

THE 2020/2021 BUDGET STATEMENT

MOTION

1. Madam Speaker, I beg to move that the estimates on the Recurrent and Development Accounts for the 2020/2021 Budget of the Malawi Government be referred to the committee of the Whole House, to be considered vote by vote, and thereafter be adopted.

Introduction

2. Madam Speaker, this is my first substantive Budget Statement since I was appointed as Minister of Finance by His Excellency the State President, Dr. Lazarus McCarthy Chakwera. Let me therefore take this opportunity to thank His Excellency the President for the singular honour of entrusting me with this noble duty of managing the fiscal affairs of this great nation. Madam Speaker, this is an honour that I don't take for granted.

3. Madam Speaker, in accordance with Section 21, Subsection 3, of the Public Finance Management Act of 2003, as Minister of Finance, I am duty bound to lay before the National Assembly a statement of the estimated receipts, grants and all other revenue as well as Government's proposal on how the available resources will be utilized in a fiscal year, which in this case, is the 2020/2021 fiscal year.

4. However, before I do so, Madam Speaker, let me express my sincere gratitude to all Government officials for working tirelessly in supporting me in the formulation of this Budget. I would also like to extend my appreciation to all those individuals and institutions, including Committees of this August House that contributed to the realization of this Budget.

5. Madam Speaker, this is a Budget for all Malawians. I therefore wish to urge the August House to support the Budget by constructively debating and contributing to the proposals that I and my team in the Ministry of Finance and with inputs from other relevant stakeholders have put together. At the onset, however, let me inform the August House that this Budget supersedes the 2020/2021 fiscal budget which was presented by the previous Administration.

6. Madam Speaker, I also wish to invite Honourable Members to note that allocations in this Budget are in line with priorities outlined in the national development blueprint, the third Malawi Growth and Development Strategy. However, it is important to appreciate that this Budget has been formulated amidst Covid-19 pandemic which has negatively impacted on the country's economic performance.

7. Madam Speaker, under the Tonse Alliance Government, the 2020/2021 budget will focus on: achievement of sustainable and inclusive growth; macroeconomic stability; and sound financial management. These objectives will be pursued through transparency and accountability, rule of law, enhanced resource mobilisation, efficient resource utilization and provision of relevant infrastructure. These are some of the promises that the Tonse Alliance made to the people of Malawi. As such, Madam Speaker, the 2020/2021 Budget has been developed under the Theme **“Living the Promise”**.

8. Madam Speaker, implementation of the 2020/2021 budget will be challenging as Government has not been spared by the impact of the coronavirus pandemic. Revenues have substantially declined amidst increased need for resources to mitigate the effects of the pandemic. Madam Speaker, and Honourable Members, during the Covid-19 pandemic period, monthly tax revenue collections have dropped by almost

11.0 percent when compared to revenue collections during the pre-Covid-19 period.

9. Madam Speaker, the Ministry of Finance will work closely with the Malawi Revenue Authority and all revenue collecting Ministries, Departments and Agencies to enhance revenue mobilisation efforts as one way of countering pressures on the budget. Government will emphasise on efficiency in revenue mobilisation through improved governance and reforms at MRA; financial discipline, compliance and transparency in handling public resources. Furthermore, Madam Speaker, Government will focus on minimizing non-essential spending by State Owned Enterprises to ensure that all public resources in form of surpluses and dividends are channeled to the Malawi Government Consolidated Account.

10. Madam Speaker, through the leadership of His Excellency the State President, Government has already reached out to the donor community for budget support and debt restructuring. I therefore wish to thank all cooperating development partners who have responded positively to this call and expect others to also respond favourably.

11. It is also important, Madam Speaker to put into context that the fiscal situation that the Tonse Alliance Government inherited is one that is characterised by:

- i. very high proportion of statutory expenditures in form of wages; pension and gratuities; and public debt payments that cannot be deferred, reduced or cut in the event of revenue shortfall. In total these expenditures represent 91.7 percent of domestic revenues, 68.8 percent of recurrent expenditure and 52.8 percent of total budget;

- ii. huge public sector debt stock, estimated at K4.1 trillion, which has significantly reduced this country's new debt carrying capacity; and
- iii. existence of public sector payment arrears, which are slowly becoming a fiscal risk to the smooth implementation of the national budget.

12. Madam Speaker, Government is actively addressing these challenges, however it must be appreciated that some of these fiscal risks will take time to resolve.

13. Madam Speaker, despite the negative effects of the novel coronavirus, Malawi has recorded relatively low and stable inflation rate. Headline inflation rate declined to 8.0 percent in July 2020, from a peak of 11.5 percent in December 2019. Going forward, Madam Speaker, Government through the Reserve Bank of Malawi will pursue a low inflation agenda with a target rate of inflation at 5.0 percent by 2025. The Reserve Bank maintained the policy rate at 13.5 percent during the 2019/2020 fiscal year and the official exchange rate has also remained stable at around K750.00 per US dollar.

2019/2020 BUDGET PERFORMANCE

Performance of Revenues and Grants

14. Madam Speaker, the approved estimates of inflows of revenue and grants for the 2019/2020 financial year were K1.575 trillion. Of this amount K1.425 trillion was domestic revenue while K150.1 billion were grants. However, actual domestic revenue collection at the end of the year was K1.226 trillion. Grants amounted to K127.1 billion, representing an underperformance of 15.3 percent on account of non-disbursement of project grants by Foreign Governments.

Performance of Expenditure

15. Madam Speaker, in June 2019, this August House approved total expenditure of K1.737 trillion (27.7percent of GDP) comprising K1.299 trillion for recurrent expenditure and K438.2 billion for development expenditure. At the end of the fiscal year, total expenditure was recorded at K1.781 trillion of which K1.414 trillion is recurrent expenditure and K367.4 billion is development expenditure.

Overall Balance and Domestic Borrowing

16. The 2019/2020 financial year closed with a deficit of K555.6 billion. Domestic borrowing increased from K52.3 billion to K496.7 billion while net foreign borrowing reduced from K109.7 billion to K58.9 billion. Madam Speaker, the Honourable House should therefore note that, the fiscal actions during the last fiscal year alone added K555.6 billion to the country's already high debt stock.

WORLD AND REGIONAL OUTLOOK

17. Madam Speaker, let me now turn to the current economic developments as well as economic outlook at the international, regional and national levels. This Madam Speaker is very important as it lays down the context in which the national budget has been formulated and allows Honourable Members to fully understand the assumptions underpinning this Budget.

18. Madam Speaker, according to the June 2020 World Economic Outlook Report of the International Monetary Fund, global economic growth is projected at negative 4.9 percent in 2020. Covid-19 pandemic, started as a healthy crisis but quickly became an economic crisis like no any other before. The impact of the pandemic was severe during the first half of 2020

and economic recovery is projected to be gradual than previously forecast. In 2021, global growth is projected at 5.4 percent. These projections, Madam Speaker, are however shrouded with high degree of uncertainty.

19. In advanced economies, Madam Speaker, growth is projected at negative 8.0 percent in 2020. Synchronized deep downturns are projected in the United States at negative 8.0 percent; Japan at negative 5.8 percent; the United Kingdom at negative 10.2 percent; Germany at negative 7.8 percent; and France at negative 12.5 percent.

20. Madam Speaker, in 2021 growth rate in advanced economies is projected to strengthen to 4.8 percent, which is higher than 4.0 percent registered in 2019. In emerging markets and developing economies, overall, growth is forecasted at negative 3.0 percent in 2020.

21. Madam Speaker, economic growth in China is projected at 1.0 percent in 2020 while in India, it is projected to contract by 4.5 percent. In Latin America, where most countries are still struggling to contain coronavirus infections, the two largest economies, Brazil and Mexico, are projected to contract by 9.1 and 10.5 percent, respectively.

Sub-Saharan Regional Economic Outlook

22. Madam Speaker, GDP growth in Sub-Saharan Africa has also been slushed down from pre-pandemic growth rate of 3.1 percent to negative 3.2 percent in 2020. The region is however expected to recover in 2021 and record a growth rate of 3.4 percent. South Africa, Malawi's major trading partner is projected to register a recession of negative 8.0 percent in 2020, but rebound in 2021 to a growth rate of 3.5 percent.

Macroeconomic Developments in Malawi

23. Madam Speaker, growth prospects for Malawi are shrouded with extreme uncertainty. Pre-pandemic real GDP growth rate for 2020 was forecast at 5.1 percent. However, due to the adverse economic impact of Covid-19, GDP growth rate was revised downwards to 1.9 percent on the assumption that there will be gradual opening up of economic activities during the second half of 2020. In 2021, Madam Speaker, this economy is projected to grow at 4.5 percent.

24. Madam Speaker, moving on to price developments, the annual average rate of inflation has remained within the single digit, recorded at 9.2 percent and 9.4 percent in 2018 and 2019, respectively. In 2020 and 2021, annual average inflation rate is projected at 10.5 percent and 9.3 percent, respectively, with an average of 9.9 percent for the 2020/2021 fiscal year. Inflationary pressure during the last fiscal year emanated from increased food inflation especially from maize prices on account of scarcity in some parts of the country as well as price speculative buying and hoarding by some traders.

25. On the other hand, Madam Speaker, non-food inflation has been oscillating between 5.0 and 6.0 percent over the past 13 months. This was largely on account of the stable Malawi Kwacha exchange rate as well as the low oil prices on the international market. Global oil prices, which directly feed into non – food inflation, fell to a historical low of US\$22.58 per barrel as at 30th March 2020.

26. Madam Speaker, the macroeconomic stability enabled the Reserve Bank of Malawi to maintain the policy interest rate at 13.5 percent. This enabled commercial banks to maintain an almost stable interest rate structure. Gross official reserves of the central bank have also remained stable as measured by months of imports at around 3.1 months as at end June 2020.

GOVERNMENT REFORM PROGRAMS

Public Finance Management

27. Madam Speaker, the Tonse Alliance Government will complete the review of the Public Finance Management Act of 2003 during the 2020/2021 fiscal year. The revised Act is expected to strengthen accounting, budgeting, revenue and expenditure management, internal controls and other areas of public finance management.

28. Madam Speaker, some of the proposed changes in the revised PFM Bill include: specific responsibilities of public officers with the inclusion of sanctions for violations against the PFM Act; placement of personal accountability to Controlling Officers and public officers for actions taken in executing their roles and responsibilities; and placing the obligation of accountability of third parties that receive resources for the intended benefit of the people of Malawi. The revised Public Finance Management Bill is expected to be submitted to this August House during the upcoming February 2021 Parliamentary sitting.

29. It is high time, Madam Speaker, that Controlling Officers must start regarding the approved national budget as law and it must be treated as such. Failure to do so must be punishable under the governing laws of Malawi and enforcement measures must be institutionalized. Controlling Officers must desist from

committing Government financially without prior approval from the Secretary to the Treasury.

30. Madam Speaker, in an effort to stop accumulation of arrears by Ministries, Departments and Agencies, Treasury is committed to fund the approved budget in full. However, in order to achieve this commitment, all revenue collecting MDAs are urged to meet and surpass their revenue collection targets. In view of this, Madam Speaker, all Controlling Officers are advised to adhere to their approved budgets and my Ministry will not entertain any extra-budgetary requests as this derails implementation of the budget.

31. Madam Speaker, one of the pillars for the Tonse Alliance led Government is transparency and accountability on the revenues collected, resources received and how these revenues have been utilised for delivery of public services. In this regard, the Ministry of Finance will be posting on its website the Budget Performance Reports on a monthly basis and publishing the same in the newspapers with wide circulation on a quarterly basis.

32. Madam Speaker, as per Section 84 of the PFM Act of 2003, all Controlling Officers are expected to submit monthly financial reports to the Secretary to the Treasury. In this regard all Controlling Officers are being reminded to abide by this law by submitting the mandatory financial reports namely: Expenditure Return, Revenue Return, Payroll Return, Commitment Control Report and Bank Reconciliation Report. Madam Speaker, any MDA that fails to submit these reports on time will be sanctioned including having their monthly funding withheld.

33. Madam Speaker, in order to enhance compliance to public finance management regulations in District Councils, Government, in the 2020/2021 fiscal year will introduce performance based grants to all 28 District Councils. Under this arrangement, resources will be disbursed to these councils based on their adherence to regulations and prudent financial management.

34. Madam Speaker, the Government has made tremendous progress in development planning with the establishment of the National Planning Commission to coordinate the preparation of a successor to the Vision 2020 and medium term development strategies. Madam Speaker and Honourable Members, despite Malawi attaining political independence some 56 years ago, the country is yet to attain economic independence. In order to reverse this situation Government, through the National Planning Commission is developing a collectively-defined new Vision that is expected to transform the country through inclusive wealth creation, sustainable and resilient growth. The new Vision is planned to be launched before December, 2020.

35. Madam Speaker, under revenue management, Government has developed the Domestic Resource Mobilisation Strategy, which will among other areas focus on broadening the tax base, improving tax and non-tax systems, enhancing tax compliance and strengthening institutional capacity.

36. Madam Speaker, most State Owned Enterprises have over the years not performed satisfactorily to sustain their operations financially and ultimately remit dividends and surpluses to the Government. Contrary to the shareholder's expectation, even commercial SOEs are heavily reliant on Government support in form of guarantees and on-lending instruments. These have resulted into high and increasing contingent liability on Government. In this regard, Government under the reforms

agenda will strengthen governance structures of all parastatals, and enhance prudent financial management. This will ensure remittance of dividends and surpluses to shareholder and reduce reliance on Government support.

The New Integrated Financial Management Information System (IFMIS)

37. Madam Speaker and Honourable Members, I am delighted to report to this August House that as part of strengthening Public Finance Management Systems, Government through the Department of Accountant General rolled out the New IFMIS on 1st July, 2020. The roll out has been done in a phased approach where 10 selected votes and modules were identified as part of the pilot phase. The New IFMIS is a key reform in Public Finance Management and pivotal to the efficient and effective accounting and financial reporting functions in Government. Its full rollout is expected to be done by 1st July, 2021.

Treasury Single Account

38. Madam Speaker, in the current banking arrangements, Government has numerous bank accounts which are difficult to manage. This affects precision of Government cash position at any given point in time. Furthermore, Madam Speaker, such a structure is costly due to numerous bank charges incurred on the accounts.

39. In the 2020/2021 fiscal year, Government will establish a Treasury Single Account. This, Madam Speaker, does not necessarily mean having one bank account, but it is rather a unified structure of bank accounts where Government resources are pooled and treated as fungible. A Treasury Single Account would provide a consolidated cash position with a clear overview of all cash flows in and out of the accounts.

40. Madam Speaker, if a country has a fragmented system for handling government receipts and payments through the banking system, it is a critical PFM weakness that needs to be addressed. A country with fragmented government banking arrangements pays for its institutional deficiencies in multiple ways. Firstly, Madam Speaker, idle cash balances in bank accounts often fail to earn market related remuneration. Secondly, Government, being unaware of these resources, incurs unnecessary borrowing costs on raising funds to cover a perceived cash shortage. Thirdly, idle government cash balances in the commercial banking sector are not idle for the banks themselves, and can be used to extend credit, including to Government itself. Draining this extra liquidity through open market operations also imposes costs on the central bank.

Government Payroll and Pensions

41. Madam Speaker, I am pleased to inform the Honourable Members that Government completed headcount exercise for pensioners. All pensioners who did not avail themselves for this exercise have been deleted from the pension payroll. As a result, Government is expected to save just above K1.0 billion from the pension payroll during the 2020/2021 financial year. In this regard, Madam Speaker, Government is following up on the source of the identified anomalies and will apply the necessary corrective measures.

42. Madam Speaker, expenditure on pension and gratuity has been increasing and exerting pressure on the budget. Currently, civil servants are waiting for a longer period, in some cases over twelve months before they receive their gratuity. In this Budget, Government has increased allocation for pension and gratuity from K86.9 billion to K102.8 billion in order to reduce the waiting period.

Affordable Inputs Program

43. Madam Speaker, according to the census there are 4.2 million farm families. In the 2020/2021 financial year, Government will implement the Affordable Inputs Program where all the 4.2 million farm families will be provided with cheap farm inputs. This, Madam Speaker, is not far from being a universal subsidy program assuming an average family size of four people, which gives approximately 16.8 million people that will be covered under this program out of the 17.6 million people in Malawi. In this regard, Madam Speaker, there is no sampling of farm families to benefit from this program as every smallholder farmer is covered.

44. Madam Speaker, each farming household will purchase two 50 kg bags of fertilizer at a price of K4,495.00 per bag. As I announced in this August House during my presentation of the Provisional Budget, implementation of the AIP will use an electronic system as opposed to paper coupons. This reform Madam Speaker, will ensure transparency and efficiency as National Identity Cards will be used when purchasing the fertilizer and all other farm inputs.

Extended Credit Facility with the IMF

45. Madam Speaker, following discussions between the Tense Alliance Government and the IMF, the two parties agreed to cancel the Third Extended Credit Facility on account of changes in policy by the new Administration.

46. Going forward Madam Speaker, it is expected that Government will negotiate a new credit facility. However, in the interim, Government has negotiated a second Rapid Credit Facility which is a fast disbursing instrument amounting to US\$100.0 million during the 2020/2021 fiscal year.

THE 2020/2021 BUDGET

Major Assumptions for the 2020/2021 Budget

47. Madam Speaker, the 2020/2021 budget has been developed under the following assumptions.

- i. Real GDP growth rate of 1.9 percent in 2020 and 4.5percent in 2021;
- ii. Average inflation rate of 9.9 percent; and
- iii. A Policy rate of 13.5 percent during the fiscal year;

Total Revenue and Grants

48. Madam Speaker, total revenue and grants for the 2020/2021 financial year have been projected at K1.435 trillion which is 20.1 percent of GDP and represents a decrease of about 6.0 percent from the 2019/2020 approved figure. Domestic revenues have been projected at K1.179 trillion representing 16.5 percent of GDP. Of this amount, K1.116 trillion is tax revenue while K63.1 billion is other revenues.

49. Grants have been projected at K255.7 billion representing 3.6 percent of GDP, comprising K220.9 billion from International Organizations and K34.8 billion from Foreign Governments.

Expenditure

50. Madam Speaker, let me now proceed to the expenditure side of the Budget. For the 2020/2021 financial year, total expenditure is projected at K2.190 trillion which is about 30.6 percent of the country's GDP and representing an increase of around 22.9 percent from the 2019/2020 preliminary expenditure outturn. Out of this total expenditure, K1.679 trillion is for recurrent expenses.

51. The recurrent expense of K1.679 trillion comprise K523.7 billion for Wages and Salaries; K376.0 billion for Interest Payments; K308.9 billion for Goods and Services; K266.0 billion for Social Benefits; and K97.4 billion for Subvented Organisations.

52. Madam Speaker, Development expenditure is programed at K511.2 billion, consisting of K100.9 billion for domestically financed projects and K410.3 billion for foreign financed projects.

Overall fiscal Balance

53. Madam Speaker, the overall balance has been projected at K754.8 billion, which will be financed by foreign borrowing amounting to K224.8 billion and K530.1 billion from domestic borrowing. At this level, Madam Speaker, domestic borrowing represents 7.4 percent of the country's GDP.

HIGHLIGHTS OF THE 2020/2021 BUDGET

RECURRENT BUDGET

Wages and Salaries

54. Wages and salaries for 2020/2021 financial year are projected at K523.7 billion which is 7.3 percent of GDP representing a 13.5 percent increase from last year's preliminary outcome. The increase in wages and salaries is on account of K42.7 billion for general salary increment; K14.3 billion for employer contribution to the Contributory Pension Scheme; K8.1 billion for annual wage creep; and K8.0 billion for recruitment of health personnel.

55. Madam Speaker, the budgeted increase in wages and salaries taken together with the substantial increase in the tax free band under Pay As You Earn will translate into a huge increase in disposable incomes for the civil servants.

Interest Payments

56. Interest payments for the 2020/2021 financial year have been projected at K376.0 billion which is 5.3 percent of GDP, representing an increase of 43.8 percent from the 2019/2020 preliminary outturn. Foreign interest payments have been projected at K11.9 billion while domestic interest payments have been projected at K364.2 billion.

Pensions and Gratuities

57. Madam Speaker, Pensions and Gratuities have been projected at K102.8 billion. With this amount, the waiting period for receiving gratuity is expected to be reduced.

Affordable Input Program

58. Madam Speaker, in line with the promise of the Tonse Alliance Government of providing cheap agriculture inputs to smallholder farmers, K160.2 billion has been allocated to the Affordable Input Program in the 2020/2021 financial year. Out of this amount, K132.7 billion is for fertilizer payments, K25.7 billion for maize seed and K1.8 billion for logistics.

Maize Purchases

59. Maize Purchases have been projected at K10 billion for the 2020/2021 financial year, for the replenishment of the Strategic Grain Reserves. It is anticipated that there will be bumper harvest this year due to forecasted good rains as well as the increased coverage of the Affordable Input Program.

Constituency Development Fund.

60. Madam Speaker, I am pleased to inform this August House that the allocation to the Constituency Development Fund has been increased from K30.0 million to K40.0 million. In line with the Government agenda of increased transparency and accountability, I urge all Honourable Members of this August House to exercise prudent financial management in the execution of CDF projects.

Empowerment of Persons with Disabilities and Albinism

61. Madam Speaker, the Tonse Alliance Government will continue with the empowerment of persons with disabilities and albinism. In this regard, K400.0 million has been allocated to Ministry of Gender, Community Development and Social Welfare for the implementation of the Action Plan for the protection of people with albinism. A further K100.0 million has been allocated to the Disability Fund.

Key Sector Allocations

Education Sector

62. Madam Speaker, the Education Sector has been allocated the largest portion of the budget at K384.5 billion which is 21.6 percent of the total budget, representing 5.4 percent of GDP. These resources, Madam Speaker, will cater for wages and salaries of teachers; operations for primary and secondary schools; development projects; and all education subvented organizations such as public universities.

Agriculture Sector

63. The Agriculture Sector has been allocated K354.8 billion which is 19.9 percent of the total budget, representing 5.0 percent of GDP. This provision will cater for wages and salaries for the sector, operations for Agriculture Departments; maize purchase; the Affordable Input Program; and development projects within the sector.

Health Sector

64. Madam Speaker, the Health Sector has been allocated K204.7 billion which is 11.5 percent of the total budget and 2.9 percent of GDP. These resources will cater for wages and salaries for health personnel; operational expenses for central and district hospitals, procurement of medical drugs and vaccines; maintenance costs for hospitals and medical equipment; and development projects.

Transport and ICT Sector

65. This Sector, Madam Speaker has been allocated K150.6 billion. This represents 2.1 percent of GDP and 8.5 percent of the total budget. Of this total allocation, K111.4 billion has been allocated to the Roads Fund Administration for construction of roads, while K1.4 billion has been allocated towards air and water transport infrastructure. Madam Speaker, in order to improve ICT services in the country, Government has set aside K300.0 million in the 2020/2021 budget for the recruitment and training of ICT officers.

Energy Sector

66. Madam Speaker, the Energy Sector has been allocated K57.8 billion, which is 0.8 percent of GDP and 3.2 percent of the entire budget. This provision will cater for wages and salaries and operations in departments of Energy, Natural Resources, Tourism, Environment, and Forestry.

Governance and Rule of Law Sector

67. Madam Speaker, the Governance and Rule of Law Sector has been allocated K52.8 billion which is 0.7 percent of GDP and 3.0 percent of the entire budget. This provision will cater for wages and salaries and operations of oversight institutions such as the Anti-Corruption Bureau, Office of the Ombudsman, Law Commission and the Malawi Human Rights Commission. Madam Speaker, I am also pleased to inform this Honourable House that in the 2020/2021 budget, allocations to the Anti-Corruption Bureau, Director of Public Prosecutions, Fiscal Police and the Financial Intelligence Authority have been substantially increased to take care of their financial requirements.

2020/2021 DEVELOPMENT BUDGET

68. Madam Speaker, the development budget for the 2020/2021 financial year has been projected at K511.2 billion. Of this amount, K410.3 billion is for foreign financed projects while K100.9 billion is for domestically financed projects. The list of projects is provided in Document Number 3: Financial Statement, and Document Number 4: Detailed Budget Document.

69. Madam Speaker, as Honourable Members might have noticed, some projects which were part of the budget in the 2019/2020 financial year are not featuring in the submitted

budget documents for 2020/2021 financial year. Some of these projects have been deferred as Government is undertaking a review of the project portfolio. The August House may wish to note that although some projects were included in the budget last year, they did not have detailed designs. This, Madam Speaker, has led to delays in project implementation and cost escalations that could have been avoided.

70. The Tonse Alliance led Government, Madam Speaker, will speed up implementation of development projects by ensuring that only projects with detailed designs are allocated resources in the budget. Furthermore, Madam Speaker, some projects may have designs but still require to undergo a review as those projects may have taken time to commence.

Major Development Projects in the 2020/2021 Budget

Education Sector Projects

71. Madam Speaker, in the 2020/2021 financial year, Government will continue with initiatives to improve human capital development in the Education Sector through the following projects:

- i. Construction of Teachers Training Colleges for Primary School Teachers in Rumphi, Mchinji and Chikwawa;
- ii. Construction of Science Laboratories and Libraries in 29 sites across the country;
- iii. Construction of a new Mzuzu University Library;
- iv. Expansion and Rehabilitation of two Lecture Theatres, two Library floors and refurbishment of a

special needs resource centre at Chancellor College;
and

- v. Construction of Teaching Complex and Administration Block for Lilongwe University of Agriculture and Natural Resources.

Agriculture and Irrigation Development Projects

72. Madam Speaker, under the Agriculture sector, the following projects will continue to be implemented in the 2020/2021 financial year:

- i. Agriculture Commercialization Project;
- ii. Agriculture Infrastructure and Youth in Agribusiness Project;
- iii. Sustainable Agricultural Production Program;
- iv. Shire Valley Transformation Project; and
- v. Rural Irrigation Development Program.

Health Sector Projects

73. Madam Speaker, during the 2020/2021 financial year, Government will continue to implement infrastructure projects in the Health Sector to ensure efficient delivery of health services. The following are some of the projects to be implemented during the financial year:

- i. Construction of the New Phalombe District Hospital;
- ii. Construction of Domasi Community Hospital;

- iii. Construction of Cancer Centre; and
- iv. Construction of Mponela Community Hospital.

Road infrastructure projects

74. Madam Speaker, in the Road Sector, Government will implement a number of road projects including the following:

- i. Construction of the Lilongwe-Kasungu-Mzimba turnoff- Kacheche-Chiweta M1 road;
- ii. Jenda-Embangweni-Edingeni road;
- iii. Lirangwe-Namatunu-Machinga road;
- iv. Njakwa-Phwezi-Livingstonia road; and
- v. Thyolo-Thekerani-Muona-Bangula road.

Youth and Sports Development Projects

75. Madam Speaker, in the 2020/2021 financial year, Government will commence the construction of the Indoor Netball Court and the Mzuzu Youth Centre. Rehabilitation of the Kamuzu Institute for Sports will also continue.

Energy Sector Projects

76. Madam Speaker, in the Energy Sector, Government will continue with the implementation of the Malawi Electricity Access project and the Malawi-Mozambique Interconnector project. These projects are aimed at increasing access to reliable electricity. Furthermore, Madam Speaker, discussions with financiers for the 350 megawatts Mpatamanga Hydro Power Station are at an advanced stage.

Water Development Projects

77. Madam Speaker, under the Irrigation and Water Development, Government will implement a number of projects including the following:

- i. Southern Region and Blantyre Water Board Projects;
- ii. Lilongwe Water and Sanitation Project;
- iii. Salima-Lilongwe Water Project;
- iv. Nkhatabay Town Water Supply Project; and
- v. Karonga Town Water Supply Project.

Development Projects under Local Councils

78. Madam speaker, the 2020/2021 development budget under Local Councils amounts to K13.6 billion. This amount will finance the following projects:

- i. Dualisation of Chileka-Blantyre Road which is being implemented under Blantyre District Council;
- ii. Construction of City Roads in Lilongwe, Blantyre, Mzuzu and Zomba;
- iii. District Development Fund projects in all district councils; and
- iv. Construction of Water Structures in Local Councils under the Water Fund.

GENERAL POLICY ISSUES

79. Madam Speaker, let me now turn to some policy issues that Government will put in place to support implementation of this Budget. These policies are also aimed at supporting the Tonse Alliance economic and development agenda.

Rebranding Malawi Enterprise Development Fund (MEDF)

80. Madam Speaker, as I indicated in the Provisional Budget, the allocation to the Women and Youth Loan Program under the Malawi Enterprise Development Fund was increased from K15.0 billion to K40.0 billion. This amount will gradually be increased to K75.0 billion. In the meantime, Government has instituted a financial audit and is in the process of reviewing operational models and procedures of MEDF. This process, Madam Speaker, will lead to a total rebranding, including change of name of this very important institution.

81. With the increased allocation to MEDF, Madam Speaker, Government is expected to support the creation of 200,000 enterprises run by the youth and women. These enterprises in turn are expected to create over 600,000 jobs which will result in an increased tax base and improved welfare of our people.

Creation of one Million Jobs

82. Madam Speaker, the Tonse alliance Government is committed to create a million jobs within one year of office and that job creation will continue to be the main focus going forward. In this regard, Madam Speaker, Government has developed a road map with key activities that will be undertaken to facilitate the translation of this agenda into action.

83. It has become quite apparent, Madam Speaker, that most of the sectors have enormous potential to generate jobs if certain policy actions and incentives are implemented as a matter of urgency. Government will therefore implement policy actions and provide appropriate incentives to unleash this potential in sectors such as agriculture, mining, tourism, manufacturing and ICT.

84. In addition, Madam Speaker, the job creation agenda will be buoyed by a number of Government initiatives that have already been initiated. Some of these initiatives include; establishment of modern and fully equipped job centres which will first be established in Lilongwe, Blantyre and Mzuzu. The Job centres will assist job seekers to access employment information from employers and vice versa. These job centres will also be connected to Government systems that will enable reporting of number of people employed in real time.

Free Water and Electricity Connections

85. Madam Speaker, you may recall that the Tonse Alliance Government promised free water and electricity connections. I therefore wish to inform the August House that it remains Government's commitment to ensure increased access to electricity as well as safe and portable water. In order to implement free water and electricity connections, Government has embarked on a reform program of the concerned utility companies. It is upon completion of these reform programs when Government shall ably implement these promises.

Transforming the Informal Sector.

86. Madam Speaker, in keeping with recent policy changes and the public procurement law, Government Ministries, Departments and Agencies will be required and are urged to prioritise procurement of goods from indigenous businesses. Furthermore, the informal sector entrepreneurs will be organized into cooperatives through which they will be supported to upgrade their skills. This will enable them to achieve minimum product specifications and standards for the local and the export markets.

87. For example, Madam Speaker, procurement of furniture is a low hanging fruit in this respect. Government will therefore provide support, including through the rebranded MEDF, to capacitate the local furniture industry to upgrade their products. Similarly, Madam Speaker, given that Malawi has a cotton industry that needs to be supported, it is Government's vision to revive the cotton and textiles value chain by requiring that procurement of clothing for uniformed officers in the public service be done locally.

88. Madam Speaker, domestication of these economic activities is beneficial in a number of ways including; provision of markets to local farmers, economic empowerment of small and medium enterprises, job creation, and preservation of foreign exchange.

Creation of a Debt Retirement Fund

89. Madam Speaker, as I have already said, one of the major fiscal challenges for this country is the high and rising public debt stock. As at end June 2020, Malawi's total public debt was recorded at K4.1 trillion, the majority of which, at 57.3 percent is domestic debt. Madam Speaker, Malawi's domestic debt is currently rated at high risk of debt distress.

90. Madam Speaker, in order to repay this huge debt, Ministry of Finance is looking at a possibility of establishing a Debt Retirement Fund. Proceeds in the Fund will be ring-fenced and entirely used to retire public debt until debt levels subside to within sustainable levels. Thereafter, Madam Speaker, such a Fund could be turned into a Malawi Sovereign Wealthy Fund which could be used to support economic activities and the citizenry in times of pandemics and other forms of natural disasters through bail outs and fiscal stimulus packages.

Malawi Sovereign Credit Rating

91. Madam Speaker, Malawi has a huge infrastructure deficit that require recourse to international financial markets. However, Malawi's access to these markets is limited by its lack of sovereign credit rating. It is therefore almost impossible for Malawi to issue a sovereign bond on the international money market for infrastructure development. Any such borrowing could be highly priced due to the risk premium placed on a sovereign that is not rated. It is therefore important for this country to engage the credit rating agencies for a sovereign credit rating.

92. Madam Speaker, there are a number of advantages for a country such as Malawi to be rated. These include: allowing a country and its institutions, including commercial banks and the private sector to access cheap financing on the international money markets; acts as a moral suasion that compels policy makers to pursue prudent monetary and fiscal policies; and has potential to attract foreign direct investment as institutional investors rely heavily on rating agencies in making investment destination decisions.

93. In this regard, Madam Speaker, Ministry of Economic Planning and Development, Reserve Bank of Malawi and my Ministry have started the process to have this country rated.

Promotion of electronic financial transactions

94. Madam Speaker, I wish to inform the August House that Government will fully migrate to the electronic funds transfer system. This is an enabler to move towards a society that will adopt electronic payment modes in its financial transactions. This will also enable Government to enforce usage of electronic fiscal devices for taxation purposes, thereby enhancing compliance and bring the informal sector into the tax base.

Long Term Development Bond

95. Madam Speaker, Government will issue a 15-year development bond for some strategic projects and clearing of outstanding payment arrears. Government has therefore selected some projects for financing under this arrangement based on a number of factors including: potential to reduce government expenditure or generate revenues in the short to medium term; projects with substantial economic impact in form of employment creation and growth enabling; and readiness for implementation. Madam Speaker, use of long term development bond will enable Government to create fiscal space in the short term.

Diaspora Development Bond

96. Madam Speaker, My Ministry in collaboration with the Reserve Bank of Malawi is working on modalities towards the issuance of a diaspora development bond. This, Madam Speaker, is one way of encouraging Malawians in the diaspora to invest in the country. This is a policy concept that has been tested and is working elsewhere on the continent.

97. For this purpose, Madam Speaker, the Reserve Bank of Malawi created an information portal and in collaboration with the Ministry of Foreign Affairs, the Bank is profiling the diaspora communities as part of information gathering.

Reduced Passport fee and free Driving License Renewal

98. Madam Speaker, I wish to inform the August House that the Tonse Alliance Government is committed to deliver on its promise to reduce passport fee as well as to introduce free driving license renewal. In pursuing these two initiatives, Government has already engaged the concerned suppliers as these services are currently being rendered to Government under contractual arrangements with third parties.

Climate Change Management

99. Madam Speaker, in the 2020/2021 financial year, Government will strictly enforce the ban on manufacturing and use of thin plastics as part of managing the country's environment. In addition, Madam Speaker, Government will continue to adhere to the requirement of conducting environmental and social impact assessments for any development projects.

Revenue Policy and Administrative Measures for 2020/2021 Fiscal Year

100. Madam Speaker, I wish to report that Ministry of Finance received enormous inputs and proposals from various stakeholders for consideration in the 2020/2021 national budget. All proposals were consolidated and some of them have informed the policy measures included in this Budget whilst others are still being reviewed for consideration in subsequent budgets.

101. Let me therefore take this opportunity to thank the Parliamentary Committees, the Private Sector and Business Community, Academia, Development Partners, Non-Governmental Organizations and the General Public for the valuable inputs that were submitted during the budget consultation period.

102. Madam Speaker, the August House, may wish to note that while there are numerous expectations for support from the general public and the business community in view of the adverse impact of the Covid-19 pandemic, Government has equally not been spared by this pandemic. Nevertheless, Government will still endeavor to create a conducive environment to jump start the economy and spur growth, generate adequate revenue to finance the budget and deliver quality public services to the nation.

103. Madam Speaker, this country continues to register growth in the informal sector, where individuals can operate a business without any formal registration, thereby not paying taxes. However, Madam Speaker, whether one is operating in the formal or informal sector, they all look to Government for the provision of public goods and services such as roads infrastructure, schools, hospitals and security. Government will therefore implement policies aimed at turning the informal businesses into the formal sector via the creation of Associations and Cooperatives.

104. Madam Speaker, there is enough evidence that tax evasion in this country is so rampant. Government is aware that most traders evade taxes by deliberately not using the electronic fiscal devices and avoiding issuing VAT compliant receipts. This, Madam Speaker is an offence under the law. Government will therefore deploy an increased number of tax inspectors to detect and report this malpractice. The citizens will also be civic educated and incentivized to report the same to authorities.

105. Madam Speaker, considering the fiscal challenges that are currently being experienced, Government would like to appeal to all citizens to contribute to the public pulse by developing a culture of paying taxes so that everyone participates in national building as we pursue a shared national development agenda under the Tonse Alliance. Madam Speaker, the tax base in Malawi remains narrow as most citizens and businesses do not pay tax despite their insatiable demand for improved service delivery.

106. In the current financial year, Madam Speaker, Government will implement policies aimed at broadening the tax base and enhancement of tax payer compliance. In a special way, Madam Speaker, I would like to urge all Chief Executive Officers of State Owned Enterprises to comply with statutory obligations including timely remittance of taxes and pension contributions.

107. Furthermore, Madam Speaker, Ministry of Finance will continue to conduct policy reviews in terms of the tax system and finalise the development of the revenue mobilization strategy. Madam Speaker, Government will implement tax administration reforms at the MRA to ensure taxpayer compliance and enhanced tax revenue collections through automation, audits and taxpayer awareness campaigns. MDAs will continue to be engaged to undertake reforms aimed at improving resource mobilisation through, among others, digitization of revenue collections and exploration of new revenue initiatives.

108. Madam Speaker, in order to ensure that the citizens appreciate the importance of paying taxes, the Tonse Alliance Government is committed to prudently and transparently utilize all the revenues and ensure improved delivery of public services.

Tax policy measures for 2020/2021 budget

109. Madam Speaker, let me now highlight the tax policy measures for the 2020/2021 Budget as follows:

Income Tax

110. Madam Speaker, Government realizes the need to increase disposable income for salaried employees and enhance their purchasing power. In this regard, Government has increased the Pay As You Earn zero bracket from MK45,000.00 per month to MK100,000.00 per month. Government is aware that this adjustment is huge and to minimize its impact on the base for Personal Income Tax, the 15 percent middle bracket under the Pay As You Earn regime has been removed.

111. Madam Speaker Government has also increased the Withholding tax threshold for casual labour from MK15,000.00 to MK35,000.00 per transaction. Government recognizes the need to improve the welfare of the people, especially those that are engaged as casual labourers and earn modest incomes for basic needs.

112. Government has noted increased participation in betting and gambling transactions including lotteries. Madam Speaker, in order to ensure taxpayer compliance and encourage submission of income tax returns, Government has introduced a 20 percent Withholding tax on winnings from betting and gambling transactions including lotteries.

Value Added Tax (VAT)

113. Madam Speaker, to ensure efficiency in the VAT system, Government has introduced a standard rate of 16.5 percent VAT on refined cooking oil. This August House may wish to note that

previously refined cooking oil was VAT exempt and manufacturers were not able to claim tax refunds on their input VAT. This measure will now allow manufacturers to claim input VAT.

114. Madam Speaker, I wish to inform this August House that local manufacturers of refined cooking oil continue to benefit under the Industrial Rebate Scheme where raw materials are imported without payment of duty. In addition, under the Surcharge Tariff regime, the local manufacturers are protected from adverse competition. In this regard, arbitrary price increases especially by local manufacturers reflecting the full VAT adjustment on the refined cooking oil is not expected.

Administrative Measures

115. Madam Speaker, the Taxation Act has been amended in Section 2 under definition for “Amount Realized” to also include, “any contingent amount realized at the time of disposal”. This administrative measure has been done to provide clarity and protect the tax base.

116. Madam Speaker, Government has reviewed and amended the provision under Section 15(1)(e) of the Taxation Act regarding transfer of assets from an Individual to a Trust, to restrict the transfer to a Trust in which the Transferor is a Settler of the Trust. This administrative measure has been done to provide clarity especially under the Capital Gains tax and to ensure that the provision is hedged from abuse.

Trade Agreements and International Taxation

117. Madam Speaker, Government remains committed to the Regional Integration initiatives and milestones agreed under; SADC, COMESA, the Tripartite (COMESA, EAC, SADC) and the

Africa Continental Free Trade Area. This will enable the country to benefit through regional projects and an increased regional market that our products can access at preferential rates.

118. Madam Speaker, within SADC, member countries are encouraged to have a network of Agreements for the Avoidance of Double Taxation and Fiscal Evasion, with respect to taxes on income and capital, and the conclusion of these Agreements is actively being pursued by Malawi with its partners within the region. In addition, Madam Speaker, the old Tax Treaties which the country renegotiated are pending domestication and renegotiation process is ongoing for the remaining old Tax Treaties. Madam Speaker, the Ministry of Finance is also in the process of developing a Tax Treaty Policy for Malawi to ensure existence of a guided negotiation framework that promotes investment and trade while safeguarding national interest.

119. Madam Speaker, let me inform the Honourable Members that the Tax Policy measures that I have announced in this Budget will become effective 1st October, 2020 once the relevant Amendment Bills under the Taxation Act, VAT Act and the Customs and Excise Act are deliberated and passed by this August House.

Conclusion

120. Madam Speaker, let me reiterate that the 2020/2021 budget seeks to achieve sustainable and inclusive growth, macroeconomic stability and sound financial management.

121. Madam Speaker, as I conclude, let me take this opportunity to sincerely thank the development partners for the enormous support rendered to the Government of Malawi in its development agenda. Furthermore, our development partners have been instrumental in supporting Government in times of

adversity such as; drought, floods and the recent Covid 19 pandemic. Madam Speaker, I therefore call upon Honourable Members of this August House to join me in thanking our development partners.

122. Madam Speaker, Malawi has relied heavily on development partners' support as domestic revenues dwindled due to the impact of the pandemic. The Tonse Alliance Government is sincerely humbled and look forward to working with all development partners as we implement the 2020/2021 budget.

123. Madam Speaker, let me leave the Honourable Members with a motivational quote from **Henry Ford**, an American industrialist and business magnate, and I quote, **“If everyone is moving forward together, then success takes care of itself”**, end of quote.

124. Madam Speaker, I beg to Move.