



Malawi Economic Justice Network¹

Comments on the proposed Malawi Budget 2001-2002

Report for Members of Parliament

Monday, July 16, 2001

1. Introduction

The aim of this short report is to try and answer the question 'is this a budget that will help the poor?'

As such we look firstly at the spending on the social sectors. Specifically we discuss the Priority Poverty Expenditures proposed in the PRSP Findings to Date Document. The main conclusion is that for the majority of expenditures there is not enough baseline information (i.e. sources of funds, comparison to last year and specific outputs) to allow monitoring. Secondly no extra guarantee was made in the budget that this money will actually be spent according to the budget, which is very worrying given what has happened in previous years. Lastly no commitment was given to producing regular public figures on these PPE's during the year, which will again make monitoring very difficult.

Secondly we look at spending on the accountability agencies. Largely here expenditure is increasing which is a welcome development. However, there are some serious causes for concern. Specifically the budget for the National Assembly is set to decrease, and the office of the Ombudsman (arguably the most effective accountability agency to date) is only set to increase by 3%. Lastly overall expenditure on these agencies is still very small in comparative terms, even allowing for the proposed increase. The Government this year will still spend more on State Residences than on the ACB, Ombudsman, HRC, Min. of Justice and the National Audit Office combined.

Thirdly we look at the Macro Economic elements of this year's budget. Specifically we note with concern that the budget deficit (including grants) is set to increase, despite an extra 4.7 billion MK from Debt Relief. We also note with concern that even after debt relief,

¹ The Malawi Economic Justice Network is a group of 69 Civil Society Organisations including the Church, Trade Unions, Professional Associations, Academics and NGO's.



servicing public debt remains the Government's number one expenditure, more than Health or Education.

Finally we look at what we call 'non-poverty reducing expenditures'. These are those expenditures we feel are contained in the budget which cannot be said to contribute to poverty reduction. We note with concern that a number of these have increased substantially from last year's budget; of particular note is the huge increase in Statutory Expenditures under the new budget line 'refunds and repayments'. This is predicted to be 2 billion MK (more than the whole Ministry of Agriculture) and is allocated to resolving issues such as the APEX and SECUCOM cases.

Throughout the report, all comparisons made are between last years and this years proposed figures. Revised figures are also included for last year, to show the variance between what was approved and what was actually spent.

Comparative increases are based on deflating this years proposed expenditure to last years prices. This was done using the official NSO deflator figure of 31.3%.

Social Sector Spending

The table below outlines overall changes in Social Sector Spending. Overall the Government commitment to spending the largest share of its income on the social sectors (38% of recurrent expenditures) has continued which is commendable. The main concern however is that these sectoral allocations will not translate into actual spending on poverty reducing activities. The budget has changed very little from last year in terms of mechanisms for monitoring and ensuring expenditure on budgeted activities, which is a serious cause of concern.

Social Sector Spending	2000/01 Approved	2000/01 Revised	2001/02 Estimate	2001/02 Adjusted for Inflation ²	Increase or Decrease Adjusted for Inflation
Total Budget Ministry of Health and Population	3,086,952,760	3,456,829,986	5,302,565,352	4,038,511,312	+31%
Total Budget Ministry of Agriculture & Irrigation	1,675,311,136	3,671,553,183	2,542,784,114	1,936,621,564	+16%
Gender, Youth and Community Services	162,096,454	844,896,539	454,530,728	346,177,249	+14%
Total Budget Ministry of Water Development	1,592,143,100	9,830,514,750	2,140,153,274	1,629,972,029	+11%
Total Budget Ministry of Education, Science and Technology	5,574,488,412	3,008,099,684	5,864,177,500	4,466,243,336	-20%
Total Budget National Roads Authority	1,900,000,000	3,798,082,764	1,796,000,000	1,367,859,863	-28%
Total Budget for Police Service	644,780,884	549,390,971	582,792,997	443,863,669	-31%

² Using the NSO Official Deflator Figure of 31.3%.



During his speech, the Minister made considerable reference to the PRSP Findings to Date document. This document gives a summary of the discussions held to date during the PRSP formulation process. Specifically it outlines twelve key Priority Poverty Expenditures identified during the consultations held to date. These are Credit, Rural Feeder Roads, Community Policing, Agricultural Extension, Teaching and Learning materials, Teacher Training, Teacher Salaries, Drugs, Health worker training, Health worker salaries, Boreholes and the Targeted Input Programme.

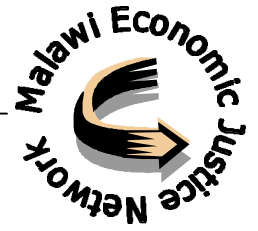
These 12 areas are also reflected in the report made to Parliament by the Budget and Finance Committee following extensive consultation and discussions.

At a very general level, the budget appears to contain provision for each of these areas, which is commendable. However, what the budget did not contain was the essential changes recommended by both PRSP and the BAF Committee in the presentation, reporting and guarantees needed that these expenditures will actually be made. Specifically three areas need to be addressed.

1. Firstly the presentation of the PPE's is not clear at all. What was requested was a clear detailing of expected outputs, the cost, the comparison with last year and a breakdown of where the funds are coming from (Donors, Govt, or HIPC). This is not available for any of the 12 areas identified.

For example, the critical need to train nurses and other health workers was an agreed area of priority expenditure. Although there is a budget for nurse training, the budget documents give no indication of how many nurses they want to train or at what level. There is also no indication of whether the figure given represents an increase on last year, and how the funding will be broken down. Without this data as a baseline, it will be virtually impossible to show whether or not the Government is achieving its targets and the maximum number of health workers are being trained this year.

2. Secondly, there has been no increased commitment by the Government to release figures on these key areas as the year progresses. There is apparently no change from last year in this respect. This is not good enough, as information must be released clearly and in a timely manner if any effective ongoing monitoring of these expenditures is to be carried out. Much was made by the Minister in his speech of the availability of figures on the Internet, but this is simply not the case. The most up to date figures available on the web or elsewhere date from December last year, and are at a level of aggregation that makes them virtually unusable. If this system continues unchanged this year monitoring will not be possible in any meaningful sense.
3. Thirdly, the PRSP Findings to Date Document and the Budget and Finance Committee report recommended that Government **guarantee** the key Priority



Poverty Expenditures. Specifically the money could not be used for any other activities without firstly asking the permission of Parliament. Unfortunately, despite verbal commitments by the Minister in his pre-budget consultations to the creation of 'protected' expenditures, there was no reference made to protecting any Government expenditures in this year's budget. As a result there is nothing to prevent the same situation as last year occurring where money allocated for key activities such as teacher training was diverted to other activities.

MEJN feels that without these three changes to the budget this year, it will not be possible to monitor these expenditures in any meaningful sense, and if not experience has shown that the laudable commitments of the budget often do not translate into actual Government spending on the key areas that will reduce poverty in Malawi.



HIPC

This year the Government will receive 4.7 billion MK in HIPC Debt relief (\$58.75 million). In the six months from December 2000 to June 2001 it also received \$14.7 million. The figure this year amounts to 13.75% of all discretionary expenditure. All of the HIPC funds must be spent on poverty reduction. The budget this year did not give any detail on how the money received in 2000-2001 was spent, nor any indication of how the money is being allocated over the current year. However, the Minister has since given the following verbal breakdown:

HIPC Indicative Expenditure 2000-2002

Item	Expenditure 2000/2001 (MK million)	Expenditure 2000-2001 (\$ millions)	Expenditure 2001/2002 (MK million)	Expenditure 2001-2002 (\$ millions)
Drugs	270	3.6	547	7.3
Primary Health Care			202	2.7
Nurse training			82	1.1
Teaching materials	180	2.4	457	6.1
Teacher training			285	3.8
Boreholes			315	4.2
Dam Rehabilitation			50	0.7
Extension			202	2.7
Youth/ Community Services/ Vocational Training			142	1.9
Rural Roads	63	0.84	202	2.7
Tourism			130	1.7
Commerce			153	2.0
Mining			60	0.8
Total	513	6.84	2827	37.7
Priorities not identified			1739	23.2
Overall total (both years)			4566	60.9

Although this extra detail is welcome, far more information will have to be forthcoming in line with the three requirements listed above for clear budgets including sources of funds, timely information and guarantees if we are to be sure this crucial opportunity is maximised. It is essential that this is done if monitoring is going to be possible, and we are to ensure that this invaluable relief actually impacts on poverty.

2. Accountability Expenditures

The table below outlines expenditures for the key accountability agencies, which are also crucial to effective poverty reduction.

Spending on Accountability Agencies	2000/01 Approved	2000/01 Revised	2001/02 Estimate	2001/02 Adjusted for Inflation	Increase or Decrease Adjusted for Inflation
National Assembly	293,936,569	388,484,597	346,222,809	263,688,354	-10%
Judiciary	197,716,489	176,959,087	377,981,520	287,876,253	+47%
Office of Ombudsman	20,682,724	20,099,825	27,984,229	21,313,198	+3%
Anti Corruption Bureau	40,370,359	53,302,408	69,479,603	52,916,681	+31%
Law Commission	33,555,239	97,630,608	63,497,428	48,360,570	+44%
Human Rights Commission	17,252,294	34,959,212	37,804,655	28,792,578	+67%
National Audit Office	22,235,439	26,672,723	34,059,708	25,940,372	+17%

MEJN commends the Government on proposing to increase expenditure on almost all of the 'accountability agencies'. However, the one key exception is the National Assembly, where expenditure is set to decrease by 10%. The PRSP- Findings to Date clearly stated that the role of Parliament in scrutinising the actions of Government is crucial for effective poverty reduction, yet we find the Government is intending to spend less and not more on Parliament. In particular the committee system was cited by the PRSP groups as being the critical mechanism for monitoring. However, this year's budget only allows for a total of 40 committee meetings for all the 18 committees together (just over 2 days each). The Public Accounts Committee, arguably one of the most effective committees last year, met for more than 40 days. The budget for committee meetings is therefore completely inadequate.

Overall it must also be noted that expenditure of Government on accountability is still dwarfed by other expenditures. Government is proposing to spend twice as much this year on the OPC as it will on Parliament. Government will also spend twice as much on the Ministry of Foreign Affairs as it will on the Judiciary. Lastly, the combined total expenditure for the Ombudsman, ACB, Law Commission, Human Rights Commission and the National Audit Office (total 177 million MK) is still substantially less than that being allocated to State

Residences (234 million MK). It is in making these comparisons and not in percentage increases that we see the commitment of the Government to accountable expenditure

3. Macro-Economic Issues

The Budget Deficit

Government Expenditure

	Approved 2000-2001	Revised 2000-2001	Estimate 2001-2002	Deflated 2001-2002	2001/2002 Percentage of GDP
Recurrent	21917.47	29133.68	36582.84	27862.03	27.43
Development	12249.74	11185.65	13675.83	10415.71	10.25
Total	34167.21	40319.33	50258.67	38277.74	37.68

Revenue	18858.14	20442.65	25505.43	18663.69	18.37
Grants	11319.74	13172.30	15582.00	11867.48	11.68
Total	30177.88	33614.95	40087.43	30531.17	29.95

Deficit (excluding grants)	15309.07	19876.68	24753.24	18852.43	
Deficit	3989.33	6704.38	10171.24	7746.57	7.73

Overall Government expenditure is therefore set to rise by 15% in nominal terms, but in real terms expenditure is set to fall (although expenditure was 6 billion over-budget last year). The discrepancy between these figures (taken from Budget document number one, the Economic report) and those in the Ministers speech must be noted. In the speech the Minister used the recurrent expenditure figure minus debt repayments instead of the total recurrent expenditure figure. As debt repayments are an integral part of recurrent Government expenditure they have been included here.

When included, they actually show that the deficit including grants this year will be 7.73% of GDP, taken at current market prices (133,385.98 million is the figure in the Economic Report). In money terms this is an increase of 15.5% in real terms.

In the budget speech, the figures given are again different to the above. According to the speech, GDP is predicted to grow by 2.3% this year and 4% next year. Given this, the deficit is set to increase from 1.4% of GDP to 1.9%. (Para 79 budget speech)

However, whatever figures are used, we can legitimately ask why the Budget Deficit is increasing at all. The reason given by the Minister in his budget speech and in the Economic Report is the increased expenditures proposed for this year on salaries. Salary increases are



indeed welcome, especially for front-line workers such as teachers and nurses. However, a closer look at the figures shows that the revised figure for spending on wages and salaries last year (7.769 billion MK) is actually only 1 million MK less than what is proposed for this year (7.77 billion MK)³. When you add the fact that Malawi expects to see grants from Donors increase this year and is also expecting 4.7 billion MK in HIPC debt relief, it is hard to see why the deficit should still be set to increase.

On a more positive note, the percentage ratio of general administration to social sectors is predicted to improve from a 41:27 ratio to 25:38 which is excellent news, if this turns out to be the case. However, if general administration is over budget as it was last year, this will not be the case.

Debt Servicing

Servicing debt remains the largest single Government expenditure this year. Due to the HIPC funds, public debt charges will be 40% less in real terms this year. However, at 11.7% of the total Government expenditure for 2001-2002, debt servicing remains higher than the spending on either Education or Health. MEJN questions whether this can really be described as a sustainable debt burden, and is calling for the cancellation of the remainder of Malawi's foreign debt.

MEJN is also concerned that foreign borrowing is set to increase from 8 billion to 12 billion MK this year (as reported in Budget Document 1). Why does Malawi have to borrow more despite grant increases and debt relief?

³ These figures are taken from Budget Document 1, the Economic Report.

4. Non-poverty Reducing Expenditures

Non Poverty Reducing Expenditures	2000/01 Approved	2000/01 Revised	2001/02 Estimate	2001/02 Adjusted for Inflation	Increase or Decrease Adjusted for Inflation
Office of the President and Cabinet	545,007,080	1,670,450,697	696,087,913	530,150,733	-3%
State Residences	174,471,176	629,652,165	306,878,991	233,723,527	+33%
National Intelligence Bureau	N/A	N/A	94,177,035	N/A	N/A
Ministry of Foreign Affairs and International Cooperation	680,492,901	1,323,656,114	821,609,475	625,749,791	-8%
Special Activities	4,540,322,558	696,257,179	3,644,728,125	2,775,878,236	-39%
Refunds and Repayments	30,000,000	39,000,000	2,658,725,600	2,024,924,295	+6650%
Public Debt Charges	8,008,000,000	5,557,461,413	6,570,900,000	5,004,493,526	-37.5%

There are a number of proposed Government expenditures in this table are serious causes for concern.

State Residences

This budget line covers five houses, and was 260% over budget last year. At a proposed 234 million, it is only 30 million less than what is being spent on the National Assembly, and is more than the ACB, Ombudsman, Auditor General, Human Rights Commission put together. It is also set to increase by 33% this year. It is hard to see how this expense can be justified by a Government committed to poverty reduction.

Refunds and Repayments

This budget line is in statutory expenditures and represents a staggering 6650% increase on last year. The total figure is 2 billion MK, more than the Ministry of Agriculture. The budget documents break it down as follows:



□ Apex	MK300,000,000
□ SECUCOM	MK528,000,000
□ Land Rovers	MK168,000,000
□ MPs' Vehicles	MK 72,000,000
□ TATAs	MK939,000,000
□ ADMARC Overdraft	MK 1,000,000
□ General Compensation	MK650,725,600

This list reveals that the Government is proposing to spend as much this year on rectifying previous financial scandals as it will on Agriculture. At the same time the level of expenditure going to the kinds of accountability agencies that should detect these frauds is still minimal, and the transparency required to prevent them happening again is yet to be found in the budget.

Special Activities

The budget line for special activities (2.7 billion MK) again exceeds that for Agriculture, yet the budget documents given no information as to what these 'special activities' are likely to be. This is not good enough, and Government should give details on exactly what is contained under 'special activities' and why it cannot be transparently included in other budgets.

5. Recommendations

Given the above, MEJN believes that without including the following recommendations, the budget cannot be considered pro-poor:

- At a minimum give clear detail on the 12 Priority Poverty Expenditures highlighted in the PRSP Findings to Date Document. This should give outputs, comparison with last year and sources of expenditure (Donor, Govt, HIPC).
- A guarantee should be given that this money for the PPE's will not be diverted to other expenditures without Parliamentary approval.
- The Government should commit to providing clear figures on these 12 PPE's on a quarterly basis.
- A clearer and more detailed breakdown of the HIPC funds and where they are intended to be spent must be given, and mechanisms put in place to be able to monitor where they are going. A clear account of how the HIPC money received in the last financial year was spent is also essential.
- The overall fall in the budget for both Education and the Police needs to be reversed.
- The budget for the National Assembly should be increased to a realistic figure, reflecting the need for Parliamentary scrutiny of the executive.



- The need to increase the deficit and foreign borrowing is not acceptable given the figures. Government should instead cut back on non-poverty reducing expenditures, such as State Residences and 'Special Activities'.
- The provision for bailing out the various procurement scandals contained in 'Refunds and Repayments' should be rejected, particularly given that many of the issues are still in court.
- Specific detail should be given on what is meant by 'Special Activities', and why the expenditures here cannot be transparently put under other budgets.

6. Conclusion

In his budget speech, the Minister of Finance repeated the commitment of the Government of Malawi to Poverty Reduction.

MEJN believes that this year's budget had the potential of being one that really could impact on poverty, and that the key building blocks are in place. However, as this report shows a number of critical obstacles remain before this budget could have a positive impact on the poor. Only if the government moves to rectify these can this budget be described as one that will help to reduce poverty in Malawi.