

1.4.5 The Committee thanks the consultants and NDI for their technical assistance and facilitation.

1.4.6 Last, but certainly not least, the Committee thanks Parliament in anticipation for their input after the findings are tabled. We are honoured to be an organ of Parliament, and look forward to continuing to be of service to the House.

2. The Budget

2.0.1 The national budget is the primary tool for implementing national policy. The budget process enables Government to plan, implement, and review the effectiveness of its policies and programmes.

2.1 The Budget as a Tool for Poverty Reduction

2.1.1 After its preliminary studies, the Committee consciously took up poverty as the principal threat to development, and concentrated on what must be done now, programmatically and procedurally, to maximise the impact of public spending to combat poverty.

2.1.2 Government policy is broadly presented in Vision 2020 and sectoral documents such as the Policy Investment Framework for Education and the National Health Plan. Poverty reduction is Government's top priority. However, since financial resources are insufficient to implement Government policies in their entirety, priorities must be set. To instil confidence in Government's poverty reduction strategy, the process for allocating funds must be transparent. Results achieved by public spending must also be verifiable on the ground.

2.1.3 According to all analyses of public expenditures in Malawi, failure to prioritise and concentrate funding on programmes with proven maximum impact has inhibited progress in reducing poverty and stimulating economic development.

2.1.4 Several years ago Government introduced the Medium Term Expenditure Framework (MTEF) for budgeting based on priorities and realistic costs. The MTEF has not yet yielded the intended benefits, in part because of limited capacity for financial management, and in part because incentives and penalties for enforcing fiscal discipline are inadequate. Political will is needed to enforce fiscal discipline. This is Parliament's responsibility as well as Government's. (*PER, MTEF Review*)

2.1.5 The prospect of increased funds from donor debt relief for poverty reduction programmes has stimulated increased attention to prioritising and costing. Implementing a poverty reduction strategy based on consultations with stakeholders and realistic costing of priorities is a condition for debt relief.

2.1.6 The Poverty Reduction Strategy Paper (PRSP) is supposed to reflect Government's broadest policies while focusing on a discrete number of programmes that Government and stakeholders believe are likely to be most effective for reducing poverty. Once the PRSP is finalised it is expected to be a comprehensive statement of Government policy, the framework for all Government activities, and the basis for the MTEF and annual budgets.

2.1.7 The PRSP will be completed later this year. In the meantime, Government will set priorities for funding in the 2001/2002 budget based on findings to date from consultations with stakeholders.

2.2 The Role of Parliament and the Public in the Budget Process

2.2.1 Findings to date include measures that Government and stakeholders believe can be implemented this year to increase public confidence in the poverty reduction strategy and improve fiscal discipline; the following measures are necessary:

- Allow a longer period for parliamentary scrutiny of the budget before it is passed.
- Submit quarterly expenditure reports to the Budget and Finance Committee and the Special Cabinet Committee on Budgetary Measures.
- Provide training in public finance for MPs and controlling officers of Ministries.
- Make the Integrated Financial Management and Information System (IFMIS) fully operational by July 2001.
- Pass new Finance and Audit Acts with strong sanctions for controlling officers who over-spend and clear roles for the Budget and Finance and Public Accounts Committees.

2.2.2 The budget is the most important legislation of the year. PRSP findings make it crystal clear that more time for scrutiny of the budget by Parliament is essential for public confidence in the tough choices that have to be made to

combat poverty. If MPs believe they own the budget, they will contribute to the political will necessary to enforce fiscal discipline, even when it hurts.

2.2.3 Parliament needs time to study the budget before it can make a meaningful contribution. This year Ministers will respond to questions on their budgets, and this will take time. The Committee will solicit public input on the proposed budget and submit additional findings and recommendations to assist Members in the debate in the House. If Parliament does not find enough time and commit resources needed to consider this input, expectations raised by PRSP consultations will be dashed, and public confidence will be eroded.

2.2.4 Curtailing the budget debate by waiver of notice, or otherwise, would send the wrong signal about commitment to meaningful roles for Parliament and the public in this critical phase of the budget process. The statutory minimum of 21 days will hardly be enough time for the consultations, analysis, and debate that the proposed budget warrants.

Kuthamanga Sikufika

Running Fast Does Not Mean Getting There

2.2.4 The Minister of Finance and Economic Planning drew the Committee's attention to Sections 175 to 178 of the Constitution, and in particular to Section 178, which does not impose time limits, granted that the budget must be introduced in Parliament before the end of the financial year (30 June). The cost of keeping MPs in Lilongwe is a factor, but pales in comparison to the benefits of allowing ample time for consultation and debate. Referring the budget to the Committee after it is presented, and allowing time for all significant input, will go a long way toward building informed support in Parliament and civil society for Government's efforts to impose fiscal control, combat poverty, and stimulate economic development.

Recommendation 1: Refer the budget to the Budget and Finance Committee for public hearings, subject to Section 178 of the Constitution. Allow at least 21 days for debate to consider all significant inputs.

2.2.5 The Committee agrees with the PRSP finding that MPs, and particularly Members of oversight Committees such as the Budget and Finance and Public Accounts Committees, need training in public finance. The Budget and Finance

Committee also needs ongoing technical support so it can conduct meaningful oversight of the budget throughout the year. Other Committees also need this kind of training and technical assistance so they can evaluate the value for money of programmes relevant to their portfolios.

2.2.6 As much as the Committee appreciates donor assistance, Parliament itself needs reliable access to a reasonable level of human and financial resources, supported by the budget, to carry out its constitutional mandates to appropriate and oversee the budget on a sustainable basis.

Recommendation 2: Include funds in the budget for Parliament to enable oversight Committees to do their work professionally, and for training for Members of oversight Committees whose portfolios are critical for poverty reduction.

2.2.7 The Committee appreciates the Ministry of Finance and Economic Planning's intention to provide quarterly reports on the budget to the Budget and Finance and Public Accounts Committees. These reports will be particularly helpful if they provide the information requested in this report. We endorse the Ministry's intention to introduce new finance and audit legislation. The Committee looks forward to consulting with Government on this legislation before it is drafted, and to conferring with the Ministry of Finance and Economic Planning and the National Economic Council throughout the year. Meetings with Cabinet Committees on the economy and budget would also be very useful, as the work of these Committees is complementary. However, the principle of separation of powers is appreciated.

Recommendation 3: Consult with the Budget and Finance and Public Accounts Committees before new finance and audit legislation is drafted. Ideally meetings of these Committees with Cabinet Committees would also help.

2.3 Broadening Ownership of Budget Oversight within Parliament

2.3.1 The Budget and Finance Committee collaborated with Members of six other Committees during deliberations leading up to this report. The Committee

initiated this both to take advantage of other Committees' expertise on sectoral issues and to increase understanding of budget issues throughout Parliament. This year the Budget and Finance Committee will ask other Committees to formally designate three Members to confer with it periodically through the year on budget and poverty reduction issues relevant to their portfolios.

2.3.2 Systematic collaboration will have financial and political benefits:

- Development of expertise throughout Parliament will accelerate, and the cost of accomplishing this will be minimised. Committee meetings are expensive. Portfolio Committees will be able to handle budget analysis cost-effectively by delegating to three Members the initial task of gathering and analysing information on budgets for Ministries they oversee. The Budget and Finance Committee will benefit from other Committees' expertise on sectoral policies and results of Ministries' programmes.
- The political base within Parliament to support sound budget policy and demand fiscal discipline will broaden. The Budget and Finance Committee has only 13 Members. If six other Committees have Members trained in public finance who participate in deliberations with the Budget and Finance Committee, Committees comprising almost half the House will be able to contribute insightfully on the budget and its implementation.

2.4 Designating Priority Poverty Expenditures

2.4.1 As noted above, the Budget and Finance Committee has come to consensus on programmes that the Committee believes are priorities for poverty reduction. While the Committee hopes our recommendations will be considered, our overriding concern is that Government adopts the principle and practice of both designating a limited number of Priority Poverty Expenditures (PPEs) and according them special treatment in the budget.

Recommendation 4: Designate in the budget a limited number of specific programmes that are likely to be most important for reducing poverty. Cost the inputs for these programmes realistically, and code all funds budgeted for these programmes from all sources as Priority Poverty Expenditures.

2.4.3 The following sections of this report describe the special treatment recommended for Priority Poverty Expenditures.

2.5 The Budget Format

2.5.1 The budget format has made it difficult for Parliament and stakeholders to analyse and monitor spending, and to determine expected and actual results. The budget for 2000/2001 for the Ministry of Agriculture and Irrigation, for example, was 1,328 pages long, and estimates for extension services were scattered throughout the documents. This year the format is expected to be much simpler according to instructions issued to Ministries by Treasury.

2.5.2 The following features would make the budget more transparent and easier to understand:

- Budget broken down into readily understandable programme components, and provision of the following information on each programme:
 - Total spending from all sources consolidated in one place
 - Costs for headquarters/administration clearly distinguished from costs for front-line service delivery
 - Costs for personal emoluments (salaries and benefits) clearly distinguished from costs for ORT (materials, transport, and other goods and services)
 - Estimates approved by Parliament for the previous year for each programme, and for these sub-components, and revised estimates of actual expenditures for the year (estimates should make it possible to evaluate increases and decreases in real terms, allowing for inflation and fluctuation in the value of the Kwacha)
 - Quantified, verifiable results expected for the coming year, and actual results for the previous year.

2.5.3 This year the Ministry may not be able to provide all of this information for every programme. It should, however, be able to provide this information for the limited number of programmes designated as Priority Poverty Expenditures.

Recommendation 5: Present the budget, at least for Priority Poverty Expenditures, in a format with the features outlined in Section 2.5.2

2.6 Monitoring the Budget and Tracking Results

2.6.1 The value of the budget for reducing poverty depends just as much on monitoring and tracking as on making good decisions about which programmes to target as priorities. Parliament and Government have to monitor the budget to be sure that funds are used only for purposes approved by Parliament, and that amounts spent on various programmes conform to the budget and achieve the intended results. Monitoring and tracking Priority Poverty Expenditures is particularly important.

2.6.2 This is a huge undertaking. Right now it is challenging but feasible for Government to be fairly effective in controlling amounts of funds spent by line Ministries. It is more difficult to control how the Ministries use funds and to track specific results.

2.6.3 Many factors contribute to deviations from budget, in terms of both inputs and outputs. Corruption and other fiscal crimes have been major problems. The cash budget limits spending to revenue actually received. If revenue is short, funding for some programmes is reduced or cut. This must be done to avoid deficits, but current controls do not prevent arbitrary allocations of funds within Ministries when cash is short. Some funds are spent for personnel who accomplish little or nothing because there are no funds for materials with which to do their work. The MTEF does not yet give enough information on results. Poor co-ordination between Ministry planners who deal with the MTEF and staff responsible for budgeting also complicates matters.

2.6.4 The Ministry of Finance and Economic Planning has taken significant steps to try to control spending. Unfortunately, controls and penalties are still inadequate to deter, detect, and remedy insubordinate, inefficient, and illegal behaviour. In theory, if a Ministry does not submit expenditure returns on time, Treasury withholds the next allocation of funds. In practice this rarely happens. Controlling officers who disobey Treasury instructions rarely suffer significant consequences.

2.6.5 The Ministry of Finance and Economic Planning is also trying to make it easier for others to monitor government revenues and expenditures. Among other things, the Ministry posts quarterly reports on the Internet. The Committee studied these reports during our investigation. They did not provide much of the information the Committee needed to answer its questions. There are delays in posting the reports, and in the latest report (for example), revenue figures were posted without expenditures.

2.6.6 The Minister was candid with the Committee about challenges involved in revamping financial management systems so that the budget can be properly monitored and tracked. We are confident that Government is seriously committed to the task. The Committee is pleased that Government expects to make the new Integrated Financial Management Information System (IFMIS) fully operational by July 2001. We look forward to a full briefing after the budget is passed.

2.6.7 Despite the challenges, it is essential for Government and Parliament to do a really credible job monitoring and tracking spending during 2001/2001, at least for the Priority Poverty Expenditures. The toughest part of the task will be quantifying and verifying results. However, key indicators (or proxies for results) can be used to give realistic bases for evaluating outcomes from priority programmes.

2.6.8 Complete and timely quarterly reports with the following features will be necessary:

- Expenditures from all sources for the previous reporting period and year to date, and projections for the next reporting period and the balance of the year
- Explanations of all spending variances from estimates in the approved budget, and measures that will be taken to guarantee spending as budgeted by the end of the year
- Current estimates of quantified, verifiable results achieved during the previous reporting date, and projections for the next reporting period and the balance of the year.
- Explanations of variances from results anticipated in the approved budget, and measures that will be taken to ensure the anticipated results by the end of the year.

<p>Recommendation 6: Provide quarterly reports with features outlined in Section 2.6.8, at least for Priority Poverty Expenditures.</p>

2.7 Protecting Priority Poverty Expenditures

2.7.1 Decisive measures must be taken to protect Priority Poverty Expenditures, even if revenues are below estimates and emergencies occur. It is

not feasible to guarantee that expenditures for all programmes will precisely match budgeted amounts, and this is one of the reasons for designating only a limited number of Priority Poverty Expenditures for special treatment. If revenue for these programmes from one source is less than anticipated, the shortfall should be made up by re-allocating funds to the programmes from other sources. If anything that can't be foreseen should prevent this, Government should obtain prior approval from Parliament before changing levels of funding.

Recommendation 7: Guarantee that total funds actually spent on programmes designated as Priority Poverty Expenditures will not be less than the amount budgeted for them from all sources, and seek prior approval from Parliament for any change in funding for Priority Poverty Expenditures.

2.7.2 It is difficult to predict when emergencies will arise, but it is safe to say they will arise. The Committee believes the budget should include a contingency fund for dealing with emergencies. Steps must also be taken in advance to minimise consequences of natural occurrences, such as floods.

3. Donor Debt Relief as a Heavily Indebted Poor Country (HIPC)

3.0.1 The World Bank and IMF proposed the HIPC programme in 1997 because poor countries like Malawi cannot service large external debts without neglecting other priorities. Since then the programme has been enhanced to make it easier for poor countries to qualify. Other donors have also agreed to participate.

3.0.2 Forgiveness and restructuring of debt payments makes it possible to reallocate substantial funds to programmes with the greatest impact on poverty. Funds freed by debt relief are used for these programmes, but they are not the only source of funds. Countries accepted into the HIPC programme must meet rigorous conditions to continue to qualify for debt relief.

3.1 The HIPC Process and the Amount of HIPC Debt Relief

3.1.1 Malawi was accepted into the HIPC programme on an interim basis in December 2000, when donors accepted an interim PRSP and Malawi met other conditions for reaching the “decision point”. Conditions for final acceptance