



2006/2007 BUDGET STATEMENT

DELIVERED IN THE
NATIONAL ASSEMBLY OF MALAWI

BY

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AT

THE NEW STATE HOUSE, LILONGWE

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The 2006/2007 Budget Statement

Motion

1. Mr. Speaker, Sir, and Honourable Members, I beg to move that the estimates of the recurrent Account and the Development Account of the 2006/2007 budget be referred to the Committee of the whole to consider them Vote by Vote and by Head and, thereafter, that they be adopted.

Introduction

2. Mr. Speaker, Sir, and Honourable Members, this House does not need reminding of the crisis from which we have just emerged. We were confronted by one of the worst disasters in this country's history, when daily, many Malawians were subjected to living dangerously close to death and, many constantly wondered whether they would have food to eat tomorrow. It was one of those desperate moments Mr. Speaker, Sir, when people expect the maximum from their Government and examine its performance under a microscope.

3. Honourable Members I am happy to testify that, in response to these legitimate expectations of the country, its leadership, led by His Excellency the President Dr. Bingu wa Mutharika and consisting of his Government, Honourable Members in this House, and donors here and abroad, collectively and single mindedly mobilized in search of food for the people. Honourable Members, while it is true that the result of these efforts did not restore normality of life to everybody, there is no doubt that with this collective effort of the Government Ministers and Members of Parliament in their constituencies, donors and NGOs included, we

helped to turn hopelessness and despair into courage and determination to live for tomorrow.

4. Mr. Speaker, Sir, let me take this opportunity therefore, on behalf of His Excellency the President, Honourable Members of Parliament, and indeed on behalf of the nation as a whole, to express the deep gratitude of Malawi to the donor community, particularly those in Lilongwe, for tirelessly working with us in our time of need. For some, this meant working day and night to think ahead and plan what to do. They liaised and mobilized their colleagues in government and organisations abroad to mitigate the crisis. For those of us that worked among them almost on a daily basis, the extent of the success of our efforts in Lilongwe was symbolized by the fact that more than 90 per cent of food assistance to Malawi was pledged long before the public declaration of the state of disaster. These pledges came without fanfare and publicity. It came unaccompanied by the humiliation of pictures of our desperate looking babies on the TV screens of the world. Unhappily this was not to be after the declaration we were obliged to make later.

5. Among the local donor community, Mr. Speaker, Sir, let me single out DFID of the United Kingdom to whom we turned frequently even for impromptu support which readily came when justified; the EU Delegation that continued not only to deliver the current food requirement but also the replenishment of our Strategic Grain Reserve; the Embassy of Norway for mobilizing critical support and readily contributing to ideas on how to beat the crisis, and the World Bank whose usual momentous targeted financial support and involvement in our plans proved so vital. As usual the World Food Programme of the United Nations, took on the unenviable task of the distribution of food and the necessary logistics. They continue to deserve our particular thanks. The international leadership of the United Nations continued to be

invaluable. They were with us at every stage of these activities. Top Executives of this organisation traveled to and from New York, Rome and Johannesburg constantly to focus on Malawi's plight.

6. Mr. Speaker, Sir, and Honourable Members, In times like these, not everything will have been perfect and there is bound to be scapegoating, but, all in all, it is comforting to know that those who deal with such crises year in and year out internationally, scored our work highly. More importantly, the deep gratitude of our people of what was done is the clearest vindication of the efforts that were mobilized. Mr. Speaker, Sir, at the center of all these activities was, of course His Excellency the President who guided the Government on what to do, and made strategic and timely appeals to the donor community in Lilongwe and abroad for the support that was so ably organized and became so effective.

7. Honourable Members, calamities such as this have paralyzed the very social fabrics of some Nations, irreparably. In other countries however, disasters have provided a rallying point for the regeneration of a renewed determination to succeed. Here, in Malawi, the crisis is beckoning us to examine why these disastrous occurrences prevail repeatedly. Politically, we seem to have advanced impressively but, our economic performance retrogressed progressively. In particular our ability to feed ourselves, in a sustained way has vanished as has the pride of a hard working people that once disdained handouts. Mr. Speaker, Sir, this House which is the apex of the Malawi Nation, must, as a matter of priority, answer the question of: What is to be done to avert the famines which have become habitual. Mr. Speaker, Sir, in the view of many, there is no better occasion to confront this critical question than this budget sitting of Parliament. Let us put this duty before any other agenda.

8. Mr. Speaker, Sir, to a large measure, in his gracious address to the House almost a fortnight ago, His Excellency the President was as good as declaring this to be the theme of this Sitting of Parliament. We must provide answers to this question if we are to declare to our people that never, never again shall we become so helpless and forced to beg for food. Never again Mr. Speaker, Sir, shall we be caught in the company of those whose children are paraded on World TV screens as examples of hungry nations. Our people are crying out to be led out of this humiliating ordeal.

9. Mr. Speaker, Sir, allow me to end these introductory remarks by informing the House that having met the fiscal targets set during the past two years, we are poised to reach the completion point under the HIPC debt relief initiative during the 2006/2007 financial year. This will also lead to multilateral debt cancellation for Malawi that the country needs so badly. We therefore included the benefits which we expect from this initiative in the budget that I will be proposing to Parliament shortly. The House will wish to know, however, that attaining this status will depend upon the completion by the IMF Executive Board of the next review under the PRGF programme. The House will recall that last year, the discussion of the programme by that Board was only possible after Parliament deliberated and passed the budget. This is because the budget anchors the PRGF programme for the next year.

10. Mr. Speaker, Sir, we have been informed that again this year, the IMF Board will not meet to discuss our case before Parliament passes the Budget. Honourable Members to this extent therefore, the cancellation of Malawi's external debt becomes not only the responsibility of the Executive Board of the IMF but that of this Parliament as well. So far, we have been able to satisfy the staffs of the IMF and the World Bank regarding the conditions and measures which they call "triggers", for

reaching the HIPC's completion point. The three triggers that have not been met are likely to be waived by the IMF Board and will be justified by the staff at the Board Meeting of the World Bank. I am confident therefore that in the course of this year, we will be able to achieve this goal that will be so crucial to the future management and growth of this economy.

Fiscal Performance Under the 2005/2006 Budget

11. Mr. Speaker, Sir, as I did last year, let me start my task by summarizing our fiscal performance for the year 2005/2006. Yet, again this year, at various fora where Malawi's economic progress has been discussed, most people have remarked that we have achieved our fiscal objectives of the year despite the devastating effects of the food crisis. The House will no doubt wish me to acknowledge these kind and encouraging remarks.

12. Mr. Speaker, Sir, you will recall that during the mid year review of the 2005/2006 budget, the House approved that the provision of revenue and grants be increased from K116,796 million to K121,620 million because of the good performance of tax collection by the MRA and a much larger inflow of grants. I would like to confirm that the tax collection did increase by K2,297 million and correspondingly, donor grant inflows also increased as projected. Grants that have been received amount to K53,938 million. This is more than double the grants amounting to K22,612 million that were received in 2003/2004. It reflects a tremendous change of donor attitudes and increased confidence in our economic performance. The Government intends to strive harder and to perform better so as to achieve a faster growth of the economy.

13. Mr. Speaker, Sir, again as projected at the mid year review of the 2005/2006 budget, largely because of an escalation in the cost of maize and fertilizer imports, total expenditure and net lending increased as projected and as approved by this House, to K129,024 million. This is an increase of 8.0 per cent over the originally approved total expenditure of K119,499. As explained at that time the increased expenditure was largely due to maize and fertilizer imports whose price escalated precipitately as will be discussed later. Of the K9,525 million over-expenditure, maize and fertilizer programmes accounted for K7,318 million and the rest of the over-expenditure is accounted for by over expenditures in the Ministry of Lands, Housing and Physical Planning, the Ministry of Transport and Public Works, the University of Malawi and the National Assembly. It is noteworthy, Mr. Speaker, Sir, that the majority of the votes of Ministries and Departments, in fact, spent within their budgetary limits.

14. I wish to confirm to the House, Mr. Speaker, Sir, that regardless of these expenditures, we will not be requesting for supplementary resources to pay for the over expenditures for the reasons that were explained to the House in March, 2006. Mr. Speaker, Sir, it should also be noted that although we reduced the repayment of domestic debt, we nevertheless made history by paying an amount of K482 million. Mr. Speaker, Sir, for the first time in a long time, the Government has been able to repay domestic debt at the same time as we repaid arrears to almost all small creditors and a sizeable amount of arrears to the public utilities companies. The House will recall that it approved the sum of K2,000 million for the reduction of the accumulated arrears.

15. Moreover, Mr. Speaker, Sir, regardless of the disaster, we have also been able to observe all the IMF targets, although the growth rate for 2005 was severely

constrained by the disaster. And now Mr. Speaker, Sir, let me report in more detail on the two programmes that dominated budgetary operations in 2005/2006.

Maize Transactions

16. Mr. Speaker, Sir, let me underscore what I reported to Parliament during the mid term review of the budget that the handling of the maize shortage crisis was characterized by intensive consultations between the donor community in Lilongwe and the Government at all stages including: planning the tendering process, the actual purchase and importation of maize, its transportation and its distribution around the country. In addition to the deep involvement of donors, which was necessitated by the 2002 unfortunate maize scandal, the Government required that we subject the transaction to rigorous accounting standards. As some Honourable Members remarked during the mid term review, Mr. Speaker, Sir, this was demonstrated by the fact that even at that very early stage, we were able to give a full comprehensive and quantified report on both the maize and fertilizers.

17. Mr. Speaker, Sir, I wish to inform the House that I have called for a special and comprehensive audit of the totality of the maize transactions by the Auditor General who will report to Parliament long before the general audit of the 2005/2006 final accounts of the government. Normally Mr. Speaker, Sir, as the House is aware, the Auditor General will be required to audit Government accounts including those of the maize transactions six months after the end of the year when final accounts of the Government are presented to the Auditor General by the Accountant General. This is what the law requires, but we will do even better than this and than any other Government has done in Malawi.

18. Honourable Members, as I reported at the last sitting of Parliament, instead of the budgeted 149,000 metric tonnes of maize, in fact, a total of 209,000 metric tonnes were imported through the budget at a cost of K10.3 billion against the budgeted K5.6 billion. Of this quantity 136,000 metric tonnes were for humanitarian distribution to those considered unable to pay for the commercial maize, and 73,000 metric tonnes as opposed to the budgeted 30,000 of commercial maize was purchased. We drew 51,000 metric tonnes from the Strategic Grain Reserve. Therefore, some 260,000 metric tonnes was available from the budget. Outside the budget, for those donors who preferred to fund WFP directly to purchase the maize, a total of 58,000 metric tonnes of maize were imported.

19. Mr. Speaker, Sir, the House should therefore note that the total maize that became available for distribution and sale in 2005/2006 was 318,000 metric tonnes. This is 59 per cent more than the planned quantity of 200,000 tonnes. Over and above, this quantity of maize donors contributed 16,000 metric tonnes of other varieties of food including rice and pulses through the budget. And those who contributed through the WFP purchased and distributed 92,000 metric tonnes of these varieties of food. In the event, Mr. Speaker, Sir, the total quantity of food that was procured through the budget was 276,000 metric tonnes which was 38 per cent higher than planned. The quantities that were purchased outside the budget and through WFP were 150,000 metric tonnes, so that in all, some 426,000 metric tonnes of foods were distributed and sold - 113 per cent more than envisaged at the time when the 2005/2006 budget was approved. The House will agree that this is an impressive result.

20. The total cost through the budget of all these purchases was K10, 290 million as against the budgeted figure of K5,600 million. On the other hand, the WFP

window saw approximately K11,950 million spent on food. All in all therefore, the total amount that was spent through the budget and through the WFP window was K23,740 million. The increased costs were due to larger quantities that were actually purchased and escalating prices of food due to the increasing cost of transportation and logistics. As I informed this House, we have requested that these figures be audited by the Auditor General as quickly as possible to avoid the experiences of the past where the financial results of the handling of the maize crisis are still unknown let alone not audited.

Fertilizer Subsidy Programme

21. Mr. Speaker, Sir, another important programme that was part of the 2005/2006 budget was the fertilizer subsidy programme on which I would also like to spend a little time to report on. I wish to confirm that in total an amount of 140,327 metric tonnes of fertilizers were received and distributed under this programme instead of the 147,000 metric tonnes that were ordered. This is 95.2 per cent of the planned programme. The quantity that was ordered composed of 54,569 metric tonnes of the 23:21.4S fertilizers against the budgeted figure of 55,000 tonnes. The quantity of Urea was 55,000 metric tonnes which was as budgeted. Therefore, Government subsidized 98.6 per cent of the planned quantity of maize fertilizers (23:21.4S and Urea).

22. Regarding the two types of fertilizers for Smallholder tobacco farmers, Mr. Speaker, Sir, a total of 16,156 metric tonnes of D Compound was imported as against a budgeted figure of 22,000 tonnes and out of 15,000 metric tonnes that was budgeted for CAN fertilizers, 14,600 tonnes were imported and sold. Mr. Speaker, Sir, as Honourable Members are aware, the decision to include the D Compound

and CAN fertilizers was taken late in the year and therefore it was impossible to fully implement what was required. All in all, however, in the view of many inside and outside the country, and in particular in the opinion of a vast majority of the beneficiaries, the smallholder farmers in the country, this has been declared a successful programme.

23. As regards the finances, and as reported to the House at its last sitting, largely because of price escalation of fertilizers as well as transportation costs both of which increase in tandem with increased oil prices, the cost of the programme (including maize seed) was K6,900 million against the budgeted amount of K4,800 million (that excluded maize seed).

World Economic Outlook

24. Mr. Speaker, sir, let me give an economic preamble that forms a background to the budget. The world economy remain strong despite the adverse impact of the high and volatile oil prices and the natural disasters in some regions. During the first three months of 2006, crude oil prices fluctuated in the range of USD60 – 66 per barrel compared with an average of USD53 and USD37 per barrel in 2005 and 2004, respectively. Mr. Speaker, Sir, economic commentators in Malawi have been silent on this almost doubling of world oil prices in two years. Such a huge jump has affected our own prices of oil products, although these which have remained lower, in dollar terms, than in some of our neighboring countries.

25. Despite high oil prices, the world economy has continued to be strong and the IMF estimates global GDP to be growing at 4.9 per cent in 2006, a slight increase compared to 4.8 per cent growth recorded in 2005. This has mainly been on account

of continued growth in global industrial production, service sector and trade, and sustainable consumer confidence. Furthermore, the strengthening labour market conditions as well as the rise in forward looking indicators, notably business confidence; have also been instrumental to this positive outcome. Mr. Speaker, Sir, looking beyond 2006, the IMF projects global GDP growth to slightly ease down to 4.7 per cent.

26. Growth in industrialized economies is estimated at 3.0 per cent in 2006, to 2.7 per cent a year before. Among the industrialized markets, the US economy is expected to grow by 3.4 per cent while in Japan and the euro area, GDP is estimated to grow by 2.8 per cent and 2.0 per cent, respectively. For the US and Japan, strong domestic demand in response to improving labour market conditions continue to underline their growth impetus while in the euro area, consumption still remains weak.

27. In sub-Saharan Africa, Mr. Speaker, Sir, economic activity continued to expand robustly at 5.5 per cent in 2005 and is estimated to grow by 5.8 per cent in 2006. Honourable Members will note that this year our growth rate at more than 8 per cent is well above the Sub-Sahara Africa average. It is argued that growth in Africa is largely premised on the continued positive effects of reforms and improved macroeconomic policies, coupled with high commodity prices particularly in oil exporting countries. Moreover, the impact of the HIPC and the Multilateral Debt Relief initiatives have offered countries opportunities to reorient spending to their priority areas. In 2007, economic activity in Africa is expected to stabilize at 5.5 per cent. However, Mr. Speaker, Sir, and Honourable Members, for this region, much depends on improved political stability as well as weather conditions that often have significant bearing on the region's economic activity.

28. In the SADC region, growth is expected to reach 9.2 per cent in 2006 compared to 5.2 per cent in 2005. This is largely on account of the recovery in agricultural production due to relatively normal rains across the region as well as intensified reforms aimed at improving the business environment, including governance and streamlining of regulations. However, as expected, the removal of textile quotas and the consequent increased competition in the US and European markets, largely from low-cost Asian countries has adversely affected a number of countries in the region.

29. Focusing more on South Africa, our major trading partner, its economy is expected to grow by 4.3 per cent in 2006 and 4.1 per cent in 2007. Continued higher metal prices coupled with both strong domestic and external demand have supported economic growth in that country. This budget has been set against a continued favourable demand for our exports and a favourable environment for external aid for developing countries like ours.

Malawi's Economic Outlook

30. Because of the adverse effects of the drought conditions and the persistent rise in oil prices, economic activities in 2005 were constrained. On a calendar year basis, agricultural production declined by 9.1 per cent in 2005 from a 2.7 per cent growth in the previous year. Consequently, Mr. Speaker, Sir, real GDP in 2005 grew by 2.1 per cent compared to a growth rate of 5.1 per cent in 2004. However, within this dismal overall growth, some impressive sectoral growth rates were recorded particularly in manufacturing, mining, utilities, construction and service sectors. This, Mr. Speaker, Sir, and Honourable Members should be viewed as a watershed in

economic developments in Malawi as in the past, a bad agricultural year in terms of production has in most cases meant poor growth rates in almost all sectors.

31. Forecasts jointly prepared by the Government and the IMF show that in 2006, Malawi could attain a growth rate of 8.4 per cent owing largely to the good harvest due to near normal rains in most parts of the country, except for the Kasungu area, and the successful implementation of the fertilizer and maize seed subsidy programme. Output in the Agriculture sector is expected to increase by 8.5 per cent in 2006. It is expected that the improvements in fiscal management that have led to low interest rates and higher investment ratio due to the large Government capital expenditure will go a long way in contributing to the overall growth of the economy.

32. Mr. Speaker, Sir, headline inflation rate by the end of December 2006 is expected to drop to a single digit, with an average inflation rate of 10.9 per cent compared to an annual average of 15.5 per cent in 2005. With improved food availability, the end December 2006 food inflation is projected at 4.2 per cent, a remarkable contrast to 17.2 per cent food inflation as at December last year. On the other hand, core inflation excluding food prices, is estimated at 12.8 per cent as at December 2006 compared to 15.8 per cent in December 2005. Core inflation however is still high largely due to the adverse effects of the high and volatile oil prices on the international markets.

33. Looking further into 2007, and depending on favourable weather conditions and the mitigating effects of the irrigation programme that the Government has put in place, real GDP on a calendar year basis is projected to grow by 5.6 per cent. By end December, 2007 core inflation is projected to drop further to 7.6 per cent with an annual average inflation rate for the year projected at 8.2 per cent.

34. Within the external sector, Mr. Speaker, Sir, gross official reserves on a fiscal year basis are projected at 1.5 months of imports during the 2005/2006 financial year and the import cover is expected to rise to 2.2 months of imports during the next fiscal year. This improvement is mainly on account of reduced demand of imports, especially maize due to the expected bumper harvest.

35. Mr. Speaker, Sir, the 2005/2006 budget performed well despite some fiscal pressures as a result of the large volumes of maize purchases and the fertilizer and maize seed subsidy programme. This better performance in the budget implementation was due to stringent expenditure controls, improved domestic revenue mobilization and higher levels of external aid from the international community.

36. On the monetary front, the Reserve Bank of Malawi reduced the liquidity reserve ratio on 1st February, 2006 to 27.5 per cent to 20 per cent. Consequently, interest rate spread, the difference between the lending and deposit rates narrowed by up to two percentage points. However, Mr. Speaker, Sir, monetary policy remained tight as the Reserve Bank intensified its open market operation to mop up liquidity in order to contain inflationary pressures due to the excess reserves caused by the decline in the reserve ratio, the food scarcity as well as the oil price increases.

Perspectives of the 2006/2007 Budget

37. Mr. Speaker, Sir, I now wish to summarize the land marks of the 2006/2007 budget, before I go into the details of the budget. At the onset I would like to emphasize that we will continue to exercise fiscal discipline that has been the basis

of our ability to achieve our fiscal objectives and the targets agreed with the International Monetary Fund. As I have stated, for the first time, for a long long time, it has been possible to end the year with a sizeable repayment of the domestic debt. Apart from this objective, I would like to summarize some of the land marks during the 2006/2007 budget.

Public Financial Management

38. Mr. Speaker, Sir, the Government will continue to implement reforms aimed at strengthening public financial management. Malawi was once reputed to have one of the best civil service recognized throughout for its professionalism. Sadly, this reputation has been replaced, in the public mind, by a perception of a civil service that is not concerned with providing the services Malawians expect and that is not accountable. However, it is gratifying that a change in attitudes has begun and a significant number of senior civil servants are leading a revival of the professionalism that once characterized the service.

39. Along side this change, the Government will continue to implement reforms that are aimed at improving public finance management. At the core of these reforms is the rollout of the Integrated Financial Management Information System (IFMIS) across all ministries. Mr. Speaker, Sir, Honourable Members will wish to know that unlike the experience of other countries where this complicated system has been introduced only with external technical assistance, in Malawi we have been able to establish the system on our own and only needed periodic exchange of visits between our experts and Tanzanian experts. As the House will recall, attempts to establish a similar system took more than five years with the assistance of World Bank funded experts. We had to take it over in 2005 because we were going

nowhere with it. This rollout of IFMIS is now progressing quickly and promises to improve the accountability of financial resources. We intend to continue with this project that is part of strengthening the management of public finances.

Fiscal Objectives

40. Honourable Members, in tandem with the intensification of expenditure control is the objective of reducing the domestic stock of debt and once more, the budget has been formulated against a backdrop of a large domestic debt that now stands at the equivalent of 19.6 per cent of GDP. This objective will continue and it is expected that the domestic stock of debt will fall to 16.1 per cent of GDP. Mr. Speaker, Sir, as regards arrears, I am glad to inform the House that we intend to repay an additional K3 billion of the inherited stock of arrears. Let me repeat, Mr. Speaker, Sir, that we have managed to pay our arrears to all small creditors and a sizeable amount that was owed to utility companies, despite reports to the contrary. We will make payments of the balance our priority in this case. This year, we intend to increase the repayment amount. We also expect to securitise some of the arrears on a voluntary basis. A number of creditors have suggested that rather than wait for Government to repay the arrears by cash, the arrears could be securitised, since such securities could be traded for cash. We would be working on this possibility next year.

Pensions Reform

41. Mr. Speaker, Sir, this year it is planned to focus on pensions as part of the Public Service Remuneration Reform Program. Our aim, Mr. Speaker, Sir, is to enhance pensions of retiring public servants. The House will recall that the pay package of a Civil Servant consisted of a core salary that was augmented by

allowances which were typically three times as much as the core salary. As pension calculations were based only on the core salary, typically, pensions bore no relation to the pay package a public servant received. For instance it was not unusual that a person who received a pay package of K100,000 per month would, on retiring earn a pension of K13,000 per month after 30 years of service. The consequences of such a disparity between pay packages and pensions were not only daunting to a retiring individual, but his work suffered because he had either to engage in ancillary business activities in parallel with government work, or indulge in some illicit activities in order to prepare for his retirement. Therefore, the enhancement of pensions is an important cornerstone of the Public Service Remuneration Reform. In these reforms, we have adopted international standards and norms.

42. Mr. Speaker, Sir, the consolidation of allowances into the basic pay that was done in October, 2004 meant that the base for calculating Civil Servants pensions increased substantially. For some grades the pension base in fact quadrupled. The task of the pension reform therefore is to balance the need to increase pensions and to make sustainable the cost of the increased pensions on the budget. On the basis of the present pension formula, the cost to the budget of pensions would also quadruple i.e. from the present K3.2 billion to more than K12 billion per year. Our first aim is to increase pensions from the present average replacement ratio to the internationally accepted ratio of 60 per cent. It would mean that a Civil Servant that completes a working life of 30 years and whose final three year average salary is K100,000 per month would receive a pension of K60,000 per month which will be indexed for inflation up to an inflation rate of 10 per cent yearly.

43. We will be discussing these proposed pension reforms with Civil Servants, Mr. Speaker, Sir, Ministry by Ministry as well as with the Civil Service Trade Union

before it can be launched in the course of the financial year. The total cost of pensions will increase from K3.2 billion to K4.8 billion which is considered to be sustainable. Let me repeat that the purpose of the reforms is to ensure that Civil Servants should look forward to receiving a satisfactory pension that does not depreciate with inflation so that as they work they should do so with confidence of the future.

Food Security Programme

44. Mr. Speaker, Sir, the Government discerns a possibility that we are experiencing a climatical pattern that periodically brings about drought conditions and even during a year of normal rainfall, in various parts of the country, spells of drought occur at critical times when plants most require rainfall. In response to this phenomenon, it plans to initiate a programme that is aimed at eliminating our dependency on rain-fed agriculture as a basic solution to the effects of drought as a cause of periodic food crises that are being experienced.

45. This year, Mr. Speaker, Sir, the government intends to commence a programme of constructing a network of dams throughout the country and to rehabilitate existing but dysfunctional irrigation schemes and to construct new ones. These installations will address the water requirements for both smallholder and large scale farmers. Just as important Mr. Speaker, Sir, the water reservoirs will make it possible for farmers to grow crops yearly. This programme therefore aims at mitigating the effects of droughts and at increasing agricultural production.

46. Mr. Speaker, Sir, it is expected that such a programme will create constant food surpluses and therefore the government will also enhance food storage capacity by embarking on a programme of constructing silos around the country.

This year it is intended to construct three additional silos of 20,000 metric tonnes each at Mangochi, Mzuzu and Luchenza. Together with the large existing silos in Lilongwe, food storage capacity is expected to increase to 260,000 metric tonnes this year.

47. This programme is one of the many responses to the food crises in the country that includes the fertilizer subsidy programme and the various farm training programmes that will be revived this year.

ADMARC

48. Mr. Speaker, Sir, instead of the commercialization of ADMARC as earlier envisaged it is planned to reform ADMARC so that it functions as it did in the pre-1972 days when it was essentially engaged in the purchasing of smallholder crops, principally maize, and other grains and selling farm inputs such as fertilizer and farm implements. It will therefore retain its markets and selling points or depots, principally, in rural areas around the country. Most of these have been rehabilitated. The other functions that ADMARC assumed over the years, will now be performed by a separate company on a Public Private Partnership (PPP) basis. The World Bank will support this reform programme financially.

Purchase of Surplus Maize

49. Mr. Speaker, Sir, with the prospects of a bumper crop this year, we have had to face the question of what to do with the possible surplus maize. We expect that the maize harvest will exceed the needs of the nation by about 200,000 metric tonnes. The budget includes an allocation of K2.0 billion to purchase about 100,000 metric tonnes of maize by ADMARC through its depots around the country. We have

authorized that organisation to borrow from commercial banks to purchase a further 40,000 tonnes of maize and other crops. ADMARC has commenced to purchase the crop and we envisage that the rest of the surplus maize will be procured by these private sector maize traders. Furthermore, we expect that 40,000 tonnes that will have been procured by ADMARC will be sold to the maize deficit districts at prices that will cover costs while the rest will replenish the Strategic Grain Reserve in the silos in Lilongwe, Mzuzu, Mangochi, and Luchenza. We will draw on the SGR for humanitarian distribution of maize after discussing the programme with other contributors to the Reserve.

Public Works Programme

50. Government will continue with this programme under the same terms as last year Mr. Speaker, Sir. However, this year the programme will focus on the construction and rehabilitation of dams, feeder roads and afforestation.

The 2006/2007 Budget Framework

51. And now, Mr. Speaker, Sir, let me get on with the business of presenting the 2006/2007 budget to the House. The projected total resources that consist of domestic revenue and grants is K134,704 million. On the other hand the estimated total expenditure and net lending is K138,705 million. The planned overall deficit therefore is a deficit of K4,001 million, which represents 1.3 per cent of GDP against the planned deficit of 2.6 per cent last year.

52. Mr. Speaker, Sir, this significant fiscal consolidation reflects our optimism for the coming financial year. It is expected that the expansive economic activity that has begun during 2005/2006 will continue into 2006/2007 when economic prospects

are forecast to be good. This will favour a higher growth of domestic revenue which we estimate to grow at the rate of 15.3 per cent. Grants are expected to increase by 5.0 per cent over last year's figure which itself was at a record high level due to donor's extraordinary contributions during the food crisis.

53. Mr. Speaker, Sir, with a deficit of K4,001 million and the planned foreign financing of K5,738 million we expect to repay K1,737 million of the K53,000 million domestic stock of debt. At the end of the 2006/2007 year, the domestic stock of debt is expected to have fallen from 19.1 per cent of GDP to 16.1 per cent of GDP. In tandem the interest payments would fall to 4.3 per cent of GDP. In this respect, we are on our way to fiscal normality.

Revenue and Grants in 2006/2007

54. Mr. Speaker, Sir, it is estimated that tax revenue within the projected total revenue will rise by K9,928 million which is a 16.8 per cent increase over last year's tax revenue while non tax revenue is projected to increase by 3.4 per cent. With an expected revenue from sales of maize of K800 million, total domestic revenue is estimated to rise by 15.3 per cent to K78,055 million in 2006/2007. The grants are composed of project grants which will increase significantly by 50.0 per cent as the majority of donors, including the World Bank, shift their funding of our development efforts from loans to grants. Grants that are dedicated to specific programmes of the government and balance of payments support are projected to fall by 22.9 per cent and 4.8 per cent, respectively, as they move back to normal levels from record high levels during the maize crisis. The budget also includes flows from debt cancellation by the IMF. We expect that benefits from this debt cancellation amount to K3,685

million. We are yet to finalise the projected result of debt cancellation by the World Bank.

55. Honourable Members, I have already paid our tribute to the donors in respect of their contribution towards maize imports. However, let me repeat our gratitude to donors who contribute to the balance of payment support, these are DFID of the UK, the European Union, the World Bank, Norway and Sweden. We expect the African Development Bank to join this group of donors shortly. I would also like to recognize the contributions of the Government of Japan to the dedicated grants that will be on lent for private sector development.

Expenditure Estimates in 2006/2007

56. Mr. Speaker, Sir, as regards expenditure, I would like to bring the attention of Honourable Members to a development that we have consistently emphasized as a Government. I refer Mr. Speaker, Sir, to our goal to accelerate the development expenditure as part of the budget. We have consistently increased expenditure on development relative to recurrent expenditure since the 2004/2005 budget. Of the total expenditure of K138,705 million, some K48,053 million or 15.0 per cent of GDP, is planned to be spent on development projects of the Government. Development expenditure is more than double what it was in the 2003/2004 budget. The domestic resource contribution to the funding of development projects has been increased by approximately 90.5 per cent over last year's figure to K7,770 million. This demonstrates the commitment of the Government to the development effort. We have begun to fund relatively large projects entirely from our own resources. Examples of this are the Mponela-Ntchisi and the Kamphata-Nkhoma roads. I also wish to recognize the increasing donor support to our development programmes

which has risen by more than K12 billion to over K40 billion this year. Approximately 60 per cent of external funding of development expenditure consists of grants. In fact, reflecting donor policy, annually we now receive more grants than loans for our development programme. Later, I will be summarizing to the House how we plan to use these resources to reflect the development priorities that His Excellency the President announced to the House a fortnight ago.

57. Mr. Speaker, Sir, Honourable Members will note that there has been a drastic reduction of recurrent expenditure from the original budgeted ratio of 31.5 per cent of GDP in the 2005/06 budget down to 28.1 per cent in the 2006/07 budget compared with development expenditure of 13 per cent and 15.0 per cent for 2005/06 and 2006/07, respectively. These are significant changes and adequately reflect our determination to prioritise economic growth as the main means of sustainable poverty reduction.

Allocation to Notable Sectors in the 2006/2007 budget

58. Mr. Speaker, Sir, one of the most significant features of the budget this year is the large increase in the allocation of resources to the Ministry of Agriculture and Food Security which increased to K16,817 million and is now the largest vote. This is approximately 12.2 per cent of total expenditure. Net of maize purchases, this is a 30 per cent increase. The development expenditure of this Ministry has almost been tripled from K2,393 million to K6,187 million. This huge increase marks a start in the Government plans of establishing food sufficiency in the country. The extent to which Government attaches importance to food security is demonstrated even more vividly if the allocation to the Ministry of Agriculture and Food Security is taken together with that of the Ministry of Irrigation and Water Development whose development

resources have almost tripled from K898 million to K2,594 million. Mr. Speaker, Sir, Development expenditure allocations to the two Ministries which are both related to food security at K8,771 million constitute approximately 18.3 per cent of total development expenditure of the 2006/2007 budget.

59. In the Ministry of Agriculture, the increase in the “Other Recurrent Transactions” is largely due to a planned rebuilding of the extension activities. In particular, it is expected to increase the recruitment of extension personnel by 800 people and to provide them with means of transportation including bicycles and motor cycles. Furthermore, it is proposed to rehabilitate farm institutes at Thuchila in the Southern Region, Chitala in the Central Region and Mbelwa in the Northern Region. These centers would revive the practice of offering short courses to smallholder farmers on improved agricultural methods and to acquaint them with the husbandry, not only of traditional crops like maize but new crops that could be introduced in the country. Last year, Mr. Speaker, Sir, it would be recalled that the House was particularly emphatic about the need to intensify agricultural extension services. This, then, is the response of the Government to that strong demand.

Fertilizer Subsidy

60. Under Agriculture, it is expected to continue with the fertilizer subsidy programme and it is planned to subsidize 150,000 metric tonnes of fertilizers at a cost of K5,5 million. The fertilizer imports will be composed of 55,000 tonnes of 23:21.4s fertilizers, the same quantity of Urea, 25,000 tonnes of D-compound and 15,000 of CAN fertilizers. A new feature we would like to introduce this year is to harmonize the price of all four types of fertilizers at K950 per 50 kg bag.

61. Mr. Speaker, Sir, there has been a lot of controversy over whether to use the coupon system or farmers clubs to deliver the fertilizers to the smallholder farmers. While it is agreed by all that only smallholder farmers should benefit from the subsidy programme, means of ensuring that large farmers do not participate and that beneficiaries do not buy more than their entitlements differ. The entitlements limit a smallholder farmer to one bag each of 23:21.4s and Urea fertilizers in the case of maize producers and one bag each of D-compound and CAN fertilizers for a burley tobacco smallholder farmer. Whereas each method has advantages and weaknesses, our consultations, with a cross section of people in the smallholder farming community as well as among experts, has revealed that the coupon system is superior to the alternative. The Government would suggest that the Minister of Agriculture and the Chairman of the Agricultural Committee of Parliament meet to discuss ways of improving the coupon system which in the view of many is the only way to ensure that large commercial farmers are excluded from the programme. Mr. Speaker, Sir, everybody agrees with this objective.

Infrastructure

62. The Government plans to continue with its expansive road programme that covers the entirety of the country. It is planned to spend a total of K10,501 million on the construction and maintenance of roads of which K2,887 million will be funded by domestic resources. In addition to last year's programme, a number of new roads have been introduced such as the Mzimba-Kafukule-Ekwendeni-Njakwa road whose feasibility study will be undertaken this year, the Thyolo-Bangula-Nsanje road whose construction will commence shortly and the Lumbadzi-Dowa-Ntchisi road which will be a continuation of the Mponela-Ntchisi road. Among the objectives of the roads programme is that each Boma must be reached by a tarmac road and that we should

now begin an east-west road network in the country. Mr. Speaker, Sir, Honourable Members are encouraged to study budgetary document No.4 that has the details of what roads are in the programme so far. This is a rolling plan to which we add new projects yearly.

Shire/Zambezi Waterway

63. The Government has decided to designate the Shire-Zambezi waterway project as the top most priority infrastructural project as can be seen from the programme. It is expected that a comprehensive pre-feasibility and feasibility study will be conducted so that prospective investors can decide how much to invest and where within the programme. I would like to inform the House, Mr. Speaker, Sir, that so far we have had a lot of investors who have expressed a strong interest to participate in this worthwhile project that could rejuvenate economic growth of the country. We stand to reduce by more than half the transportation cost of our international trade when the project is completed. The project is also viewed to be of benefit to other adjacent countries such as Mozambique, Zambia and some far away countries such as Burundi, Rwanda and the Congo.

Energy

64. Mr. Speaker, Sir, during 2006/2007, the Government will implement the Malawi Rural Electrification Programme (MAREP) Phase Five which will involve the electrification of 27 trading centres (1 in each district except Likoma which is fully electrified). K84 million has been allocated from local resources for this purpose while K196 million will be provided by the Japanese Government. MAREP Phase Four which is benefiting 58 trading centres is due for completion by September, 2006.

65. Electricity Supply Commission of Malawi (ESCOM) is rehabilitating Tedzani One and Two which will restore 40 mega watts of electricity which was lost about 4 years ago due to damages of the power stations. ESCOM has sourced about US\$12 million for this work, which is due for completion in 14 months time. ESCOM is also about to sign a Power Supply Agreement (PSA) with HCB of Mozambique. The PSA will enable the World Bank to finance the Mozambique/Malawi Interconnector which will allow Malawi to either import or export power to and from the SADC Region.

Rural Development

66. Mr. Speaker, Sir, as you will recall, His Excellency the President also designated the rural integrated growth programme as a priority of the government. I am pleased to announce to the House that in this endeavour we are joined by the Clinton-Hunter foundation which has chosen Malawi and Rwanda among all African countries to devote its resources to rural development activities. In Malawi we have chosen to start with three centers in Neno in the South, Dowa in the Centre and Chitipa in the North. Mr. Speaker, Sir, Members should be aware that apart from this Government initiative that is being supported by the Clinton-Hunter Foundation, the United Nations has also introduced Millennium villages which to all intent and purposes aim to achieve similar objectives in Zomba and Dedza areas and it is expected that they too would branch into other areas of the country.

67. With a view to spreading rural development evenly throughout the country, it is proposed that a Constituency Development Fund be created out of the General Resources Fund under the District Assemblies vote. The sum of K386 million is being devoted to this fund that will become effective on the approval of this budget.

Under the Constituency Development Fund each Member of Parliament will be mandated to decide what development project or set of activities up to a limit of K2 million, should be implemented in his constituency during the year. Thereafter, it will be the Member of Parliament's responsibility to supervise the implementation of the projects. The Member of Parliament will also follow a proper and timely management of procurements of goods and services that will be required and disbursements of funds which will be the responsibility of the District Commissioner's Office. The disbursements will be due when the District Commissioner's Office has certified either that the procurement of goods is due or that activities have been accomplished as designed. In this way, the Member of Parliament will be accountable to the District Assembly only as regards the implementation of the development activities and not for the disbursement of funds.

The Social Sector

68. In parallel with the sectors which His Excellency described as priority sectors for immediate economic growth purposes, the budget has allocated huge expenditures to social sectors as provided for in the Malawi Growth and Development Strategy. Social sectors, particularly consisting of Education and Health have a considerable amount of resources which account for approximately 34.6 per cent of total expenditure in the 2006/2007 budget.

Education

69. Mr. Speaker, Sir, excluding expenditures on the universities, total budgetary allocation to Education amounts to K15,608 million. This is an increase of 28.5 per cent on our last year allocation of K12,145 million. If the expenditure of K4 billion to the two universities is taken into account then the overall expenditure on education is

K20.5 million which is 14.2 per cent of total expenditure. This is one of the highest percentage ratios in the SADC region. Of this total an amount of K5,508 million has been allocated to the development projects in the Ministry of Education which is double the development expenditure in that Ministry for last year. In the university of Malawi which has been allocated the sum of K3,200 million, K160 million is being devoted to the initial rehabilitation programme that is intended to cover the repair of buildings, re-equipping laboratories and libraries which have been neglected for a long time. A total amount of K650 million has been allocated to Mzuzu University of which K40 million is being devoted to its development programme. More importantly, we intend to start the University of Technology and Science this year, Mr. Speaker, Sir, and an amount of K50 million has been tentatively budgeted to start this institution.

Health

70. The total expenditure allocated to the Ministry of Health at K16,694 million is only marginally lower than the allocation to the Ministry of Agriculture which is, this year, the highest allocation to any Vote. K5,213 million of this amount will be administered directly by local assemblies and K3,098 million has been allocated to the Ministry's development programme. If this total allocation of the Ministry of Health is added the allocation to the National Commission for HIV/AIDS that amounts to K5,940 million then the total expenditure on health services is approximately K22,634 million which is approximately 16.0 per cent of the total expenditure of the 2006/2007 budget.

Miscellaneous

71. Mr. Speaker, Sir, as regards budgetary allocations of other Votes, my Honourable colleagues are encouraged to study Document No. 4 that has clear details of other ministries. I would like to emphasize, Mr. Speaker, Sir, that the fact that I have not highlighted all the Votes in this statement does not mean that they are of lesser importance. All that has been done is to illustrate to the House the implementation of the Government's programme as announced by His Excellency the President and how the policies of the Malawi Growth and Development Strategy are being translated into this budget.

Tax Measures For The 2006/07 budget

72. Mr. Speaker, Sir, Honourable Members will recall that last year the Government embarked upon a comprehensive reform of the tax system, which followed intensive consultation with the private sector, and also external advice. Based upon these consultations, we proposed, and the House accepted, some far reaching changes to tax legislation which were widely welcome.

73. We also promised, Mr. Speaker, to continue our discussions with the private sector, and with our tax reforms in this Budget. The tax measures we are announcing today reflect useful and in depth consultations with a number of organizations including the Society of Accountants in Malawi, the Malawi Confederation of Chambers of Commerce and Industry, the Economics Association of Malawi and the Bankers Association of Malawi.

74. Honourable Members may not be surprised to hear that rather more of the substantial number of changes suggested by the private sector involved reducing

taxes than increasing them! It would certainly not have been possible to embrace all these suggestions without very seriously undermining our successful efforts to reestablish budget discipline and reverse the rapid increases in Government debt seen in recent years.

75. Mr. Speaker, Sir, the challenge we have faced this year has therefore been to maintain the momentum of our tax reforms and find measures that will genuinely encourage investment and help reduce poverty, while at the same time maintaining a sound base for Government finances. We believe strongly that tax reforms can help maximize the economic benefits we see from economic stability, but it cannot be a substitute for stability and tax reform would not succeed in stimulating private sector activity in the absence of overall economic stability.

76. Before turning to changes we propose to make to taxes this year, Mr. Speaker, Sir, I will mention two important issues of tax administration. I hope the house will join me in commending the Malawi Revenue Authority for its efforts during this difficult year to ensure that our revenue projections have been more than met. Without those efforts the pressures of the food crisis we faced might very well have overwhelmed the budget and seriously damaged our future economic prospects. One element in that success has been progress towards increasing the number of taxpayers so that all who should pay tax do pay tax, and we propose that this year the MRA's bonus will be based in some part on continued progress in widening the tax net.

77. Mr. Speaker, Sir, I would also like to reiterate the Government's intention to phase out pre-shipment inspection for imports when the current contract runs out in

the middle of next year, and put in its place a system of destination inspection administered by the MRA. Preparations for this change are already well underway.

78. I will now turn to the tax policy measures we propose to take this year. The Income Tax and VAT measures will be effective on 1st July, 2007, while Customs and Excise Measures will become effective from mid-night tonight.

Income Tax

79. Mr. Speaker, Sir, I will begin with measures relating to Income Tax.

80. The level of income at which employees start paying tax will be increased from the current level of MK5,000 per month to MK5,500 per month. This ten per cent increase will benefit low-income earners and take many on the lowest incomes out of the tax net altogether.

81. The top tax rate bracket for individuals will be reduced from 35 per cent to 30 per cent. This measure aims at aligning Malawi's individual top tax rate structure with the rest of our neighboring SADC and COMESA Member States except for South Africa which maintains the 40 per cent top tax bracket. The reduction will encourage investors who attach considerable importance to the treatment of their personal incomes when deciding whether to invest in a country or not.

Minimum Turnover Tax

82. Mr. Speaker, Sir, a feature of our tax regime that is not shared by most of our neighbours is the Minimum Turnover Tax. It has been argued that all companies use

Government services and should pay some corporate tax, and also that profitable companies use investment allowances to avoid showing profit for tax purposes and thus pay no corporate tax. It has also been argued, however, that the purpose of depreciation allowances is to encourage much needed investment, and it is contradictory to claw back this incentive.

83. It has also been suggested that business often take time to reach a stage where they are able to generate profits, and that Minimum Turnover Tax represents a heavy burden on these businesses at a time when they are most vulnerable. We have considered these arguments carefully, and propose to abolish this tax.

Capital Gains Tax

84. Mr. Speaker, Sir, in 2005/2006 we removed the need for publishing inflation indices for determining real values of various capital assets for tax purposes and introduced tax on 60 per cent of the capital gains. Some have argued that the taxable portion is still high especially for values accrued before 1998 when the last inflation indices were published for tax purposes.

85. To resolve this problem, we have decided that for assets acquired before 1998, inflation indices should be considered in determining any capital gain before that year, and that the taxable portion should be reduced from 60 per cent to 50 per cent. This reduces the effective burden of capital gains tax from 18 per cent to 15 per cent.

Taxation of Mining Activities

86. Mr. Speaker, Sir, we have not been as fortunate as some of our neighbours in the extent to which mining has been developed in the country. I believe, however, that we may soon see greater investment in this area, and we propose to introduce a modern mining tax regime to support this. The regime will include a rate of Mining Income Tax which will be set in line with the general rate of 30 per cent, but will enjoy a more generous capital allowance regime, and also a new Resource Rent Tax on any very high returns generated by high commodity prices. At the same time, mining investments will enjoy special exemptions from import customs duties and VAT. We have been fortunate to have had expert advice in developing this policy which I believe is fair to both the investors and ourselves.

Rollover Relief

87. We believe it is wholly appropriate, Mr. Speaker, that a company should pay tax when it disposes of an asset at a profit and distributes the funds received to the owners of the company. Where, however, the intention is to replace an existing asset with a newer or larger asset of the same kind, either to maintain the competitiveness of the business or to increase its production, the need to pay tax on the old asset acts as a discouragement to the replacement of it.

88. Mr. Speaker, Sir, if we are to achieve our goals of increasing output and reducing our dependence on imported goods the private sector must begin investing more heavily. To encourage this we propose to introduce Rollover Relief. Under this relief, a business will not have to pay tax on the capital gain from selling an asset, provided that the funds received are being reinvested in assets of greater cost and of similar type. The cost of the new assets for tax purposes will, however, be reduced

by the amount of the relief, so that the tax will be recouped if the business subsequently sells the asset without replacing it.

VAT Measures

89. Mr. Speaker, Sir, there is one change to the tax regime made last year that has aroused some concern. This was the decision to move pharmaceutical products from zero-rated to exempt status. While providing exempt status for these products is internationally widespread, local businesses have complained that exempting imported medicines from VAT while not allowing them to reclaim the VAT paid on their inputs has placed them at a competitive disadvantage.

90. Mr. Speaker, Sir, where the imported products have been zero-rated in the producing country, as an export product, the producer will have been able to reclaim input VAT in that country and will not incur VAT upon import to Malawi due to exempt status here. We have concluded that this is indeed putting an important industry we wish to see develop in Malawi at a disadvantage, and we propose to return pharmaceutical products to the zero-rated status they enjoyed prior to last year.

91. Mr. Speaker, Sir, another element of the VAT system that has been criticised is the requirement that VAT should be paid on sales made before payment is received, and cannot be recovered even if the purchaser never subsequently makes payment. In order to meet this concern, we propose to amend the VAT Act in order to allow relief on irrecoverable bad debts, subject to detailed anti-avoidance rules and proof that the VAT concerned was, in fact, paid to the MRA in the first instance.

92. VAT is currently charged on wheel chairs imported for physically disadvantaged persons. Representations have been made that this represents a financial burden on a group of people that can ill afford to bear it, and reduces the effectiveness of efforts to assist this group. We accept this and propose that wheel chairs will be exempt from import VAT.

93. Mr. Speaker, Sir, goods carrying vehicles using diesel as a fuel can currently be imported without payment of VAT. At present, similar vehicles using petrol as a fuel do not qualify for a similar exemption. This is an unintended anomaly, and we propose to extend the existing exemption for diesel fuelled vehicles so that it also covers those fuels by petrol.

Customs and Excise Measures

94. I will turn finally, in terms of tax measures, to the area of Customs duties and Excise Mr. Speaker, Sir. Under the SADC Trade Agreement, to which we are a signatory, least developed countries such as Malawi undertook to progressively reduce certain tariffs. It is now some 5 years since we reduced tariffs in line with this obligation, and we propose that a further step should be taken to do so this year. The MRA will work together with the Ministries of Trade and of Industry to draw up a detailed list of rate reductions, which will be published as a Gazette Notice.

95. Mr. Speaker, Sir, eight changes to the Customs and Excise (Tariffs) Order have been made. These are:

- (i) Removing Customs duty on generators above 375 KVA in capacity. Generators of this size are normally used for industrial purposes rather than domestic and should therefore be treated as capital inputs.
- (ii) Removing the current 50 per cent Excise Duty on passenger carrying vehicles with a seating capacity of more than 12 persons including the driver.
- (iii) Making free of duty contact lense solution, which currently attracts 60 per cent duty as a luxury item.
- (iv) Increasing from 5 per cent to 25 per cent the rate of duty on bottle coolers, and to introduce a 20 per cent Excise Duty on them, bringing their treatment into line with that of fridges
- (v) Increasing duty free allowance for wedding presents from K2,000 to K50,000 for couples who wed outside Malawi and are given gifts.
- (vi) Reducing 15 per cent concessionary customs duty rate in the Customs and Excise Tarrifs to 10 per cent in Section XXII.
- (vii) Increasing the nominal value for duty importation of postal parcels from K2,000 to K20,000.
- (viii) Mr. Speaker, Sir, we will also expand the Customs and Excise Industrial Rebate Schedule, first by adding 3 further industries to the scheme:
 - Electricity generating and gas distribution industry;
 - Public sewage disposal works industry; and
 - The public water supply industry.

96. Mr. Speaker, Sir, in addition to this increase in the range of industries covered by the scheme, we also propose to extend the range of good covered by it to include certain items that represent capital goods when imported by businesses but are also imported for domestic use by individuals. These goods include generators, bakery oven and boilers. By including these in the Rebate Scheme we will retain Duty on domestic imports while preventing such duty acting as a barrier to investment.

Customs Procedure Codes

97. Mr. Speaker, Sir, it is quite some time since our Customs Procedure Codes, allowing exemption or the charging of concessionary duty rates on goods being imported by non-governmental organisations, Honourable Members, and some businesses, have been systematically revised. We propose that these Codes be updated to include certain new areas such as greater exemptions for the tourism industry and private medical facilities, while also tightening some specific provisions that have given rise to abuse. A detailed list of proposed new and revised Customs Procedure Codes will be published by the MRA.

Fuel Levy

98. Mr. Speaker, Sir, we also have one non-tax revenue measure to announce, which is a 1 Kwacha per litre increase in the Fuel Levy on petrol and diesel. This is expected to raise an additional MK240 million for investment in road maintenance through the Public Works Programme.

Concluding Remarks

99. Mr. Speaker, Sir, and Honourable Members. I now wish to sum up this budget presentation. As was the case last year, the international community has challenged us by putting a substantial amount of resources for developmental efforts. The

translation of these resources into actual development that can reduce poverty depends upon us. Obviously, the continuation of this generosity will depend upon the extent of our success. As I have said before, the dynamics in the donor community has changed substantially. Gone are the days when you got more external aid if you were poor and demonstrated the need for financial support. Economic performance did not count in the determination of how much aid a country gets. Today multilateral development financial institutions have elaborate criteria for determining economic and financial performance that has become the basis for deciding how much aid a country should receive.

100. Based on such a consideration Malawi is identified as one of a few countries to qualify as a Threshold Country under the Millennium Challenge Account of the United States of America. This means that we have had to declare upfront a number of policy and institutional reforms we wish to accomplish to improve governance in Malawi. The United States provides resources to enable us to effect these improvements. The House therefore should know that we are expected to accelerate improvements in such matters as prevention of corruption, enhancement of transparency in economic and financial management that will include financial accountability and a sound public finance management in the coming year or two. The Millennium Challenge Account has granted Malawi US\$20 million as well as manpower to help us achieve these laudable goals as well as managing the activities called for in this budget.

101. However, Mr. Speaker Sir, I believe that we do not strive to perform to earn donor's praise and financial resources but more importantly because our people in Malawi deserve this and are expecting us to develop the country to improve their lives.

102. Mr. Speaker Sir, the budget I have just presented in this Honourable House today is the Government's response to this grand challenge. It continues to be action packed to ensure that the people of this country do not go hungry, even when faced with poor rains. However, Mr. Speaker Sir, a budget is merely a framework that defines what can be done to achieve desired outcomes. It is the Government and Parliament who must work within the framework in a dedicated manner to meet the major needs of our people. Let me say it again this year, this budget is for the nation and my special appeal to this Honourable House is for your support, your approval and your patience as we implement what we will have decided.

103. Lastly, Mr. Speaker Sir, as a background to this budget statement, we have provided four documents for Members to scrutinize in their own time. The first of these documents is the budget statement that I am delivering. The second document is Economic Report which captures fiscal, monetary and real sector trends in the economy. Document 3 is the Financial Statement which is a summary of Government revenue and expenditure and Document 4 contains draft estimates of recurrent and development budget, output based which gives ministry by ministry allocations and activities which ministries intend to accomplish.

104. All in all, Mr. Speaker Sir, the Government believes that a rigorous implementation of this budget can go a long way to contribute to the future desired high growth rates of our economy. More especially it is hoped that the pursuance of the programme that aims to achieve food security will eliminate the occurrences of food crises that have characterized the country for so long.

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