



## THE EMPLOYERS' CONSULTATIVE ASSOCIATION OF MALAWI

### The Voice of Employers in Malawi

#### 2015/16 Budget Response

##### **I. Introduction**

The 2015/16 National Budget has been announced in the context positive economic developments for the Malawian economy. Malawi's inflation has declined from 24.2% in November 2014 to 18.3% in April 2015. In addition to this, low global oil prices and a strengthening of the kwacha have laid a foundation for continued economic growth. Despite these positive developments, the 2015/16 budget has failed to promote an agenda that promotes private sector development. The decline in donor support has compelled the government to proceed with a budget that prioritizes tax compliance and revenue generation. While these are important goals they come at hefty price by placing increased pressure on the business community and create an environment that is not conducive to private sector growth.

##### **II. Capacity of Ministry of Labour and Manpower Development (Molmd) and Industrial Relations Council**

Government has previously elevated the position of Molmd and has designated it as a key ministry. Despite this elevation, the recent budget statement made no remarks regarding the status of the ministry or any change in funding allocation. As previously stated in the pre-budget consultations, Molmd has insufficient capacity to carry out its mandated duty to carry out labour inspections. In addition to this, the lack of financial capacity at the IRC has resulted in a backlog of cases. These institutions could potentially play a role in promoting safe practices in the workplace and dealing with workplace disputes in an efficient manner. ECAM calls on the government to provide additional support to these institutions and provide the necessary tools that will allow Molmd to carry out its mandated duties.

##### **III. Taxes and Remuneration**

A recurring theme during the pre-budget consultation was that government must enact policies that encourage employment creation and investment. One policy suggested by ECAM during the budget consultations was to revise the PAYE 0% threshold from K20, 000 to K30, 000. Revising



## THE EMPLOYERS' CONSULTATIVE ASSOCIATION OF MALAWI

### The Voice of Employers in Malawi

PAYE could have increased the disposable income of workers and would have stimulated demand in local goods and services. ECAM calls on government to once again seriously consider these policies in future budget discussions.

#### **IV. Excise Duty on Text Messaging and Data**

One of the most notable announcements brought forth in the 2015/16 National Budget was the decision to impose a 10% excise duty on text messaging and data transfers. This is an extremely worrying development. Malawi has one of the highest telecommunication charges in Africa.<sup>1</sup> A report by the International Telecommunications Union reveals that the average Malawian spends \$12 a month on mobile phone charges. This corresponds to 56.6% of average monthly earnings going to paying mobile phone costs. The introduction of such an excise would only serve to increase telecommunication costs in the country and serve as a barrier to communication for SME's based outside the main urban areas. This tax also has negative implications for expanding internet access in a country where only 4.9% of the population has access to the internet. The internet offers several potentials for economic growth for businesses. The internet helps businesses enter new markets and also serves as a vital source of information. Developing countries can harness the internet as a means to increase worker productivity. In India, farmers and fishermen tracking weather conditions and comparing wholesale prices through mobile phones increased their profits by 8% and better access to information enabled a 4% drop in prices for consumers. In an increasingly digital world, access to information is pivotal in facilitating greater economic growth. This excise duty restricts internet access and could reduce workforce productivity.

#### **V. Excise Duty on Dry Cell Batteries and Motor Vehicles**

The 2015 Budget included provisions stipulating governments' intention to reduce excise duty on dry cell batteries and motor vehicles. The reduction of excise duty on dry cell batteries from 30

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<sup>1</sup> Igunza, E. (2015). *Malawi's expensive mobile phone habit*. Retrieved from: <http://www.bbc.com/news/world-africa-31533397>



## THE EMPLOYERS' CONSULTATIVE ASSOCIATION OF MALAWI

### The Voice of Employers in Malawi

per cent to 10 per cent is a welcome development. Intermittent power supply can often have a disruptive effect on production which means that businesses must invest in backup power. Reducing the cost of acquiring dry cell batteries will ease the burden on businesses and consumers. In addition to this, reducing the duty on motor vehicles reduces transport costs for local businesses and would encourage more people to comply with the existing tariff structures. The previous rates were viewed as being onerous which encouraged individuals to pursue counterproductive strategies aimed at reducing their tax obligations. This revision will encourage greater openness and would promote rule of law in the country.

#### **VI. Income Tax Changes**

Government has stated in the budget that it plans to adopt the bank lending rate plus 5 per cent for charging interest on overdue taxes. While it is necessary to instill fiscal discipline and encourage businesses to pay their taxes on time, this current measure can be seen as being onerous. Lending rates in Malawi range between 37 per cent and 39 per cent. These lending rates are some of the highest in the SADC region. For perspective, lending rates in Tanzania currently stand at 15.8 per cent whilst lending rates in Zambia and Mozambique are 9.5 and 15.3 per cent respectively.<sup>2</sup> Adding 5 per cent charge on interest in conjunction with the bank lending rate will place a great amount of pressure on local businesses and decreases the likelihood that overdue taxes will ever be fully repaid. Such a measure is extremely counterproductive in the current climate in which Malawi's growth prospects have been revised downwards. A more equitable measure would be to link the overdue tax to be a percentage value of the total taxes owed. For example, businesses would be required to pay 10 per cent value on the total tax due.

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<sup>2</sup> World Bank (2014). World Bank Development Indicators. [Online] World Bank. Available: <http://databank.worldbank.org/data/home.aspx> (Accessed 25 March 2015).



## THE EMPLOYERS' CONSULTATIVE ASSOCIATION OF MALAWI

### The Voice of Employers in Malawi

#### **VII. Threshold Value for Entry of Goods**

ECAM welcomes governments decision to increase the threshold value for entry of goods from K100, 000 to K500,000. This measure reduces the time spent small to medium sized traders at the border and facilitates greater trade with neighboring countries.

#### **VIII. VAT Measures**

ECAM welcomes the government's initiative to improve the efficiency of domestic VAT through the introduction electronic fiscal devices. Sanctions aimed at deterring VAT evaders and that penalize those that interfere with the work with VAT staff are essential. ECAM hopes to work in conjunction with the relevant public institutions to ensure its members comply with the relevant provisions

#### **IX. Regional Trade Agreements**

The migration from the Malawi Customs and Excise Order to the COMESA Common Tariffs Nomenclature is a welcome development. Encouraging regional trade is crucial to economic development and would enable Malawian businesses to access new markets. Government must also ensure that they implement appropriate support mechanisms that would enable Malawian business to fully gain the benefits of free trade agreements.

#### **X. Conclusion**

The 2015/16 National Budget highlights the government's commitment to reducing reliance on foreign donor support. The budget also emphasizes the government's commitment to fiscal prudence and ensuring domestic debt remains at sustainable levels. The budget also takes tentative steps to improve the business environment in Malawi. Increasing the Threshold Value for Entry of Goods reduces time spent at port of entry for SME's which has the effect of improving border management and facilitates greater trade with neighbouring countries. The reduction in excise duty on imported vehicles and dry cell batteries is also a welcome development. These new measures should be seen as the first steps in the creation of an economic platform that creates an enabling environment for sustainable enterprise. Much reform is still required. A



## THE EMPLOYERS' CONSULTATIVE ASSOCIATION OF MALAWI

### The Voice of Employers in Malawi

comprehensive overview of the tax system is still required, placing greater emphasis on a tax policy that facilitates the creation of new industries. Obtaining finance is still an issue for many businesses in Malawi and the Budget's proposal to create a development bank would help bridge this financing gap. Future economic development is contingent on government working in collaboration with civil society, donors and the private sector. ECAM looks forward to working alongside government in this endeavour.