



Malawi Government

THE 2021/2022 BUDGET STATEMENT

Delivered in the

NATIONAL ASSEMBLY OF THE
REPUBLIC OF MALAWI

by

MINISTER OF FINANCE
HONOURABLE FELIX MLUSU

at

THE PARLIAMENT BUILDING
LILONGWE

on

Friday, 28th May, 2021

MOTION

1. **Madam Speaker**, I beg to move that the estimates on the Recurrent and Development Accounts for the 2021/2022 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**, I stand before the August House to present the fiscal plan for the 2021/2022 financial year. This is my second Budget Statement since I was appointed as Minister of Finance by His Excellency the State President Dr. Lazarus McCarthy Chakwera. I therefore wish to thank His Excellency the President for continued trust in me to manage the fiscal affairs of this great nation. I also wish to thank His Excellency the President for his treasured support during the implementation of the previous budget and for His guidance during the formulation of the one which I am about to present.

3. **Madam Speaker**, in accordance with Section 21, Subsection 3, of the Public Finance Management Act of 2003, I am duty bound, as Minister of Finance, to lay before

the National Assembly, a Statement of the estimated tax revenues, grants and all other revenues as well as details of Government's proposal on how the available resources will be utilized in the 2021/2022 fiscal year, which in this case will be for nine months, from July 2021 to March 2022.

4. However, before I do so, **Madam Speaker**, let me also sincerely thank my fellow Cabinet Colleagues for ably guiding Ministries, Departments and Agencies under their jurisdiction in implementing the last budget and the Honourable Members of this August House, including all committees of the House for the oversight function that was ably executed.

5. **Madam Speaker**, special thanks are also directed to all controlling officers and the whole civil service for the dedication towards the implementation of the 2020/2021 fiscal plan. In some cases, we had challenges, which together, we can only learn from as we embark on the implementation of the 2021/2022 national budget.

6. **Madam Speaker**, I would also like to take this opportunity to thank Cabinet Colleagues, Honourable Members of this August House and its Committees, development partners, the academia, professional bodies

and members of the general public for the valuable contributions towards the formulation of this budget. Stakeholders were engaged virtually and I have to report with humility that there was overwhelming response to our call for contributions to the budget. All contributions were consolidated, most of which have been incorporated in this budget while others have been placed in a data base for further review and consideration in subsequent budgets.

7. **Madam Speaker**, in a special way, let me mention and thank the following people: (i) Mr Yohane Kapichi of Mulanje Secondary School who provided Government with some suggestions on how to eradicate corruption in this country, (ii) Mr. Matewere Phiri of Chilanga Village in Kasungu for a good suggestion on how to support the elderly, and (iii) Mr. Peter Sitima of Zingwangwa township for his comment on the pension scheme. I truly value your contributions to this national budget and its policies.

8. Lastly, **Madam Speaker**, it gives me pleasure to inform this August House that, for the first time in the history of Malawi, the Ministry of Finance engaged Local Authorities who also made insightful presentations. **Madam Speaker**, all these engagements were in line with the Tonse Alliance

agenda of bringing together aspirations of all Malawians in formulating economic policies that affect them.

9. As such, **Madam Speaker**, this budget is an outcome of a very rigorous consultative process. I would therefore like to urge the Honourable Members to support this budget through constructive debate as we all have one common goal – to better the lives of our people through economic growth and development.

10. **Madam Speaker**, in the past ten months of the Tonse Administration, Government through the National Planning Commission laid out a national development blueprint, the Malawi 2063 which outlines that by the year 2063, the Malawi we want should be “**an inclusively wealthy and self-reliant industrialised upper-middle-income nation**”.

11. This, **Madam Speaker** is the agenda that as a people, we have set on our own, to be implemented by ourselves and for ourselves. With passage of time, **Madam Speaker**, I have learnt that no one will come from the far lands and develop Malawi for us. This is our country and this is our obligation. I therefore have the belief that Malawians, beginning with the Honourable Members in this August

House, are capable of embarking on this journey, and will do so because the need for economic success to lift the plight of our people is our unifying factor.

12. **Madam Speaker**, the Budget I am about to present is the first since His Excellency the President launched the national vision, the Malawi 2063. This Budget, therefore sets the pace in implementing economic policies and programs that will put this country on track to reach the nation's desired destiny. In many ways, therefore, sectoral allocations in this budget are in line with the long-term aspirations of our nation as enunciated in the Malawi 2063.

13. **Madam Speaker**, the Tonse Alliance Government, through the 2021/2022 budget will continue with its drive to entrench macroeconomic stability characterised by low and stable inflation rate and economic growth that will ensure the country's resilience to, and recovery from the devastating impact of Covid-19 pandemic. As stated by His Excellency the President in the State of the Nation Address, presented in this August House on 12th May 2021, this Government will focus on programs with impact to achieve permanent food security, create jobs for the youth and create wealth for all.

14. **Madam Speaker**, Government is determined to achieve this through the attainment of a robust, inclusive and resilient economic growth, economic empowerment, and infrastructure development. Alongside this overall objective, Government will pursue its obligations to mitigate the social and economic impact of the Covid-19 pandemic. Furthermore, **Madam Speaker**, this budget will continue to deliver on the promises that the Tonse Alliance made to the people of Malawi when it took office in June 2020. As such, the 2021/2022 fiscal budget has been framed under the theme “**Building Back Better: Achieving aspirations of the nation together**”.

15. **Madam Speaker**, without doubt, the 2021/2022 budget has been formulated amidst some uncertainties due to the Covid-19 pandemic. However, unlike the previous budget which was implemented at the peak of the pandemic, prospects for this budget are brighter, although risks from the third wave remain high considering that some parts of the global village, including countries that are Malawi's major trading partners have been affected.

16. **Madam Speaker**, it is therefore expected that implementation of the 2021/22 budget will continue to face

challenges. Revenue performance will remain subdued in the short term but is expected to rebound as the economy gradually recovers. Pressure on expenditure will however continue in the short to medium term on account of continued need for resources to adequately respond to the aftereffects of the pandemic. Further, resources will be required for investment to recover and build resilience against future shocks to this economy.

17. **Madam Speaker**, improved economic growth prospects for this country are however on account of the roll out of the Covid-19 vaccine which is expected to boost economic confidence. This is also bolstered by the normal to above normal rains that this country received and the positive impact of the Affordable Inputs Program which was implemented for the first time by the Tonse Government.

18. **Madam Speaker**, despite the negative effects of the novel coronavirus, inflation rate remained low and relatively stable, oscillating within the single digits. As at end April 2021, headline inflation was recorded at 9.2 percent. The low inflation rates enabled the Reserve Bank of Malawi to reduce the policy rate in November 2020 from 13.5 percent to 12.0 percent. The official exchange rate has also

remained stable at around K780.0 per US dollar, although experiencing depreciation pressures on account of subdued supply of foreign currency following a drop in the country's export proceeds as a result of the pandemic.

19. **Madam Speaker**, the high and rising public debt remains a major concern. To counter this, Government will implement a number of fiscal consolidation initiatives, including but not limited to enhancement of external resource mobilization; domestic revenue mobilisation; public expenditure efficiency and prioritization. Government has also engaged external creditors for debt relief as part of efforts to mitigate the economic impact of Covid-19 pandemic on the domestic economy.

2020/2021 BUDGET PERFORMANCE

Performance of Revenues and Grants

20. **Madam Speaker**, the likely outturn for total revenues and grants during the 2020/2021 fiscal year is projected at K1.523 trillion, representing 16.4 percent of the country's rebased GDP. Of this amount, domestic revenues are expected to close the year at K1.186 trillion while grants are projected at K337.5 billion.

21. **Madam Speaker**, of the domestic revenues, tax revenues are projected at K1.116 trillion, or 12.0 percent of the rebased GDP while other revenues are estimated to close at K69.6 billion. Compliance issues and the narrow tax base remain a challenge as implementation of some tax administrative reforms such as the Integrated Tax Administration System (ITAS) are yet to be fully operational. Government expects full implementation of this system to be completed during the 2021/2022 financial year.

Performance of Expenditure

22. **Madam Speaker**, total expenditure to 2020/2021 fiscal year end is projected at K2.335 trillion, representing 25.2 percent of the rebased GDP. Recurrent expenses will amount to K1.719 trillion, constituting 73.6 percent of the total expenditure and 18.5 percent of the country's GDP.

23. **Madam Speaker**, major expenditure lines within recurrent expenses included: compensation of employees at K542.2 billion; interest on public debt at K376.0 billion; and generic goods and services at K223.8 billion. Development expenditure is expected to amount to K615.8 billion representing 6.6 percent of GDP and 26.4 percent of total

expenditure, of which K104.7 billion will be financed using domestic resources and K511.1 billion by foreign resources.

Overall balance and borrowing

24. **Madam Speaker**, developments in revenues and expenditures are projected to amount to a fiscal deficit of K811.7 billion, representing 8.8 percent of GDP. This deficit is on account of a number of factors including: (a) the subdued revenue performance; (b) expenses in response to Covid-19 pandemic; and (c) the significantly high proportion of mandatory expenses. The deficit will be financed through foreign borrowing at K246.3 billion and domestic borrowing at K565.4 billion, or 6.1 percent of GDP.

WORLD AND REGIONAL OUTLOOK

25. **Madam Speaker**, allow me to turn to the current economic developments as well as the economic outlook at the international, regional and national levels. This is important as it gives Honourable Members a full understanding of the context within which the budget has been formulated and the assumptions underpinning the budget.

26. **Madam Speaker**, according to the April 2021 World Economic Outlook Report by the International Monetary Fund, Global prospects remain highly uncertain, one year into the pandemic. However, global economic growth is projected at 6.0 percent in 2021 and moderating to 4.4 percent in 2022. These projections reflect the impact of additional fiscal support in a few large economies, the anticipated vaccine-powered recovery during the second half of 2021, and continued adaptation of economic activity to subdued mobility of persons and capital.

Sub-Saharan Regional Economic Outlook

27. **Madam Speaker**, GDP growth rate in Sub-Saharan Africa is projected to rebound from the largest ever contraction for the region of minus 1.9 percent in 2020 to 3.4 percent in 2021 and 4.0 percent in 2022. The pandemic continues to exert adverse effects on the region. Tourism reliant economies will likely be the most affected. South Africa, Malawi's major trading partner is projected to register a growth rate of 3.1 percent in 2021 compared to a recession recorded at minus 7.0 percent in 2020. In 2022, economic recovery in South Africa will continue albeit slower at 2.0 percent.

Malawi's Macroeconomic Developments

28. **Madam Speaker**, economic prospects for Malawi are showing signs of recovery following the declining Covid-19 pandemic cases and steady progress in rolling out the vaccine. The economy is also expected to register improved economic growth rates on account of the favourable rain season and the successful implementation of the Affordable Inputs Program.

29. **Madam Speaker**, the country's economic growth, which was recorded at 0.9 percent in 2020 is expected to jump to 3.8 percent in 2021 and 5.2 percent in 2022. This is mainly on the assumption that there will be gradual lifting of containment measures and that business will slowly return to normality during the second half of 2021. The agriculture sector is projected to grow by 6.2 percent in 2021 and due to its strong backward and forward linkages, most economic sectors are expected to register positive growth rates as well.

30. **Madam Speaker**, the annual average inflation rate has remained within single digits, recorded at 9.4 percent and 8.6 percent in 2019 and 2020, respectively. In 2021 and 2022, inflation rate is projected at 7.5 percent and 7.3 percent,

respectively. Inflationary pressure during the fiscal year is expected to be moderated by subdued food inflation especially on account of increased maize supply. Government, **Madam Speaker** is on track to attain its overarching monetary policy objective of a headline inflation rate of 5.0 percent in 2022 and 3.0 percent by 2025.

GOVERNMENT REFORM PROGRAMS

31. **Madam Speaker**, allow me to report on the status of implementation of some policy issues aimed at supporting the national budget and the implementation of the Tonse Government agenda.

Public Finance Management

32. **Madam Speaker**, the review of the Public Finance Management Act, 2003 is in its final stages and the Bill will be submitted to this August House during this session.

Integrated Financial Management System (IFMIS)

33. **Madam Speaker**, you will recall that in my last Budget Statement, I reported 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. **Madam Speaker** will also recall that

this was done in a phased manner where 10 selected votes and 4 modules were identified as part of the pilot phase.

34. **Madam Speaker**, implementation in the pilot phase experienced some challenges including inadequate end user training, network problems, and project slippages due to the impact of Covid-19 pandemic. However, the pilot phase is in its stabilization stage and users are now able to process transactions with minimum support. I am pleased therefore to inform the August House that full roll out of the new IFMIS is on schedule for 1st July, 2021.

The Malawi Enterprise Development Fund (MEDF)

35. **Madam Speaker**, in September 2020, Malawi Enterprise Development Fund (MEDF) was rebranded into the National Economic Empower Fund (NEEF) to enhance its operations to economically empower Malawians, especially the youth and women, through job creation; enhancement of entrepreneurial activities; and to support agricultural productivity and value addition.

36. **Madam Speaker**, NEEF commenced disbursing loans in accordance with its new policies and procedures. To date NEEF has disbursed to 2,700 groups which comprise 10 or

more beneficiaries per group. Currently NEEF is recruiting more loan officers and this will enable them enhance outreach to more clients.

Payment of Government Arrears

37. **Madam Speaker**, in an effort to support the business community, through an injection of the much needed liquidity into the economy during the Covid-19 pandemic period, the Tonse Government commenced paying the arrears which the previous Government owed the private sector. Some of these arrears are dated as far back as 2015. The Auditor General is auditing these arrears and the Ministry of Finance is clearing the audited arrears through issuance of Promissory Notes for amounts in excess of K100 million while amounts of less than K100 million are being cleared through the budget.

Long Term Development Bond

38. **Madam Speaker**, the Honourable Members will recall that in my last Budget Statement, Government announced its intention to embark on other innovative financing arrangements for this country's infrastructure development. One such financing arrangement was the issuance of a

Long Term Local Development Bond. I am pleased to report that Government has progressed with preparations to issue a 15-year development bond for some strategic and flagship projects.

39. **Madam Speaker**, the Ministry of Economic Planning and Development and Public Sector Reforms, in conjunction with the Ministry of Finance completed the selection of 15 projects that will be financed through the issuance of a local development bond. **Honourable Members**, Government is expected to raise K1.0 trillion from the local market over a period of 5 years to finance these flagship projects including the following:

- i. Construction of the Inkosi Mbelwa University in Mzimba where access roads have been completed and building designs are ready;
- ii. Dzaleka – Ntchisi – Mpalo – Malomo road, to be upgraded to a paved road covering 70 kilometers;
- iii. Lirangwe – Chingale – Namatulu – Machinga road, to be upgraded to a paved road and covering a distance of 62 kilometers;

- iv. Rumphu – Nthalire – Nyika – Chitipa road, to be upgraded to a paved road covering a distance of 260 kilometers; and
- v. Chikwawa – Chapananga – Mwanza road to be upgraded to a paved road covering a distance of 106 kilometers.

40. **Madam Speaker**, these are just some of the many projects that will be financed using the development bond. A full list of Government projects is circulated in this August House as part of budget statement. The Ministry of Finance will very soon release a prospectus comprising all the 15 projects before the beginning of the next fiscal calendar.

41. **Madam Speaker**, I am further pleased to inform this August House that, where possible, other financing models for these projects will be considered such as Public Private Partnership arrangements as well as soliciting foreign or local direct financing or placements, where Government will receive a turnkey solution from a project promoter.

42. Furthermore, **Madam Speaker**, the long term development bond will be structured in such a way that it incentivizes Malawians in the diaspora to participate in the

development of this country through infrastructure project financing.

Civil Service Personnel Audit

43. **Madam Speaker**, Government carried out a head count for the civil service. As was the case with the Pension Payroll Audit in 2020, the Civil Service Personnel Audit is aimed at bringing efficiency in use of public resources by ensuring that only bonafide civil servants are paid by the Government. Field work for this Audit was completed and the draft report is expected by the end of June 2021. Government, will implement recommendations from this Audit as part of its civil service reforms agenda.

Affordable Inputs Programme

44. **Madam Speaker**, in the 2020/2021 fiscal year, Government introduced the Affordable Inputs Program, which targeted 4.2 million farm families. This program, **Honourable Members**, is a success. It has not only helped to achieve food security but also contributed to creation of jobs and business opportunities to small and medium scale enterprises especially those in the transport and real estate sectors.

45. According to official numbers from the Ministry of Agriculture, this country, **Madam Speaker** is expected to achieve a national maize surplus estimated at 1.4 million metric tons. Government, through its various organs has already started looking for export markets within Africa.

46. **Madam Speaker**, due to the huge success of the AIP in 2020/2021, I am pleased to inform this August House that Government will continue with the program in the 2021/2022 financial year.

Creation of a Debt Retirement Fund

47. **Madam Speaker**, the Ministry of Finance is at an advanced stage in establishing the Debt Retirement Fund. The Ministry is now working with Ministry of Justice to establish the legal framework of the Fund and its operations. The review of the PFM Act (2003) has incorporated this legal framework and the Fund is expected to be operational during the 2021/2022 fiscal year once the revised PFM Bill has been enacted by this August House.

Formalising the Informal Sector

48. **Madam Speaker**, this Government is committed to empower the informal sector entrepreneurs through the

establishment of cooperatives and skills development to enable them produce quality products for the local and export market. Under the Public Procurement and Disposal of Public Assets Act, Government in December 2020 enacted regulations to empower Micro, Small and Medium Enterprises to participate in public procurement of goods, works, and services provided that the SMEs are registered as business entities and are also registered with the Malawi Revenue Authority.

49. **Madam Speaker**, in line with the SME Order, public procurement is expected to prioritise locally made products such as furniture and uniforms of security institutions and health personnel. This will enable the SME sector, where most of its players are in the informal category to contribute towards national development through participation in public procurement and remittance of taxes.

Free electricity and water connections

50. **Madam Speaker**, the Tonse Government promised the people of Malawi free electricity and water connections. The Ministry of Energy has completed drafting of the Free Electricity Connection Policy which will provide a platform for free connections to individuals and public institutions in

the rural and peri-urban areas. Under this arrangement, connection fees which averages K17,500 will be scrapped off. Implementation will commence during the 2021/2022 fiscal year. A similar approach is being worked out for the implementation of free water connections.

Houses for security institutions

51. **Madam Speaker**, construction of the 10,000 houses for security institutions commenced. This project is being implemented in phases. **Honourable Members** may wish to note that over 231 houses are under construction in various sites and another lot of 1,000 houses has been advertised, soliciting bids from contractors. Financing for this project is through a long term development bond that was issued by Government and raised the initial amount of K21.0 billion.

Extended Credit Facility with the IMF

52. **Madam Speaker**, the Tonse Alliance Government cancelled the IMF's Extended Credit Facility (ECF) program with Malawi immediately after coming into power. This was mainly due to a re-focus of policy objectives. Furthermore, the program that was inherited by Tonse Administration was off track and it was impossible to bring it back on track.

53. **Madam Speaker**, as a stop gap measure, the Tonse Alliance Government and the IMF agreed on a second Rapid Credit Facility which disbursed US\$102 million to Malawi in October 2020. Of this amount, US\$30.0 million was a direct budget support to the Government. Going forward, Ministry of Finance has commenced negotiations with the IMF for a new program, which is expected to align its objectives with that of the Government and the national vision, Malawi 2063.

THE 2021/2022 BUDGET

54. **Madam Speaker**, in the 2021/2022 fiscal year, Government will focus on implementation of economic policies and programs that will put this country on track to attain the nation's aspirations as prescribed in the Malawi 2063. There are so many targets that Government will aim to achieve by 2063, but as His Excellency the President said in the State of the Nation Address, food security, jobs and wealth creation are the low hanging objectives that will move this country towards our 2063 destiny.

55. **Madam Speaker**, alongside these objectives, Government will aim to entrench macroeconomic stability; enhance the country's resilience to external shocks; and

fast-track economic recovery during the post Covid-19 pandemic period. These, **Honourable Members**, are the defining tenets and the context within which the 2021/22 budget has been framed and will be implemented.

Major Assumptions for the 2021/22 Budget

56. **Madam Speaker**, the 2021/2022 budget has been developed under the following assumptions.

- i. Real GDP growth rates of 3.8 percent in 2021 and 5.4 percent in 2022;
- ii. Average inflation rate of 7.4 percent during the fiscal year;
- iii. A stable exchange rate of about K780 per US dollar;
- iv. A policy rate of 12.0 percent; and
- v. Tax refunds at 3.0 percent of total tax revenue collection.

Total Revenue and Grants

57. **Madam Speaker**, total revenue and grants for the nine months of the 2021/2022 fiscal year are estimated at K1.271 trillion, representing 12.4 percent of GDP. Domestic revenues are estimated at K1.101 trillion, of which tax revenues are

estimated at K1.044 trillion, representing, 10.2 percent of GDP. Other revenues have been estimated at K56.9 billion.

58. Grants, **Madam Speaker** are estimated at K170.3 billion, representing a 1.7 percent of GDP. This comprise K58.4 billion from foreign Governments and K111.9 billion from international organisations in form of dedicated and project grants.

Total Expenditure

59. **Madam Speaker**, total expenditure for the 2021/2022 fiscal year is programmed at K1.990 trillion, representing 19.4 percent of GDP. This represents a drop from 25.2 percent of GDP during the 2020/2021 fiscal year. Of the total expenditure, recurrent expenses are estimated at K1.419 trillion, representing 71.3 percent of total expenditure.

60. Development expenditure, **Madam Speaker** is programed at K570.8 billion, representing 5.6 percent of the rebased GDP. This, however excludes the development expenditure that will be financed through the issuance of the long term development bond where some of the projects will be financed off budget.

Overall Fiscal Balance and Financing

61. **Madam Speaker**, the 2021/2022 overall balance is estimated at a deficit of K718.3 billion, which is 7.0 percent of the rebased GDP, and markedly lower compared to 8.8 percent of GDP during the 2020/2021 fiscal year. This deficit will be financed through foreign borrowing amounting to K134.8 billion and domestic borrowing amounting to K583.5 billion, or 5.7 percent of the rebased GDP.

HIGHLIGHTS OF THE 2021/2022 BUDGET

RECCURENT BUDGET

Wages and Salaries

62. **Madam Speaker**, wages and salaries are projected at K436.3 billion, representing 4.2 percent of the rebased GDP. This includes an amount of K20.3 billion which is earmarked for salary rationalization and recruitment.

Pensions and Gratuities

63. **Madam Speaker**, Pensions and Gratuities have been projected at K77.6 billion while K13.3 billion is for the contributory pension scheme. It should further be noted that resources amounting to K375.0 million have been set aside

for settlement of past liabilities of the retired civil servants under the contributory pension scheme.

Interest Payments

64. **Madam Speaker**, public debt interest is projected at K299.7 billion or 2.9 percent of the rebased GDP. Of this amount, K14.5 billion is payable to non-residents while K285.3 billion is payable to residents. The projected public debt interest is 27.2 percent of the country's projected domestic revenues.

Maize Purchases

65. **Madam Speaker**, in the 2021/2022 fiscal budget, K12.0 billion has been allocated for maize purchases by the National Food Reserve Agency and ADMARC to restock the Strategic Grain Reserves. These resources are part of the total allocation to the agriculture sector and are slightly higher compared to last year's allocation.

66. **Madam Speaker**, this allocation is specifically for restocking the SGR. For more purchases other than this, ADMARC will be supported to borrow from commercial banks and Government has already approved the use of last year's maize sale proceeds to purchase the new maize.

This, **Madam Speaker** will capacitate the grain trader to buy most of the maize from smallholder farmers to cushion prices on the back of increased supply this year.

Affordable Inputs Programme

67. **Madam Speaker**, in line with first pillar of Malawi 2063, Agriculture Productivity and Commercialization, an amount of K142.0 billion has been allocated to the AIP which is expected to achieve an outreach of not less than 3.5 million farming families. These resources are part of the total allocation to the agriculture sector.

Empowerment of People with Disabilities and Albinism

68. **Madam Speaker**, in order to continue with the empowerment of persons with disabilities, the budget has allocated K75 million to the Disability Fund and K300 million for the implementation of the Action Plan for the Protection of People with Albinism. In addition, K400 million has been allocated under Ministry of Lands for the construction of houses for people with albinism.

Early Childhood Development Education

69. **Madam Speaker**, in an effort to promote quality childhood development, Government will start giving

honoraria of K15,000 per month to certified Caregiver Workers during the 2021/2022 fiscal year. This is expected to motivate our caregiver workers, thereby enhancing their dedication to the job.

2021/2022 KEY SECTOR ALLOCATIONS AND DEVELOPMENT PROJECTS

Education and Skills Development Sector

70. **Madam Speaker**, the importance of developing the education sector in a country where over 50 percent of its population are under 18 years old cannot be overemphasised. As an enabler for economic growth and development, this sector has a critical role in the attainment of the country's national aspirations.

71. **Madam Speaker**, for the 9 months of the 2021/2022 fiscal year, and in line with Enabler number 5 in the Malawi 2063, Human Capital Development, this Sector has been allocated the largest portion of the budget at K327.3 billion which is 3.2 percent of GDP and representing 16.5 percent of the total budget. These resources will cater for wages and salaries; operations of both primary and secondary

schools; for subvented organizations including public universities and to finance projects in the sector.

Education Sector Projects

72. **Madam Speaker**, Government will continue with initiatives to improve human capital development through infrastructure projects including the following:

- i. Completion of the construction of the three Teacher Training Colleges for Primary School Teachers in Mchinji, Chikwawa and Rumphji;
- ii. Construction of 383 low-cost classrooms and 52 classroom blocks for primary school education; and
- iii. Completion of the construction of 92 new Secondary Schools during the 2021/2022, thereby creating 18,400 spaces in rural schools. This is part of the SEED Project whose overall goal is to construct 250 CDSSs by the end of 2023.

73. **Madam Speaker**, as I indicated earlier on, Government will mobilize resources for the construction of the

Inkosi M'mbelwa University and works are expected to commence during the 2021/2022 fiscal year.

Agriculture Sector

74. **Madam Speaker**, the Agriculture Sector has been allocated K284.4 billion which is 2.8 percent of GDP, and representing 14.3 percent of the total budget. This provision is intended to enhance agricultural productivity as prescribed under Pillar One of the Malawi 2063 and to achieve permanent food security for all Malawians. These resources will cater for wages and salaries for officers in the sector, operations for all the Agriculture Departments; rehabilitation of the strategic grain reserves; the Affordable Input Program and development projects.

75. Some of the projects in the agriculture sector include; (i) the Agriculture Infrastructure and Youth in Agribusiness, (ii) Shire Valley Transformation Project; and (iii) the Livestock Infrastructure Development for sustainable animal health.

Health Sector

76. **Madam Speaker**, expenditure in this sector falls under the Human Capital Development Enabler number 5 of the Malawi 2063. This sector has been allocated K187.2 billion

which is 1.8 percent of GDP, representing 9.4 percent of the total budget. 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; as well as development projects.

Health Sector Projects

77. **Madam Speaker**, during the 2021/2022 fiscal year, Government will focus on a few but impactful infrastructure projects to ensure efficient delivery of health services. Some of the earmarked projects include: (i) construction of Mponela Community Hospital; (ii) construction of Domasi Community Hospital; and rehabilitation of all district hospitals in Malawi.

Transport and Public Works Sector

78. **Madam Speaker**, the Transport sector has been allocated K208.4 billion, or 2.0 percent of GDP, representing 10.5 percent of the total budget. Out of this, K94.5 billion has been allocated to the Roads Fund Administration for rehabilitation and maintenance of the road network as well

as continuation and completion of various road projects across the country.

Transport and Public Works Projects

79. **Madam Speaker**, the Government is implementing the annual routine maintenance of the 4,998 kilometers of unpaved road network. This involves grading and reshaping of the earth roads that are inaccessible during the rainy season. The following projects, whose preparatory processes have already been concluded are lined up to commence during the 2021/2022 fiscal year:

- i. The M1 Road from Kamuzu International Airport junction to Mzimba Turn-off and from Kacheche to Chiweta. Works are expected to commence in September, 2021;
- ii. Nsipe – Liwonde Road: the project will upgrade the 55 kilometers road stretch. Construction works are expected to commence during the second half of the 2021/2022 fiscal year;
- iii. Expansion to dual carriageway of the M1 road from Mchinji road Roundabout to Kanengo.

Contractor is mobilizing to commence construction works;

- iv. Expansion to 6 lanes of the Kenyatta Drive, from Parliament Roundabout to Shoprite and Mzimba Street, from Cross Roads Roundabout to Central Medical Stores in Lilongwe;
- v. Mzimba – Eswazini – Mzarangwe – Kafukule – Njakwa road, to be upgraded to a paved road, covering an extra distance of 120 kilometers.

80. **Madam Speaker**, Government is now constructing two toll plazas on the M1 road, which will assist to raise funds for road maintenance activities in the country. Construction is underway at Chingeni in Ntcheu and Kalinyeke in Dedza.

Energy Sector

81. **Madam Speaker**, just like the transport sector which falls under Enabler 6, Economic Infrastructure of the Malawi 2063, the Energy sector is very critical to promote economic activity and catalyse foreign direct investments for wealth creation. This sector has been allocated K60.7 billion which is 0.6 percent of GDP, representing 3.0 percent of the budget.

82. **Madam Speaker**, Government, working with the private sector aim to increase the country's energy generation capacity by about 1,000 megawatts during the next four years. Focus is also on diversifying the energy sources to include; solar, wind hydro, thermo and geo-thermo. Some of the projects lined up during the 2021/2022 fiscal year include; (i) Development of Mpatamanga Hydropower Plant, (ii) Malawi – Mozambique Interconnector, and (iii) the Malawi Electricity Access which is expected to increase access to electricity in this country.

Industrial Development

83. **Madam Speaker**, industrialization is the second pillar in the Malawi 2063. Government recognizes the importance of this sector in ensuring economic growth, employment opportunities and wealth creation, hence the establishment of the Ministry of Industry as a stand-alone ministry. Through this Ministry, Government has already commenced implementing programs aiming at developing the country's industrial sector and value addition.

84. **Madam Speaker**, Government has allocated K2.0 billion for the development of Special Economic Zones in this country. The project entails establishing the Special

Economic zones at Matindi and Chigumula in Blantyre, Area 55 in Lilongwe, and Katoto in Mzuzu. Government has already paid for the land in Chigumula and is currently working with the Export Development Fund to mobilize resources for compensation payments to affected citizens around these areas.

85. **Madam Speaker**, the Special Economic Zones Bill has been developed and is currently with the Ministry of Justice. Implementation and construction of the Special Economic Zones will commence in the 2021/2022 fiscal year.

Mining Sector

86. **Madam Speaker**, the mining sector holds a vital key to the desired transformation of this country. It has an enormous untapped potential to contribute to the national socio-economic development through job creation, foreign exchange earnings and economic empowerment. Government is therefore determined to usher into existence a well regulated mining sector that facilitates participation of all stakeholders in the development, utilisation and management of the mineral and petroleum resources.

87. In view of the foregoing, **Madam Speaker**, during the 2021/2022 financial year, Government will undertake a number of interventions to enhance growth of the mining sector. These include:

- i. Establishing the Mining Regulatory Authority to regulate the sector in developing, managing and utilisation of mineral resources in line with sustainable development principles and practices;
- ii. Establishing Mining Corporation, a State-owned Company to ensure optimal development of the mining sector and maximization of national mineral revenues and social benefits; and
- iii. Completing construction and rehabilitation works of the Ministry of Mining Headquarter Offices and Mineral Laboratories at Area 4 in Lilongwe.

88. **Madam Speaker**, I am pleased to inform the August House that the Reserve Bank of Malawi established a structured minerals market and commenced buying gold

on 1st May 2021. To date, gold worth K60.0 million has been purchased by the Bank. This market will go a long way in supporting Artisanal and Small-Scale Miners.

Governance and Rule of Law Sector

89. **Madam Speaker**, the Governance and Rule of Law sector has been allocated K37.9 billion, which is 0.4 percent of GDP and representing 1.9 percent of the entire budget. This provision will cater for wages and salaries in the sector and operations of oversight institutions including the Anti-Corruption Bureau, Office of the Ombudsman, Law Commission and Malawi Human Rights Commission. One of the flagship project in this sector is the construction of the Judicial Complex in Lilongwe.

Information and Communication Technology (ICT)

90. **Madam Speaker**, the Malawi 2063 under the sixth Enabler, highlights the contribution that investments in Information and Communication Technology infrastructure can bring to the country. During the 2021/2022 fiscal year, Government will operationalize 13 telecom towers that were erected under the Last Mile Rural Connectivity Project. So

far, 26 telecom towers have been erected since the project started, and 15 of them are fully operational.

91. **Madam Speaker**, Government is also implementing the National Fibre Backbone Project. Phase I of this project was completed. Phase II, is currently underway which aims at laying optic fibre network connecting the districts to the high speed network.

Projects under Local Councils

92. **Madam Speaker**, the 2021/2022 development budget under Local Councils amounts to K30.0 billion, of which K2.8 billion is for the District Development Fund (DDF); K2.3 billion for the construction of water structures; K24.9 billion for Construction of City Roads; K1.0 billion for dualisation of the Chileka – Blantyre Road; and K607.9 million for Infrastructure Development Fund.

93. **Madam Speaker**, the conditions of our city roads, drainage system and street lighting are in very deplorable state. Government has therefore allocated K8.9 billion to the city of Blantyre, K7.8 billion to the city of Lilongwe, K4.1 billion to the city of Mzuzu and another K4.1 billion to the city of Zomba for maintenance and rehabilitation of these city

facilities. These are substantial amounts and can make a difference in the development of our cities. Government is therefore calling upon management of these city councils to work diligently to ensure that the allocated resources are used efficiently. **Madam Speaker**, Government, through the Treasury will monitor developments in this budget line.

International Relations

Chairmanship of SADC

94. **Madam Speaker**, during the 2020/2021 financial year, Malawi was elected as Vice Chair of the Southern Africa Development Community – SADC. I am pleased to inform the August House that this country will host the SADC Summit here in Lilongwe in August 2021 where His Excellency the President will take over the Chairmanship of SADC.

REVENUE POLICY AND ADMINISTRATIVE MEASURES FOR THE 2021/2022 FISCAL YEAR BUDGET

95. **Madam Speaker**, Government continued with implementation of policies that propelled mobilisation of resources amidst the fiscal challenges that engulfed the economy due to the impact of Covid-19 pandemic. Going forward, Government, through the Malawi Revenue Authority will intensify taxpayer education, awareness campaigns and regular tax audits. I therefore would like to reiterate my appeal to all citizens to contribute to the national resource envelope by developing a culture of paying taxes so that Government mobilizes enough resources for improved service delivery and achievement of the shared agenda of wealth creation as we pursue the national vision, MW2063.

96. In the same vein, **Madam Speaker**, by December 2021, some of the transactions between MRA and taxpayers will be fully automated thereby curbing revenue leakages and reducing administration costs and compliance costs for taxpayers. The importance of reforms cannot be over emphasised as they would turn around business operations and bring efficiency in the organisations.

97. **Madam Speaker**, the Government will ensure that the policies are rejuvenating the private sector enterprises that are suffering from the effects of the pandemic while promoting local production and job creation to fulfil the Tonse Alliance agenda. The distribution of wealth will be pursued to ensure the progressivity of our tax system.

TAX POLICY MEASURES FOR THE 2021/2022 BUDGET

98. **Madam Speaker**, let me start with the tax policy measures for the 2021/2022 budget. As you are aware **Madam Speaker**, the Customs and Excise tax measures will be effective from mid night today whereas the Value Added Tax (VAT), Income Tax, and Administrative measures will be effective 1st July, 2021 when the relevant Bills are passed by this August House.

Customs Measures

99. **Madam Speaker**, to boost the growth of small businesses and to reinvigorate the economy suffering from the effects of Covid-19 pandemic, Government is introducing a **duty-free week** for imports not exceeding US\$3,000. Taxpayers will benefit from this facility once a year.

The dates for the duty-free week will be gazetted within the year for taxpayers to prepare and benefit from it.

100. **Madam Speaker**, to support growth of small businesses, we are increasing the COMESA Simplified Trade Regime threshold from US\$2,000 to US\$3,000. This is a trade arrangement which allows cross border traders in COMESA region to enjoy duty free status when they import goods originating from other member states. This means that small businesses in the country will now import qualifying items valued up to US\$3,000 without paying import duty. Excise tax and Value Added Tax is however payable where applicable.

101. **Madam Speaker**, Government has considered and granted the request by churches for duty free importation of building materials for construction of churches or mosques. Accordingly, the Customs Procedures Code (CPC) 422, which allows churches to import various items duty free will be amended to include building materials.

102. **Madam Speaker**, in order to encourage importation of modern vessels and improve water transportation and tourism, Government will allow duty free importation of

vessels for transportation of goods or people under the CPC for the tourism industry.

103. **Madam Speaker**, Government has also removed import VAT on:

- i. Raw materials for use in manufacturing of Medicaments, Pharmaceuticals and Medical Apparatus; and
- ii. Raw materials for use in printing and publishing books.

104. These products, **Madam Speaker** are currently VAT exempted. By subjecting the raw materials for producing them to VAT, the local producers were not able to claim input VAT which was eventually being transferred to the consumers thereby making them expensive and uncompetitive compared to similar imported products.

105. **Madam Speaker**, Malawi submitted its instrument of ratification of the African Continental Free Trade Area (AfCFTA) treaty in January 2021. To fulfil the commitments made under this Treaty, the country will be reducing duty rates for imports from countries within the AfCFTA. Government does not expect a huge revenue impact from this move considering that the country already trade with

most countries in the AfCTA on a duty free basis through the COMESA and SADC treaties. On the other hand, this creates a huge market for Malawi products.

106. **Madam Speaker**, to accommodate some privileges as provided in conditions of service of various public officers, Government has introduced a Customs Procedures Code (CPC) to cater for duty free importation of motor vehicles by the Justices of Appeal and High Court Judges, General Officers of the Malawi Defence Force, Grade A and B under the Civil Service and Malawi Electoral Commission Commissioners in line with their condition of service.

107. **Madam Speaker**, it was not possible for a privileged person or organisation to buy a motor vehicle from another privileged person or organisation using their privilege. Government will now start allowing privileged persons or organisation to buy from other privileged persons or organisation under various CPCs.

108. **Madam Speaker**, realizing that there are various companies manufacturing soap in Malawi, Government is removing the 10 percent import duty on soap noodles, which is the key ingredient in soap manufacturing. This will

allow soap manufacturers in Malawi to produce soap cheaply. Further, to support the soap manufacturing industry, soap will not be imported duty free under any Customs Procedure Code, such as CPC 405.

109. **Madam Speaker,** Government introduced Industrial Rebate Scheme where companies import raw materials duty free and excise free to encourage local manufacturing and value addition. However, it has been noted that some companies prefer to use imported raw materials in favour of locally produced products. Accordingly, to encourage the use of locally produced raw materials, Government is removing some raw materials (such as plastic packaging materials) under the Industrial Rebate Scheme. The materials to be removed are those that are included in the approved lists of materials under various industries if the same are produced in other approved industries under the scheme. This will promote local production by addressing the unfair advantage that these products had over locally produced goods.

110. **Madam Speaker,** there are a variety of sports disciplines in this country, but only football and netball teams had the privilege of importing busses duty free. In

order to level the playing field in the sports arena, Government will repeal CPC 482 which covered duty free procurement of buses for football and netball teams.

111. **Madam Speaker**, Government will not allow importation of various items under CPC 445 for personal use by a contractor such as spare parts, stationery, office furniture, protective wear and tools. This measure is to control abuse and remove the market distortions induced by unfair economic advantages. However, this does not apply to priority sector industries which are designated by Government to encourage value addition.

112. In the same vein **Madam Speaker**, third parties will not be allowed to import goods duty free under any CPC without prior approval of the Commissioner General. This is being done to control the abuse that has been noted.

113. **Madam Speaker**, Government has reviewed license fees as prescribed in paragraphs 16 (1) and 16 (2) of the Eighth Schedule to the Customs and Excise (Tariffs) Order from K15,000.00 and K7,500.00 to K150,000.00 and K75,000.00 respectively. This will align the fees to the prevailing market prices and ensure that Government is not subsidizing the services.

114. **Madam Speaker,** Government will increase Processing Fee from MK10,000 to MK15,000 and Destination Inspection Fee from MK30,000 to MK35,000 to reflect the cost recovery. These are fees charged when clearing imported goods thorough the Clearing Agents.

Excise Tax Measures

115. **Madam Speaker,** to align with excise tax rates on opaque beer and malt beer as applicable within the region, Government is reducing excise tax on opaque beer from 30 percent to 10 percent while excise tax on malt beer will be reduced from 60 percent to 40 percent. This measure will make local products more competitive.

116. **Madam Speaker,** Government is reviewing the base for calculating excise tax in the gaming and betting industries from amount wagered or staked to Gross Gaming Revenue (GGR). The excise tax rate is however being increased from 10 percent to 15 percent. In addition, Government is introducing a threshold of MK100,000 for application of withholding tax on winnings from betting and gambling activities including lotteries. This initiative will reduce compliance costs.

117. **Madam Speaker**, smuggling is rampant in this country and affecting producers of various products including alcohol (spirits, whiskey, malt beer, opaque beer), energy drinks, flavored water, carbonated soft drinks, sugar, and opaque non-alcoholic drinks. Government is, therefore, introducing the requirement for affixing or printing of electronic tax stamps on these products to curb smuggling and the influx of counterfeit products on the market.

118. **Madam Speaker**, our Super Markets are flooded with imported food products that are locally produced. In order to encourage local production, Government will review the surcharge rates on various products including vegetables and blankets.

VAT Measures

119. **Madam Speaker**, in order to enhance management of Value Added Tax (VAT) and align with VAT thresholds prevailing in countries within the SADC region, Government has increased VAT registration threshold from MK10 million to MK25million.

120. **Madam Speaker**, Government realizes the importance of promoting local production of goods to enable the local producers thrive and create jobs.

Government has therefore Zero rated fuel ethanol, printed books and text books. Fuel ethanol is being zero rated to align with the treatment of other fuel products while printed books and text books are being zero rated to allow the book printing companies to be competitive with imported books and text books.

121. **Madam Speaker**, Government appreciates the development of aquaculture, to enable the local fish breeders improve local production and become competitive, fish feed has been zero rated and machinery specifically for producing fish feed will be exempted from VAT. In this regard, a tariff subheading has been created to provide clarity.

122. **Madam Speaker**, portable sprayers for Agricultural or horticultural are VAT exempt but they do not cover Agricultural or horticultural sprayers mounted on tractors for commercial farming. Government has therefore removed VAT on other Agricultural or horticultural sprayers.

123. **Madam Speaker**, there has been some confusion over certain transaction which are not banking in nature but are treated as banking services hence not subjected to VAT. Government will, therefore, provide clarity on which

transactions are banking so that VAT is charged on the non-banking services in line with the law.

124. Government is also reducing the validity of invoices for claiming of input VAT by VAT registered taxpayers from 12 months to 6 months. This will reduce abuse of the system.

125. **Madam Speaker**, Government will amend Section 25 of the VAT Act to make uploading of stocks in Electronic Fiscal Devices (EFDs) mandatory. Electronic Fiscal Devices have a stock management module which is very relevant to stock-based audits and inspections. Most taxpayers are not maintaining proper stock records which is perpetuating VAT fraud.

Income Tax Measures

126. **Madam Speaker**, a good tax system needs to conform to the principles progressivity or vertical equity in that high-income earners should pay more taxes. The Government has therefore introduced two new Pay As You Earn (PAYE) brackets of 25 percent for incomes between K100,000 to K1.0 million per month and of 40 percent for incomes of more than K6.0 million per month. Accordingly, the new monthly PAYE schedule will be K0 to K100,000 at 0

percent; between K100,000 to K1.0 million at 25 percent; between K1.0 million to K3.0 million at 30 percent; between K3.0 million to K6.0 million at 35 percent; and from K6.0 million and above at 40 percent. This will promote distribution of wealth in the country and increase disposable income for all low income earners.

127. **Madam Speaker**, the Government is aware of the huge number of businesses in the informal sector that are not yet in the tax net. In order to incorporate the informal sector and widen the tax net, Government has made a number of requirements mandatory. These include the following:

a) Tax Clearance Certificate for the following services and transactions:

- i. for all people vying for elected public offices;
- ii. for all regulated professionals, thereby extending coverage beyond lawyers and medical practitioners who already comply;
- iii. employees in the foreign missions and international organizations;

- iv. when issuing or renewing Certificate Of Fitness for commercial vehicles; and
- v. before issuing or renewing business license and export license by institutions such as the City Assemblies, Ministry of Trade and Ministry of Lands.

b) Introduce a requirement for all citizens to have Tax Payer Identification Number (TPIN) and require TPIN when opening bank account; and

c) Introduction of presumptive tax rates for small businesses whose turnover is less than MK12.5 million to encourage compliance.

128. In addition, the Malawi Revenue Authority shall promote “Block Management” to ensure that all traders, especially in cities and towns, are tax compliant. **Madam Speaker**, these initiatives will ensure that the informal sector and all other small business are paying their share of taxes.

129. **Madam Speaker**, Government has reintroduced Withholding Tax on imports which will be applicable to all commercial importers without a valid Tax Clearance Certificate. This will be called **Advance Income Tax** and it will have an exempt list which will include international

organization that are exempt from income tax, government entities, and imports below US\$3,000. This will enhance voluntary compliance and will capture the informal traders that are not yet paying taxes.

Non-Tax Measures

130. **Madam Speaker**, in order to promote tourism in this country and make it more competitive within the region, Government has aligned the multiple entry visa charges with those in our neighbouring countries by reducing the charge from the current US\$150 to US\$80. In the same vein, the single entry visa charge has been reduced from US\$75 to US\$50.

Administrative Measures

131. **Madam Speaker**, there is need to amend a Proviso in Section 105 (5) of the Taxation Act to remove the ambiguity in which the Court has interpreted the 'Tax Expenses' as meaning that they shall only be paid before an appeal is heard, only where the Commissioner General has reasonable suspicion that the Taxpayer is moving out of the jurisdiction and will forever be at large.

132. **Madam Speaker**, let me inform the Honourable Members that the Tax Policy measures that I have

announced in this Budget Statement will become effective 1st July 2021 once the relevant Amendment Bills under the Taxation Act and VAT Act are deliberated and passed by this August House.

Conclusion

133. In conclusion, **Madam Speaker**, the 2021/2022 budget is the first under the new National Vision; the Malawi 2063. In many ways, therefore, this budget sets Malawi on the trajectory towards the achievement of the nation's aspirations towards 2063.

134. **Madam Speaker**, as we implement this budget, challenges are inevitable. These can, however be surmounted only if we work together towards the Vision we have set for ourselves. I therefore wish to call upon the Honourable Members to constructively deliberate on this budget and provide to us the necessary guidance, which we always uphold in the highest esteem.

135. **Madam Speaker**, as I conclude, let me take this opportunity to sincerely thank our development partners for the enormous support rendered to the Government of Malawi in its development agenda. **Madam Speaker**,

development partners have been instrumental in supporting Government in times of need such as during the current Covid-19 pandemic. Let me therefore invite the Honourable Members, here present to join me in thanking our development partners for the continued support to this country, both in good and bad times.

136. **Madam Speaker**, in closing, let me leave the Honorable Members with a motivational quote from **Abraham Lincoln**, the 16th President of the United States of America, and I quote: “**Whatever you are, be a good one**”, end of quote. It is my sincere hope that we are all a good representative of our people, whom we all serve.

137. **Madam Speaker**, I beg to Move.