travellers whose documents have to be processed, there is need to raise the threshold so as to increase efficiency in the clearance process and give some relief to travellers. In view of this, Mr. Speaker, Sir, Government has raised the minimum requirement for raising a bill of entry from MK 50, 000 to MK 100, 000. This will apply to non-commercial consignments only.

146. Mr. Speaker, Sir, as Honourable Members are aware, Government removed duty on mobile phones which has tremendously improved access to mobile telecommunication services by rural communities. Government intends to compliment this development by removing customs duty on solar cell phone chargers.

147. Mr. Speaker, Sir, as presented earlier, Government has reduced import duty on sacks used to pack agricultural produce from 25% to 15% in order to encourage farmers to use quality packaging material for their produce.

148. Mr. Speaker, Sir, as stipulated earlier in my presentation, Government will continue to protect this country from dumping and encourage local production in

targeted sectors of the economy. It is in this regard, Mr. Speaker, Sir, that duty on rags has been increased from 10% to 25%.

149. Mr. Speaker, Sir, in order to encourage local production of flour for bread and confectionery and to ensure that local producers of the same become competitive, Government will increase import duty on wheat flour and meslin flour from 5% to 20%.

150. Mr. Speaker, Sir, transaction costs for the Malawi Revenue Authority when conducting inspections and processing customs documents have risen over time. In view of this Government has increased the Destination Inspection Fees and Processing Fees to MK 25, 000 and MK 5, 000 respectively.

CUSTOMS PROCEDURE CODES (CPCs)

151. Mr. Speaker, Sir, I will now turn to the measures under Customs Procedure Codes.

152. Mr Speaker, Sir, this Honourable House will recall that Government introduced a special requirement note under CPCs that sets a limit of 5 years after which motor vehicles which had been cleared duty free or at concessionary rates, would cease to be under Customs control. Mr. Speaker, Sir, Government has removed this special requirement. This implies that duty will become payable at

the disposal value if the motor vehicles are disposed off at any time to any individual/or institution without duty free privileges. This measure is meant to align these transactions with that of other vehicles which attract duty.

153. Mr. Speaker, Sir, in order to expand the tax base and encourage prudence in expenditure, the CPC for goods which are used by Government will be amended to allow duty free importation of only donations and pharmaceuticals. Mr. Speaker, Sir, this measure implies that Government will have to pay duty on all other goods that were previously covered under this CPC.

154. Mr. Speaker, Sir, let me turn to the Customs Procedure Code for enterprises operating under Export Processing Zones. This Scheme was established to promote exports of non traditional products and attract foreign direct investment. However, over time Government has noted abuse and limited benefits of this facility contrary to the intended objectives. Some enterprises under this scheme sell goods on the domestic market without paying the necessary duties. In addition, goods not related to the production of exports have been imported duty free. In order to avoid this abuse, and ensure that only goods directly related to export production are admitted duty free, Government has amended the CPC for Export Processing Zones to limit the coverage to only raw materials and capital machinery used in the direct production of exports.

155. Mr. Speaker, Sir, I wish to inform Honourable Members that there has been a tendency by exhibitors at our International Trade Fairs to sell their goods on the

local market without payment of relevant duties. Mr. Speaker, Sir, to curb abuse of this facility, Government has amended the CPC for imported trade samples of negligible commercial value to allow only samples that are not fit for use.

156. Mr. Speaker, Sir, Government will introduce concessionary rates of 10% duty and standard rate of 16.5% VAT on motor vehicles for new as well as returning residents, while used apparel and household items will remain duty and VAT free. This will ensure that new and returning residents pay taxes and make a modest contribution to the budget towards provision of Government Services. It has been observed that the duty free facility has been subject to abuse.

157. Mr. Speaker, Sir, the CPC for foreign nationals who come to Malawi as Administrative and Technical Personnel will be amended by setting a time period of 6 months within which duty free privileges will apply. The goods that will be imported under this CPC will also be reduced to articles of apparel, other household effects, a motor vehicle and a caravan for each family. Mr. Speaker, Sir, this measure aligns this CPC for Administrative and Technical Personnel with the provisions under the notification on first arrival privileges.

158. Mr. Speaker, Sir, in order to stop abuse and protect revenue, goods imported under the CPC for Non Governmental Organisations will be limited to foodstuffs, used clothing, used footwear, blankets, soap and toiletries for use by persons in need or distress.

159. Mr. Speaker, Sir, Honourable Members are aware that Temporary Importation Permits (TIPs) are issued for motor vehicles which are meant to be re-exported. However, this facility has been grossly abused where motor vehicles have been disposed off without payment of duty and fake TIPs have been used. In order to stop this malpractice, Mr. Speaker, Sir, Government has introduced a fine of not less than 50% of the value for duty, due to failure to re-export the motor vehicle that previously entered on a TIP.

160. Mr. Speaker, Sir, Government recognises the increased trend in foreign travel by Malawians. It is in this regard that we have increased the travel allowance for non-commercial goods bought by residents when they travel outside Malawi from MK20, 000 to MK 50, 000. This will assist travellers to have more relief on dutiable goods when they return home.

161. Mr. Speaker, Sir, in order to encourage banks to provide banking services to remote parts of the country, Government will create a new CPC that will allow commercial banks, registered by the Reserve Bank of Malawi, to import mobile banking vans, Auto Teller Machines and point of sale devices, free of customs duty and Excise tax. However, VAT will be payable. It is Government's expectation, therefore, Mr. Speaker, Sir, that Banks will expand their network to rural areas and reduce fees and charges for rural customers. This measure will be regulated in conjunction with the Reserve Bank of Malawi and shall apply for one year and will be subject to review.

162. Mr. Speaker, Sir, I wish to inform the Honourable House that most of the Customs Procedure Codes have to-date served their purpose since their introduction. We also have evidence Mr. Speaker, Sir, that some of the CPCs have been abused. Government, will, therefore, delete CPCs for car hire companies, the telecommunications industry and the CPC that allowed duty free importation of photocopiers by NGOs. This implies that these companies and organisations will now be liable to full duty payments as stipulated in the law.

163. Mr Speaker, Sir, as part of the streamlining Section XXII of the Customs and Excise Tariffs Order, the CPC for dairy farming will be deleted because items under this sector are already duty free in the main tariff.

TAX LEGISLATION

164. Mr. Speaker, Sir, I wish to inform this Honourable House that in the course of the year, all tax legislation will be reviewed in line with best practice as follows:

- All measures granting income tax incentives will be enacted in the Taxation Act; similarly, measures granting Customs and VAT incentives will be enacted in Customs and Excise Act and Value Added Tax Act respectively.

- Implementation of Section 13 of the Pension Act, 2011 which deals with taxation will be deferred to coincide with the review of the Taxation Act. However, taxation of Pensions and Provident Funds will continue to be guided by the provisions of the Taxation Act.

165. Mr. Speaker, Sir, in the 2011/12 fiscal year, Government will align the validity period for keeping records to 6 years in all tax legislation. In addition, Government will amend the Customs and Excise Act to introduce penalties on offences which include non payment, late payment, underpayments, late submission of returns, non submission of returns, submission of incorrect returns, refer to drawer cheques, and refusal or resistance to register under the Domestic Excise Tax. This provision is already included in both the Taxation Act and the VAT Act.

166. Mr Speaker, Sir, in the course of the year Government will develop a Capital Gains Act to regulate capital gains taxation as a separate tax.

TRADE AGREEMENTS

167. Mr. Speaker, Sir, Government is committed to aligning the national tariff to the COMESA Common External Tariff (COMESA CET) and the COMESA Common Tariff Nomenclature (COMESA CTN).

168. Mr. Speaker, Sir, Government is also committed to fast tracking the process of phasing down tariffs under the Southern Africa Development Community (SADC) Free Trade Area in order to reap the economic benefits of deeper integration and regional trade. This measure in line with our regional commitment under SADC.

CONCLUSION

169. In conclusion, Mr. Speaker, Sir, what I have presented before this August House this afternoon, is a **ZERO DEFICIT BUDGET** which has presented a radical paradigm shift in the manner we prepare and implement the National Budget in Malawi. The Budget has decisively tackled the challenges that we are facing in this country and provided concrete solutions to them. It has firmly dealt with waste in public spending and shifted resources towards infrastructure developments of the country, hence, a Pro- Development Budget as opposed to a Consumption Budget. The Budget has also substantially increased allocations to social sectors of the economy such as education, health and agriculture making it a genuinely Pro-Poor Budget. It has also balanced social spending with economic growth sector spending in order to sustain and stimulate further the economic boom the country has enjoyed since 2004 when His Excellency the State President took over the leadership of this Country. Simply put, this Budget has it all, '**Zero Deficit, Pro-Poor, Development Oriented and Investment-friendly Budget**'.

170. Mr. Speaker, Sir, as I said at the beginning, for me to come up with this radical Budget, I got a lot of input and contributions from people from all walks of

life in this country including; the Malawi Cabinet; the General Public; Development Partners; Members of Parliament from various Committees; Private Sector Organisations; members of various Academic Institutions and Students; representatives from the Children's Parliament; Civil Society; Public Servants in various Ministries, Departments and Institutions, the Business Community and more importantly members of staff from my ministry. While on one hand I sincerely acknowledge and thank everyone for the contributions made, I wish to reiterate that the journey has just begun. The success of this radical Budget truly and surely rests on all of us playing our meaningful and rightful roles and contributions. I therefore wish to call upon everyone to join us in this fascinating journey.

171. To our Colleagues in the Development Community, I have this to say to you. While on one hand we have instituted austerity measures to root out waste in public spending and manage our public resources better, on the other, we acknowledge that our country is still developing and it must have all the resources to make it grow fast enough for the benefit and prosperity of all. This being the case, every support that your Governments give us will be cherished and put to good use. The success of this Budget, therefore, also hinges on the degree to which you will assist us. To the Controlling Officers in Public Institutions, you are placed in those positions by the people of Malawi on trust. It is therefore expected of you that at all times you will make wise decisions and prudently use resources under your trust for the good of this Nation. Austerity measures are not to punish anyone, rather to assist in the development of this Country. We therefore expect that you will strictly follow all the expenditure control measures Government has instituted, failing which, disciplinary and the long arm of the law will have to take

their course as provided for in various legal instruments including the Public Finance Management Act.

172. To the Business Community, the General Public and everyone, the responsibility of developing this Country rests with all of us. On its part, Government will provide a conducive and enabling macroeconomic environment for private businesses and ventures to flourish; provide legislation which will make the regulatory environment more conducive and finally, Government will provide the necessary infrastructure and public services for the well being of the businesses, society and way of life. On your part, it is expected that you will take advantage of all the public goods and services and engage in legally acceptable private investments and businesses that are going to improve your livelihoods and therefore assist in the development of this Country.

173. In that spirit, Mr Speaker Sir, let me add that if Malawi is to continue growing at the high rates that we have been witnessing in the past six years, it is critical that productivity of labour and capital continue to grow. However, we can not achieve productivity growth if the private sector does not play its rightful role. While Government has provided the enabling legal, institutional and operational framework, a conducive and economically stable environment for private sector development, it is incumbent upon the private sector to be innovative and competitive, and to seize opportunities that Malawi's stable economic and political environment affords. Indeed, while the Government has come up with legal framework for Public Private Partnerships, it is up to the private sector to capitalise on this favourable development. I wish to call upon the private sector to

compliment Government's efforts to increase productivity and sustain the high rate of economic growth which in turn will contribute towards job creation and poverty reduction.

174. In addition, Mr. Speaker, as the old adage goes, we either adapt or die. This budget has not only acknowledged problems of availability of foreign exchange but also has brought to the fore the need for Malawi to be strategic and diversify its economy and export base. Tobacco has carried us a very long way and for a long time but Malawi needs to be realistic in accepting how global health concerns and other economic issues are impacting this industry and the livelihoods of our people and the economy. While acknowledging that we will continue to rely on tobacco in the foreseeable future, this budget has outlined and justified the need for a more diversified economy and exports sector. To that end, we have allocated resources to cotton development and we are still exploring other non-agricultural avenues, including small-scale mining and will allocate even more resources if we get any bankable ideas worth pursuing. To our partners in the private sector, I invite you to join Government on this quest for transformation as we move from reliance on traditional crops and traditional sources of foreign exchange toward newer and more reliable sources.

175. On this note, Mr. Speaker, Sir, with these remarks, and with the greatest humility, I beg to move.