

1. Introduction

1.1 Budget and Finance Committee Members and Terms of Reference

1.1.1 The Budget and Finance Committee is appointed by the House pursuant to Section 56 (7) of the Constitution to consider matters relating to the national budget and Government taxation policies.

1.1.2 The Committee consists of thirteen Members. The quorum for formal proceedings is seven. Members of the Committee are appointed by political parties represented in the House and confirmed by the National Assembly. Current Members, since March 2001, are as follows:

- ❑ Honourable Louis Joseph Chimango, MP (MCP), Chairman
- ❑ Honourable Ali Sikelo, MP (UDF), Vice Chairman

- ❑ Honourable Nelson Chuthi, MP (MCP)
- ❑ Honourable Limited Genti, MP (MCP)
- ❑ Honourable Vincent Mapesi Gondwe, MP (AFORD)
- ❑ Honourable Patrick Feckson Katsanga, MP (UDF)
- ❑ Honourable Henry Midiani, MP (UDF)
- ❑ Honourable Henry Mlaliki, MP (UDF)
- ❑ Honourable Thomas J.M. Mnesa, MP (UDF)
- ❑ Honourable Daniel Kerium Mphunga, MP (MCP)
- ❑ Honourable Yakub Osman, MP (UDF)
- ❑ Honourable Mwetsenit Yetala, MP (UDF)
- ❑ Honourable Godfrey Zulu, MP (AFORD)

- ❑ Mr. Lawson Chitseko, Senior Clerk Assistant, Secretary

1.1.3 Terms of Reference of the Committee are as follows:

- ❑ Familiarise the Committee with the budget and reports on economic issues, statistical information, international agreements, financial reports, and reports on economic and policy statements.
- ❑ Sharpen public awareness of the budget and Government financial and economic policies, and encourage informed debate on the budget.
- ❑ Advise the National Assembly on Government's domestic and international borrowing policies.
- ❑ Study Government taxation policies and advise accordingly.
- ❑ Report findings to the National Assembly.
- ❑ Seek advice from the Minister of Finance and Economic Planning, and other officials, on financial and other matters.

- Review bills with financial and budget implications and any other matter that the House may refer to the Committee.

1.1.4 The Committee resolved to interact with Government and others in order to be a constructive party to the process of formulating the budget and monitoring the budget throughout its cycle, and to report on these matters to the National Assembly.

1.2 Purpose and Scope of the Report

1.2.1 This report is intended to assist Parliament in reviewing the budget to be proposed for 2001/2002. After the budget is tabled in Parliament we will review it, solicit public input, and deliver a second report to Parliament to assist the House in the debate. We seek Parliament's support for our recommendations.

1.2.2 In response to stakeholders, and after consulting with Government, the Committee recommends increased budgets for twelve programmes in agriculture, education, health, infrastructure, and security that are, in our judgement, most critical for poverty reduction (See Sections 6 to 10 of this report). The Committee recommends that budgets for these programmes be designated as Priority Poverty Expenditures, and given special treatment during budget implementation.

Priority Poverty Expenditures (PPEs) are the budgets for programmes specifically designated as likely to be most effective in reducing poverty, and coded as such in the budget documents.

1.2.3 This report includes recommendations on processes for formulating and monitoring the budget that will enhance Parliament's role in appropriating and overseeing the budget, and make the budget process more responsive to stakeholders. The report also briefly highlights the current macroeconomic outlook and addresses private sector concerns about the surtax.

1.2.4 The Committee's objectives are as follows:

- Ensure the best use of Malawi's scarce financial resources for reducing poverty and stimulating economic development.
- Increase public confidence in processes by which difficult decisions about the budget are made.
- Strengthen political will to target and control public spending.

1.3 Work Undertaken by the Committee to Date

1.3.1 Before the budget for 2000/2001 was tabled, the Committee engaged an economist to prepare a report on the macroeconomic situation and factors most important for reducing poverty and developing productive sectors of the economy. The consultant also advised on how the proposed budget addressed these factors. A second report was distributed to all MPs, and Committee Members used the analyses in their contributions to the budget debate. The Committee could not monitor the budget systematically through the year because it was unable to meet regularly.

1.3.2 The Committee obtained donor funds starting in March 2001. Since then, the Committee has met four times for a total of eight days, each time with technical assistance from consultants. Between meetings the Committee Chair and the consultants summarised findings, drafted questions for Ministries, and studied relevant documents. (See Annex A: Committee Consultants and Technical Advisers; Annex F: Bibliography)

1.3.3 Senior officials from the Ministry of Finance and Economic Planning briefed the Committee and answered questions at meetings in March, April, and early May. Senior officials from the National Economic Council did the same at meetings in March and April. In mid-May Committee Members advised the Minister of Finance and Economic Planning of key recommendations likely to be in this report. The Minister understands that Committee recommendations are not official until the report is adopted by the House.

1.3.4 Senior officials from the Ministries of Agriculture and Irrigation, Education, Science and Technology, and Health and Population briefed the Committee and answered questions at meetings in March and April. Chairs and other Members of Parliamentary Committees on Agriculture and Irrigation, Education, Health and Population, and Public Accounts participated in these meetings.

1.3.5 The Committee solicited public input on the budget and poverty reduction strategy through newspaper advertisements and invited civic organisations to a meeting in early May. Spokespersons for 48 organisations with expertise on agriculture, education, health, private sector interests, consumer interests, the Poverty Reduction Strategy Paper (PRSP), and donor debt relief gave the Committee advice and recommendations. Chairs and other Members of the Committees on Agriculture and Irrigation, Education, Health and Population, Commerce, Industry, and Tourism, and Legal Affairs participated in this meeting. Views of MPs from the Budget and Finance and other Committees based on experiences in their constituencies complemented, and in most instances confirmed, testimony from civic organisations. (See Annex B: Participants from Other Parliamentary Committees; Annex C: Government Officials Consulted by the Committee; Annex D: Civic Organisations Consulted by the Committee.)

1.3.6 The Chair, other Committee Members, and consultants participated in pre-budget consultations with stakeholders arranged by the Ministry of Finance and Economic Planning in Lilongwe, Salima, and Blantyre, and in numerous consultations with stakeholders on the PRSP.

1.3.7 Key documents analysed by the Committee and our consultants include:

- Budget documents for 2000/2001, quarterly reports on revenues and expenditures for 2000/2001 (to the extent available), a draft review of public expenditures prepared by Government and the World Bank (*PER*), and Government's draft plan of action for phase two of the Medium Term Expenditure Framework (*MTEF Review*).
- A profile of poverty in Malawi issued by the National Economic Council, the interim PRSP and briefing papers, draft reports of PRSP working groups on macroeconomic stability, public expenditure management, agriculture, education, health, and HIV/AIDS, the report on district consultations on the PRSP, and the final draft of Malawi PRSP: Findings to Date, as submitted to Cabinet (*Findings to Date*).
- The World Bank document on interim acceptance of Malawi into the HIPC debt relief programme (*Decision Point Document*), an IMF/World Bank document on monitoring programmes for poverty reduction in HIPC countries, and numerous documents from the Internet on poverty reduction processes in other countries.
- Written testimony submitted by civic organisations

- The Surtax Bill (Bill No. 2, 2001)
- Reserve Bank of Malawi's Financial and Economic Review
- Newspaper reports of comments on the budget and the economy from August 2000 through May 2001

1.3.8 The Committee regrets that it was not able to analyse the utility of the budget as a tool for gender equity and empowerment, or as a tool for combating HIV/AIDS. Similarly it did not have time to examine the impact of the flood on the budget. We are asking Government to provide information on budget inputs and outputs dis-aggregated by gender, and to provide consolidated information on programmes in all Ministries dealing with HIV/AIDS. This will facilitate analysis of the budget for 2002/2003 from both perspectives.

1.4 Acknowledgements

1.4.1 The Committee thanks the National Economic Council and the Ministries of Finance and Economic Planning, Agriculture and Irrigation, Health and Population, and Education, Science and Technology for responding to the Committee's many questions and generously making their senior officials available to consult with us. Since his appointment in 2000, the Minister of Finance and Economic Planning has repeatedly said that Committee input on the budget is very important to Government. The Committee is grateful for the Minister's encouragement and responsiveness to the Committee's concerns. The Minister was always available to the Committee at short notice.

1.4.2 The Committee thanks constituents and civic organisations that shared their experience and offered recommendations. We believe this report will serve their interests.

1.4.3 The Committee thanks Members from the Agriculture and Irrigation, Education, Health and Population, Commerce, Industry and Tourism, Public Accounts, and Legal Affairs Committees of Parliament who participated in our deliberations. Their advice and opinions are reflected in this report, and the report is richer because of them.

1.4.4 The Committee thanks the U.K. Department for International Development (DFID), the U.S. Agency for International Development (USAID), and the Royal Danish Embassy who funded Committee meetings and consultants directly and/or through the National Democratic Institute for International Affairs (NDI).

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*)