

7. HIPC

7.1 Allocating HIPC Funding

7.1.1 According to the Minister of Finance's 2001/02 *Budget Statement*, Malawi expected to receive a total of K4.7 billion of HIPC Funding during the 2001/02 financial year. In his *Winding up Speech on the 2001/2002 Budget* the Minister even gave some details of the amounts allocated to different priority poverty areas of expenditure. He also indicated that there was an amount of K1,739.0 million of HIPC resources that was not yet allocated. The suggestion put forward in his speech was that the allocation of those funds would be made in a supplementary budget to be submitted to Parliament. However, Parliament never received a supplementary budget. Instead the Cabinet Committee on the Economy approved supplementary HIPC allocations without the National Assembly.

Sector		2000/01	2001/02
Agriculture and Irrigation	Extension Services		202
Water	Borehole Construction		315
	Dam Rehabilitation		50
Education, Science and Technology	Teaching Materials	180	457
	Teacher Training		285
Health and Population	Drugs	270	547
	Primary Health Care		202
	Nursing Training		82
Youth and Community Services			142
Labour and Vocational Training			195.6
Rural Roads		63	202
Tourism			130
Commerce			153
Mining			60
Priorities to be Identified			1,739
Total			4,761.6
<i>Source:</i> Winding Up Speech on the 2001/2002 Budget by Minister of Finance & Economic Planning Dr. Mathews A.P. Chikaonda (page 8).			

7.1.2 Cabinet created a system that required potential beneficiaries of HIPC resources to submit their project proposals indicating the amount requested and the intended use of the HIPC resources. The project also had to be pro-poor in nature.

7.1.3 The Budget and Finance Committee appreciates the initiative taken by the Cabinet Committee on the Economy. It regrets that the system was devised outside Parliament, which is the body to approve all budgetary allocations. Moreover, the requirements of the system delayed the disbursement of funds because some institutions did not have the expertise to write a technically convincing pro-poor project proposal.

7.1.4 During the 2002/03 pre-budget consultations with the Minister of Finance, the Budget & Finance Committee was informed that the existing Cabinet approval system for the allocation of HIPC resources would be revised. Even the IMF and the World Bank were not convinced of the value of this system. The problem is that no new proposals have been forwarded to Parliament. The Budget and Finance Committee therefore recommends that any new system of allocating HIPC resources should be provided before the 2002/2003 Budget is tabled and that the Committee should be consulted on the issue before any allocations are made.

7.2 HIPC Inflows and Outflows

7.2.1 A HIPC Account is kept at the Reserve Bank of Malawi. All inflows are deposited into the account and the balances earn interest. So far (through 11th June 2002) the account has earned interest of K3.4 million. The table below shows aggregated monthly inflows and outflows since the account was opened. Total inflows to the account (including interest) are at K2.46 billion and total outflows are at K2.213 billion, leaving a balance of K247 million. HIPC inflows stemming from the World Bank account for 63% of total inflows. HIPC inflows from bilateral donors under the Paris Club terms only account for 12.6% of the total.

7.2.2 The Secretary to the Treasury gives instructions to credit or debit the HIPC account. Debits to the HIPC account are credited to the Malawi Government Holding Account No.1. The Ministry of Finance later transfers the amounts to the respective individual accounts of the Ministries in line with their funding schedule. It is therefore possible to have a time lag between the time when HIPC funds are deposited into Government Account No.1 and the time they are transferred into the intended individual account. It is during such a time period that the possibility of using the money for a different purpose exists. Given the fungible nature of money, it is probably impossible to monitor whether the money is actually used for a different purpose. The accounts would be in order if, in the end, Government replaces the money and transfers it to the intended expenditure. The problem is that the amounts transferred into Account No.1 do not earn interest even if they stay in that account for a long time.

Data from the Reserve Bank of Malawi			Data from the Ministry of Finance and Economic Planning		
Month/Year	Inflow	Outflow	Month/Year	Inflow	Outflow
All 01	1,871.0	734.0	Jan to Jun 01	--	--
			Jul 01	348.4	231.0
			Aug 01	148.9	100.0
			Sep 01	280.8	135.5
			Oct 01	295.7	190.0
			Nov 01	92.8	250.0
			Dec 01	123.8	0.0
Jan 02	89.7	574.0	Jan 01	94.7	574.0
Feb 02	88.8	233.0	Feb 01	73.6	233.0
Mar 02	1.2	0.0	Mar 01	96.8	228.3
Apr 02	274.1	0.0	Apr 02	--	--
May 02	111.4	0.0	May 02	--	--
Jun 02	23.9	672.0	Jun 02	--	--
Total	2,460.0	2,213	Total	1,555.4	1,941.8
Balance		247.0	Balance		(386.4)
<i>Source:</i> Reserve Bank of Malawi and the Ministry of Financing and Economic Planning					

7.2.3 The Monitoring Unit in the Ministry of Finance and Economic provided the information contained in Table 13 on HIPC inflows and outflows from July 2001 to March 2002. Inflows for the period totalled K1,555.39 million whereas total outflows were K1,941.82 million. Balances brought forward from last financial year financed the difference. The table above gives a monthly breakdown of HIPC inflows and outflows through March 2002.

7.2.4 There are discrepancies between the figures given by the Reserve Bank and those given by the Ministry of Finance. According to the Reserve Bank, total outflows through March 2002 are K1,541 million but the Ministry of Finance reports K1,941.8

7.2.5 HIPC inflows of K1,555.4 million through March, are K2,235.5 million less than what Malawi expected and budgeted for. It seems almost impossible that total HIPC inflows of K4.7 million will be realised by the end of this financial year. What the Committee would like to understand is whether the freezing of grants by some donors also affected HIPC inflows? The Committee understands that the HIPC debt relief Malawi is presently receiving is interim relief and is conditional. Given that most of the debt relief comes from the International Development Agency of the

World Bank and the International Monetary Fund, it is worrisome that there are delays in the programme.

7.2.6 HIPC resources are not received as new money flowing into the country. It is money that Malawi would have used to repay part of her debt to our creditors, but instead, is now used for pro-poor spending as identified.

7.2.7 Some of the allocations stated in the Budget Documents include HIPC resources, whereas some do not. It is impossible, without inside information to distinguish between these figures. The Committee recommended, and continues to recommend, that annual allocations should include “total spending from all sources, costs for headquarters/administration, costs for personal emoluments, estimates approved by Parliament, and quantified, verified results expected”.

7.3 2002 Committee Recommendation (HIPC)

<p>2002 Committee Recommendation: : The Committee recommends that all HIPC resources be allocated only with the full participation of the Parliament.</p>
