

REPORT
OF
THE BUDGET AND FINANCE COMMITTEE
TO
THE NATIONAL ASSEMBLY
PRE-BUDGET REPORT
JUNE 2002

SARPN would like to acknowledge permission from Mr Louis Chimango, chairperson of the Budget and Finance Committee, to post this document on our web.

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Pre-Budget Report June 2002

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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. Political parties represented in the House appoint members of the Committee who are later confirmed by the National Assembly Committee.

1.1.2 The Committee currently consists of 12 Members, as follows:

- Honourable Louis Joseph Chimango, MP, Chairman
- Honourable Ali Sikelo, MP, Vice- Chairman
- Honourable Felix Leo Chome, MP
- Honourable Nelson Chuthi, MP
- Honourable Ramsey Kadango, MP
- Honourable H.M. Kapenda, MP
- Honourable Henry Midiani, MP
- Honourable Thomas J.M. Mnesa, MP
- Honourable Khwauli Msiska, MP
- Honourable S.J. Situdi Nkhoma
- Honourable Yakub Osman, MP
- Honourable Godfrey Zulu, MP

1.1.3 The committee was supported by a Secretariat consisting:

- Mr. Lawson Chitesko Senior Clerk Assistant
- Mr. Henry Chingaibe, Researcher

1.2 Report Purpose and Scope

1.2.1 This report is designed to inform Parliament of the activities the Committee has conducted during the 2001/02 financial year. The Committee made some headway in monitoring pro-poor expenditures. It organised itself into the following Task Forces: Poverty, Statutory Corporations, Finance and Audit Act, and Parliament's own Budget.

1.3 Task Force on Poverty

1.3.1 Task Force on Poverty: Responsible for overseeing budgetary operations with special emphasis on Priority Poverty Expenditures (PPEs). Given that there are 12 priority expenditures, the Task Force agreed to prioritise and concentrate on the following:

- Ministry of Agriculture: Extension Services; and Targeted Input Programme (TIP).
- Ministry of Education: Teaching & Learning Materials; Teachers' Training; and Teachers' Salaries
- Ministry of Health: Drugs; Training of Front-Line Health Workers; and Salaries for Front-Line Health Workers
- Security: community policing.

1.3.2 This Task Force is responsible for monitoring HIPC (Highly Indebted Poor Countries) resources as well as the PRSP (Poverty Reduction Strategy Paper) process. Hon. Felix Chome chairs the Task Force and members include Hons. Ramsey Kadango, H.M.Kapenda and Yakub Osman.

1.3.3 The Task Force collaborated with civil society organisations that carried out surveys in several sample districts. The organisations are outlined in Section 1.4 below. Their objective was to investigate whether goods and services in Health, Education and Agriculture that get to the recipients, correspond with the allocations from the Ministry of Finance and from their respective line ministries. The composition of these groups, the methodology used and the preliminary results of the surveys are reported below.

1.4 Task Force on Statutory Corporations

1.4.1 Task Force on Statutory Corporations: Responsible for overseeing operations of statutory bodies. Monitoring parastatals became part of the Committee's portfolio during the reorganization of all committees late last year. The Committee's mandate is to monitor the operations of the commercially oriented statutory bodies and the subvented institutions. The work carried out to date concentrates on ten major parastatals because of their importance in the economy. The findings and recommendations of the Task Force are contained in this report.

1.4.2 Hon. Mapesi Gondwe chaired the Task Force until he was transferred to another parliamentary committee. Other members of the Task Force include Hons.

Thomas Mnesa, Nelson F. Chuti, and Ramsey Kadango. Honourable Mwetseni Yetala was a member of this Task Force before his ministerial appointment.

1.5 Task Force on Finance and Audit Act

1.5.1 Task Force on Finance and Audit Act: Responsible for the review of the draft finance and audit acts, which is underway. The existing law, dating back to the 1970s, is to be separated into two acts called (i) Public Finance Management Act, and (ii) Public Audit Act. The Task Force commented on the draft bills and made recommendations to the Ministry of Finance and Economic Planning (see page 11).

1.5.2 Honourable S.J. Situsi Nkhoma chairs the Task Force and members are Hons. Henry Midiani, Ramsey Kadango, and Godfrey Zulu.

1.6 Task Force on Parliament's own Budget

1.6.1 Task Force on Parliament's own Budget: Responsible for a review of Parliament's own budget and its budget processes. Honourable L.J. Chimango, who is also chairperson of the main Committee, chairs this Task Force of two members. The other Member of the Committee is Honourable Ali Sikelo, Vice Chair of the Committee. Findings and recommendations of the Task Force are contained in this report (see page 43) .

1.7 Acknowledgements

1.7.1 The Committee would like to thank officials from the following ministries and Government Departments for providing information and for making themselves available whenever requested to do so: Ministry of Finance and Economic Planning including the Public Enterprise Reform and Monitoring Unit (PERMU), Ministry of Health and Population, Ministry of Education, Science, and Technology, Ministry of Agriculture and Irrigation, Ministry of Local Government, and the Department of Statutory Corporations. The consultations with these ministries were beneficial to the Committee in completing its tasks.

1.7.2 The Committee welcomes the appointment of the new Minister of Finance and Economic Planning, Honourable Friday Jumbe, and is confident that he will help move the country toward increased development and financial stability. The Committee wishes to express its appreciation to the Minister and his Ministry for organising a meeting with the Budget and Finance Committee as part of his pre-budget consultations. The Committee welcomes his open-door policy and encourages him to facilitate close collaboration with both his Ministry and the Cabinet Committee on the Economy. There is a renewed commitment with the common understanding that we are all working toward the same goal of poverty reduction through the promotion of more transparency and accountability in the usage of public moneys.

1.7.3 The Committee thanks the U.K. Department for International Development (DIFD), the U.S. Agency for International Development (USAID), and the Royal Danish Embassy who funded Committee meetings and consultants through the National Democratic Institute (NDI).

1.7.4 The Committee also consulted civil society organisations that are involved in the monitoring of pro-poor spending and in the drafting of the PRSP. We acknowledge the Malawi Economic Justice Network (MEJN), the Civil Society Agriculture Network (CISANET), Civil Society Coalition for Quality Basic Education and the Malawi Health Equity Network (MHEN). The Committee notes the comments made by the IMF and the World Bank that, "Ultimately, civil society will be the best judge of the effectiveness of the poverty-reducing strategy" The Committee therefore encourages more organisations and individuals to become involved in the monitoring of PPEs.

1.7.5 The Budget and Finance Committee organised a public meeting at the Lilongwe Hotel on 6th and 7th May. The Committee wishes to thank all the people and organisations that attended that meeting. The Committee invited the Chairpersons and Vice-Chairpersons of Parliamentary Committees of Education, Health and Agriculture. Officials from the three Ministries also made submissions. Special appreciation goes to the Malawi Confederation of Chamber of Commerce and Industry (MCCCI), Society of Accountants (SOCAM), Canadian International Development Agency (CIDA) and the Private Schools Association of Malawi (PRISAM) for making presentations and participating in the meetings.

1.7.6 Other donors are coming forward to assist in capacity building for Parliament and to assist in tracking poverty expenditures. The Committee encourages them to expedite their interventions because the demand is enormous. The World Bank funded project Financial Management, Transparency, and Accountability Project (FIMAP), The African Capacity Building Foundation (ACBF) project within the National Economic Council, and CIDA's project for Malawi called "Capacity Development for Participatory Democracy", are all initiatives that the Committee applauds and welcomes.

2. NON-MINISTRY SPECIFIC RECOMMENDATIONS

The Budget and Finance Committee tabled a pre-budget parliamentary report last June that contained 22 recommendations to the House and to Government. Twelve of these recommendations are linked to the ministry-specific Priority Poverty Expenditures, some of which are discussed in Parts III, IV, and V of this report. Part II, on the other hand, reviews the status of the other ten Committee recommendation and what additional steps are necessary.

2.1 Budget Process (Recommendation 1)

2001 Committee Recommendation: 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.

2.1.1 The 2001/02 Budget was not referred to committee. The Minister of Finance tabled the Budget on 22 June 2001, without reference to committee, and it proceeded to third reading and approval in less than three weeks. Questions to individual ministers, regarding the specifics of their ministry's budgets, lasted only three days.

2.1.2 It is not only the Budget and Finance Committee that recommends the National Assembly allow at least 21 days to debate the budget. Parliament itself adopted this recommendation when it approved The Ad Hoc Committee Report on Parliamentary Development and Coordination. This report recommended that the budget be referred to committee, and that "Parliament should review statutes and Articles of the Constitution pertinent to the budget process, and ensure that at least three weeks is allowed for debating the budget in the House."

2002 Committee Recommendation: Parliament recommends that the budget be referred to committee and that the House allow 21 days for the budget debate.

2.2 Funds for Oversight (Recommendation 2)

2001 Committee Recommendation: Include funds in Parliament's budget for plenary sessions and for committees to do their work. Parliament should ensure that such funds are considered protected expenditures in accordance with Article 183(3) of the Constitution.

2.2.1 The 2001/02 Vote for the National Assembly included K14.73 million for Parliamentary Committees. Through the end of March, only a little less than K3 million had been allocated and spent on committee meetings. Those committees that regularly met relied on donor funding to assume the costs of their meetings.

2.2.2 During this year's pre-budget consultations with the Ministry of Finance, the Committee was informed that Parliament has spent more than its appropriation. However, the monitoring report from the same Ministry indicates that through March 2002, Parliament has only spent 70.7% of its Other Recurrent Transactions (ORT) allocation.

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2.2.3 The recurrent budget approved for the National Assembly was K346,222,809 (Personal emoluments = K142,360,394 and ORT = K203,862,415). This amount was revised downward, according to Parliamentary records, to K301,443,002.

2.2.4 The Committee is concerned that Parliamentary Committees are not funded, that the House did not meet in March, and that Parliament's arrears (K24 million as of March) are increasing. The arrearage includes payments to parastatals such as ESCOM, Lilongwe Water Board, and Malawi Telecom.

2.2.5 In regard to training, the Malawi Poverty Reduction Strategy Paper (MPRSP) states that MPs, particularly Members of the Budget and Finance and Public Accounts Committees, should receive training in public finance. However, funding has not been made available for such training. The World Bank's FIMTAP project holds promise for training in public finance for these two committees, as does the African Capacity Building Initiative. Unfortunately, none of the sectoral committees are included in these programs.

2.2.6 It is worth noting that the United Nations Development Program does fund a Parliamentary training program at Chancellor College. The curriculum, however, is broad-based and does not focus on public finance and economic issues.

2002 Committee Recommendation: Include funds in Parliament's budget for convening Parliament and its committees. Parliament should ensure that such funds are considered protected expenditures in accordance with Article 183(3) of the Constitution.

2.3 Finance Legislation (Recommendation 3)

2001 Committee Recommendation: 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 on the economy and budget would also help.

2.3.1 The Ministry of Finance and Economic Planning (MoFEP) did not officially consult with the Committee in drafting the new legislation. The Committee's Task Force on the finance act took the initiative, however, to review early drafts of the legislation and engage officials from the Ministry. The Budget and Finance Committee drafted its recommendations and submitted these to the Ministry's Task Force in February.

2.3.2 The finance and audit acts are the centrepiece of public expenditure management. As such, the Committee must be a major player in the ongoing review. Members of the Committee were not included in the Ministry's task force or study missions, and have not been invited to discuss this legislation.

2002 Committee Recommendation: The Ministry of Finance and Economic Planning should carefully consider the Committee's recommendations, begin consultations with the Committee, and present the new finance and audit bills to Parliament at the next sitting of the House.

2.4 Budget Priorities (Recommendation 4)

2001 Committee Recommendation: 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.

2.4.1 The 2001/02 Budget neither identifies what the Committee and the *PRSP Findings to Date* document defined as Priority Poverty Expenditures nor does it cost all the inputs. The Ministry of Finance and Economic Planning, however, initiated a mechanism for tracking what were sometimes called Priority Poverty Expenditures, and sometimes called Pro-Poor Expenditures. The system tags certain budget lines that either meet or approximates poverty reduction expenditures. In the jargon of the IMF/World Bank, these are called *virtual poverty funds* and such systems are used in other highly indebted countries, e.g., Uganda.

2.4.2 However, the monitoring reports do not define what is a Priority Poverty or Pro-Poor Expenditure. In its Pre-Budget Report of 2001, the Committee defined 12 such allocations, which were subsequently adopted by the PRSP's Findings to Date document of May 2001. The Priority Poverty Expenditures currently reported by the monitoring unit at the Ministry of Finance and Economic Planning differ from the Committee's list and the Findings to Date. They also differ from what is found in Budget Documents. It is also appears that Cabinet made changes to the allocations during the year.

2.4.3 To complicate monitoring further, the Ministry's aggregations of allocations for reporting purposes changed during the course of the year. In December, the Ministry's spreadsheet reported that the Ministry of Health and Population's Priority Poverty Expenditures were: purchase of drugs, nurses' training, primary health care, and health workers' salaries. A recent monitoring report lists primary health care, preventative health care, secondary curative care, and drugs. Nowhere to be found are the allocations for salaries and training.

2.4.4 The Committee recognizes that the Ministry of Finance and Economic Planning did take seriously the task of tagging and monitoring of the Priority Poverty Expenditures. However, without reporting consistent aggregations throughout the year, monitoring Priority Poverty or Pro Poor Expenditures over time is difficult.

2002 Committee Recommendation: Even though Priority Poverty Expenditures are not specifically identified in the final version of Malawi's Poverty Reduction Strategy Paper, the tagging implemented in 2001/02 should be continued. Further, the Committee remains convinced that the recommendation to code for Priority Poverty Expenditures is necessary if poverty interventions are to be monitored.

2.5 Budget Format (Recommendation 5)

2001 Committee Recommendation: Present the budget, at least for Priority Poverty Expenditures, in a format that is readily understandable, and provides total spending from all sources, costs for headquarters/administration, costs for personal emoluments, estimates approved by Parliament, and quantified, verified results expected.

2.5.1 The 2001/02 budget documents were difficult to understand, untimely, incomplete in not listing spending from all sources, and did not include quantified, verified results for all of the Priority Poverty Expenditures. The Ministry's monitoring reports did correct some of these deficiencies during the year.

2002 Committee Recommendation: The Committee recommends that the budget, and particularly the Priority Poverty Expenditures in the budget, should be in a format that is readily understandable, provides total spending from all sources, costs for headquarters/administration, costs for personal emoluments, estimates approved by Parliament, and quantified, verified results expected.

2.6 Quarterly Reports (Recommendation 6)

2001 Committee Recommendation: Provide timely quarterly reports with expenditures from all sources, explanations of all spending variances, current estimates of quantifiable results, and explanations of variances from the anticipated results. Information that was posted was invariably late.

2.6.1 The Ministry of Finance and Economic Planning does monitor Priority Poverty or Pro Poor allocations and this information is available on the ministry's Website. Monitoring reports do identify the sources of all income (HIPC and GOM). However, there is no explanation of variances and there is little information on the status of quantifiable results.

2.6.2 Despite promises that quarterly revenue and expenditure information for each Vote in the Budget would be made public, the Ministry of Finance and Economic Planning issued no such reports to Parliament or the public during this financial year.

2002 Committee Recommendation: Provide quarterly reports with expenditures from all sources, explanations of all spending variances, current estimates of quantifiable results, and explanations of variances from the anticipated results.

2.7 Actual Funding (Recommendation 7)

2001 Committee Recommendation: 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 funds.

2.7.1 There were verbal assurances that Priority Poverty Expenditures would be protected during the year but there was no formalised system to safeguard these allocations. Downward revisions were made, without consultations with the Committee or Parliament. For example, the allocation for agriculture extension was reduced by K125 million, the allocation for drugs was reduced by K483 million, and the allocation for community policing by K3.2 million. Other allocations were also reduced. The Ministry provided no explanations for these variances.

2.7.2 During its most recent meetings, the Budget and Finance Committee was informed that the ceiling for drugs in the 2002/03 budget will be reduced from its

current allocation of more than MK1 billion to MK500 million. While the final 2002/03 budget has not been submitted to Parliament, the Committee expressed grave concerns over a reduction of this magnitude in a critical Priority Poverty Expenditure. During a financial crisis, such as the one now facing Government, it is expected that cuts will be made, but consultations with Parliament through its committees are needed.

2002 Committee Recommendation: 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 funds.

2.8 HIPC Funds (Recommendation 8)

2001 Committee Recommendation: Include in the budget a complete accounting of all HIPC funds for 2000/01, and commit to use HIPC funds exclusively for designated Priority Poverty Expenditures.

2.8.1 The quarterly Priority Poverty Expenditure monitoring reports provided expenditure data from 2000/01. As already mentioned, the Ministry of Finance and Economic Planning does provide monitoring data on the allocation of HIPC funds (see Table 1 in Annex).

2002 Committee Recommendation: Government should commit to use HIPC funds exclusively for designated Priority Poverty Expenditures.

2.9 PRSP Membership (Recommendation 9)

2001 Committee Recommendation: Increase membership of PRSP working groups and participation in district consultations to ensure participation by poor Malawians, women, people with front-line service delivery experience, and MPs. Include representatives from the Budget and Finance Committee and civil society on the Technical Committee for the PRSP.

2.9.1 The Chair of the Budget and Finance Committee and a handful of MPs participated in PRSP working groups. No MPs or civil society representatives served on the PRSP Technical Committee. Civil Society representatives were included as members of the Drafting Committee.

2002 Committee Recommendation: PRSP monitoring and evaluation committees should include a wide range of people including the poor themselves, service delivery representatives, and MPs.

2.10 Surtax Bill (Recommendation 22)

2001 Committee Recommendation: Refer Bill No. 2, 2001, the Surtax Bill, for extension of the surtax to retail and wholesale trade, to a Committee for public hearings.

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2.10.1 After some debate in the House, the Ministry of Finance and Economic Planning referred this bill to the Committee on Commerce, Industry, and Tourism. The Committee held eight meetings where comments were received from civil society, the private sector, officials from the Ministry of Finance and the Malawi Revenue Authority, and technical consultants. The Committee drafted a full report recommending a number of amendments, which was adopted by the House in November of 2001.

2002 Committee Recommendation: Accomplished.

3. MINISTRY OF AGRICULTURE AND IRRIGATION

3.1 2001 Committee Recommendations (10, 11, & 12)

Number 10 Extension Services: Substantially increase the budget for Government extension services, and designate the budget as a Priority Poverty Expenditure.

Number 11 Access to Credit: Substantially increase the budget for support for programmes that provide credit and related services to poor farmers, and designate the same as a Priority Poverty Expenditure.

Number 12 TIP: Substantially increase the budget for the Targeted Inputs Programme (TIP), including funds to insure proper distribution and assisted delivery of extension services, and designate the same as a Priority Poverty Expenditure.

3.2 Current Status

3.2.1 To prepare for this report, the Committee consulted with the Ministry of Finance and Economic Planning, the Ministry of Agriculture and Irrigation, and the Civil Society Agriculture Network (CISANET). This civil society grouping, one of three such groups that presented information to the Committee, focuses on improved agricultural production.

3.2.2 Implementation on Access to Credit (Recommendation Number 11) has not yet begun, and, as such, the Committee was not able to analyse this Priority Poverty Expenditure. The Committee will include Access to Credit in its report next year.

3.2.3 In May 2002, CISANET presented its preliminary findings on the implementation of two of the three Priority Poverty Expenditures related to the Ministry of Agriculture and Irrigation, Extension Services and TIP (Recommendations Number 10 and 12). Their research was based on questionnaires administered to 53 Field Assistants in nine Extension Planning Areas from all three regions of the country. While their findings cannot be considered scientific, their effort represents a systematic attempt to determine what happened to the Priority Poverty Expenditures with respect to the Ministry of Agriculture and Irrigation at the grassroots.

Priority Poverty Expenditure	2000/01 Revised	2001/02 GOM	2001/02 HIPC	2001/02 Vote	2001/02 Projected to June	% Change
Extension Services	194.2	140.5	202.0	342.5	150.2	(23%)
Access to Credit	No Allocation					
TIP	180.0 ¹	160.0	0	160	196	8%

Source: Monitoring Unit of the Budget Department in the Ministry of Finance.

¹ The Special Activities Vote included K100 million to pay for arrearages in the 1999/00 StarterPak Program.

3.2.4 The original allocation for Extension Services, as reported by the monitoring unit in the Ministry of Finance, was K342.5 million. However, during the financial year, this allocation was reduced to K217.3 million, a marginal increase over last year's revised budget and projected expenditures through the end of June reduce this amount even further. Expenditures are projected to be K150.2 million. The Budget and Finance Committee considers Extension Services as one of the most important PPEs. It is surprising therefore, that this specific line item only received K150.2 million.

3.2.5 The Ministry's position is that Extension Services encompasses a much wider range of services than are found with this item alone (see discussion below).

3.2.6 The allocation for the TIP Program was projected to be smaller than the revised amount for 2000/02 but was instead increased by K36 million. It is also assumed that additional funding was available from donors.

3.3 Expected Outputs

3.3.1 The extension outputs for this financial year as reported in the Budget Document 4A are as follows:

- Develop and disseminate extension methodologies and systems to targeted groups;
- Develop and disseminate food and nutrition messages to staff and farmers for health nutrition;
- Upgrade agri-business skills for both staff and farmers to promote commercialisation of farming;
- Target extension programmes to include the participation of women; and,
- Develop print and electronic media campaigns to complement efforts by frontline staff members.

3.4 Extension Services

3.4.1 The Committee sought to review funding of extension services as one of the Priority Poverty Expenditure related to the Ministry of Agriculture and Irrigation. This task proved difficult because of the different definitions used for "extension services" by various ministries.

3.4.2 According to the Ministry of Finance and Economic Planning's Budget Document 4A, expenditures for the Ministry of Agriculture and Irrigation are broken down into seven programmatic areas² with a specific area titled "extension services." The Committee learned, however, from staff from the Ministry of Agriculture and Irrigation headquarters that activities that are considered to be extension services fall under a number of other programme areas, such as: Crop Production Support

² The seven programme areas defined in Budget Document 4A for the Ministry of Agriculture and Irrigation are: Administration and Support Services; Crop Production; Animal Production and Veterinary Services; Extension Services; Agricultural Research; Land Resources Conservation; and, Irrigation Services

Services, Land Resources Conservation and Irrigation Services. Further, field workers at the grassroots reported that everything they do outside of their offices is classified as extension services.

	Figures from the Ministry of Budget and Finance - Budget Document 4A (Revised)		Figures from headquarters Staff of the Ministry of Agriculture and Irrigation	
Extension	304.5	12.0%	742.8	70.2%
Non-Extension	2,238.3	88.0%	315.9	29.8%
Total	2,542.8		1,058.7	
<i>Source:</i> Ministry of Finance - Budget Document 4A (pages 115 and 116) and Ministry of Agriculture and Irrigation headquarters staff.				

3.4.3 Table 2 seeks to compare budget allocations for extension services from 2001/02 from Budget Document 4A with those provided by the headquarters staff of the Ministry of Agriculture and Irrigation. Using the classification from Budget Document 4A, relatively few financial resources are allocated to extension services, while the figures from the headquarters staff of the Ministry of Agriculture and Irrigation suggest just the opposite – that considerable resources are being allocated to extension services. Such discrepancies make it difficult to properly assess the commitment to this Priority Poverty Expenditure.

3.4.4 The Committee also analysed the change in relative percent funding for extension services versus non-extension services from 2000/01 to 2001/02. From this perspective, data from Budget Document 4A and Ministry of Agriculture headquarters staff is also contradictory. As demonstrated in Table ??, Budget Document 4A shows a slight increase in funding to extension services compared to non-extension services, while data from the Ministry of Agriculture and Irrigation headquarters staff shows the reverse.

	Figures from the Ministry of Budget and Finance - Budget Document 4A (Revised)			Figures from headquarters Staff of the Ministry of Agriculture and Irrigation		
	2000/01	2001/02	Change	2000/01	2001/02	Change
Extension	89.7 7.7%	304.5 12.0%	4.3%	400.3 75.1%	742.8 70.2%	(4.9%)
Non-Extension	1,079.9 92.3%	2,238.2 88.0%	(4.3%)	132.4 24.9%	315.9 29.8%	4.9%
<i>Source:</i> Budget Document 4A (pages 115 and 116) and Ministry of Agriculture and Irrigation headquarters staff.						

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3.4.5 The Committee also looked at change in funding of extension services in isolation. Here, the question became even more complex as different were figures presented to the committee from Budget Document 4A, Ministry of Agriculture and Irrigation headquarters staff and the Ministry of Finance and Economic Planning's HIPC Monitoring Unit. Table ?? provides comparative data on funding for extension services for 2000/01 and 2001/02. All of the data provided to the Committee indicates a increase in funding for extension services whether compared with the 2000/01 budget allocation or revised figure.

3.4.6 Again, concern is noted over the discrepancy between data from Budget Document 4A and that provided by the HIPC Monitoring Unit. The former shows actual expenditures for extension services being reduced from the original allocation to the revised figure. The trend is the reverse, however, when looking at the data from the HIPC Monitoring Unit.

	2000/01 Allocation	2000/01 Revised	2001/02 Allocation	% Change Allocation	% Change Revised
Budget Document 4A	155.9	89.7	304.5	95.3%	239.5%
Min. of Ag and Irrigation Hq Staff	400.3	--	742.8	85.6%	--
HIPC Monitoring Unit	108.4	200.4	342.5	216.0%	70.9%

Source: Budget Document 4A (pages 115 and 116), Ministry of Agriculture and Irrigation headquarters staff, and HIPC Monitoring Unit.

3.4.7 Table 5 provides the same information as Table 4, but with figures for 2001/02 deflated to compensate for inflation. The official deflator for government services is 1.313 and is set by the National Statistical Office (NSO). Using this data, the same trends emerge, but the Committee notes that the increase in funding for extensions services is notably lower when inflation is taken into consideration.

	2000/01 Allocation	2000/01 Revised	2001/02 Allocation Deflated	% Change Allocation	% Change form Revised
Budget Document 4A	155.9	89.7	231.9	48.7%	158.5%
Min. of Ag and Irrigation Hq Staff	400.3	--	565.7	41.3%	--
HIPC Monitoring Unit	108.4	200.4	260.9	140.7%	30.2%

Source: Budget Document 4A (pages 115 and 116), Ministry of Agriculture and Irrigation headquarters staff, and HIPC Monitoring Unit.

3.4.8 The committee also received information on projected year-end expenditures for extension services for 2001/02. These are provided in Table 1. The Committee notes with concern that while the allocation of fund for extension services increased in real terms from 2000/01 to 2001/02, these funds have not in fact been expended.

3.5 Credit Services

3.5.1 As noted, implementation on the Priority Poverty Expenditures has not yet commenced. The Committee will look at credit services with respect to the Committee's recommendations from 2001 during the 2002/03 budget cycle.

3.6 Targeted Input Program (TIP)

The Committee notes that the allocation for TIP decreased between 2000/01 and 2001/02. However, it appears that the final expenditure will increase to K196 million.

3.7 Preliminary Findings of CISANET on Extension Services and TIP

3.7.1 The Civil Society Agriculture Network (CISANET) began monitoring Government expenditures on Priority Poverty Expenditures from the Ministry of Agriculture and Irrigation using a system of on the ground surveys. Their first report, presented to the Budget and Finance Committee during public hearing organised at the Lilongwe Hotel on 6 and 7 May 2002, covered the first six months of the 2001/02 financial year. It analysed data captured from a sample of 53 field assistants, distributed among 9 Extension Planning Areas (EPAs). The survey used questionnaires scientifically prepared and tested to capture information on extension services and TIP. Data collection was conducted between January and March 2002.

3.7.2 The objective of the survey was to evaluate whether increased budget allocations to the Priority Poverty Expenditures of extension services and TIP would translate into more extension work and improved delivery of goods and services to farmers. With TIP, they were also interested in whether Government would deliver on its commitment to improve the targeting mechanism of the programme.

3.7.3 CISANET is also interested in the construction and maintenance of feeder roads but did not include questions on that Priority Poverty Expenditure (Number 19) in the questionnaire due to the fact there is very little activity in this Priority Poverty Expenditure during the rainy season. Future surveys are going to evaluate activities related to feeder roads.

3.7.4 The findings of CISANET with respect to extension services can be summarised as follows:

- ❑ When Government released the 2001/02 Budget, the intention was to fill 3,900 extension posts this financial year. The Ministry of Agriculture and Irrigation admits that this has not happened and that there are only approximately 1,400 extension posts currently filled. Based on CISANET's sample, it appears that the Ministry would need over 1,628 additional Field Assistants to provide the

most basic services to all villages. Government has indicated that it will train 1,000 more extension workers in 2002/03 – still short of the required number.

- ❑ The number of Field Assistant visits to villages in a given period of time did not increase this year as compared with last year. Given shortages of staff, 6 Field Assistants in an EPA must visit an average of 79 villages outside their assigned sections in order to cover all villages in the EPA. This is practically impossible given that the Field Assistants are unable even to fulfil their planned visits of all the villages in their section.
- ❑ 75% of Field Assistants state that they are unable to reach villages. Lack of transport is the main obstacle to service delivery. Failure to provide Travel & Transport allowances (T&T) was the principal constraint. 22% of the respondents had not received T&T in 6 months and 11% had never received T&T. At the EPA level, District Officers (D.O.) face the same problem causing them to achieve about half of their planned follow-up visits to their Field Assistants.
- ❑ Almost 50% of the Field Assistants interviewed said that, after the distribution of TIP packs, participation to all agricultural programmes dropped among farmers who did not receive TIP packs.
- ❑ There is lack of motivation for the farmers to attend training sessions when the program neither provides snacks nor a stipend allowance. Understandably, some of them travel very long distances and do not have any cash to pay for their meals.
- ❑ All the EPAs visited have land for demonstration purposes (average of 3.53 hectares). However, most of this land is not utilised because of lack of labour and inputs.
- ❑ There are a lot of vacancies for all Subject Matter Specialist positions. Of concern is the fact that there was no Irrigation Officer at the EPA level in any of the sampled EPAs.
- ❑ Most Field Assistants had work plans. However, the quality is mediocre and there is a shift from "bottom-up" planning approach to a more 'top-down' approach. Both Field Assistants and Development Officers are implementing plans drawn up at RDP level, without reference to the detailed extension needs of the EPAs and sections. This development is worrisome because it goes against the spirit of decentralisation and participatory development approaches being advocated.

3.7.5 CISANET also collected data on TIP and made the following observations:

- ❑ Nepotism seriously impedes targeting of TIP. Targeting within communities using local leaders does not work because it lacks transparency. CISANET recommends that local leaders be relieved of the responsibility for deciding which individuals receive starter packs. An alternative method should be devised in a participatory manner that includes representatives of the recipients.

- ❑ Farmers who do not receive packs get angry and overreact by not participating in extension programmes from which they could benefit. There is reduced respect among villagers for village headmen and Field Assistants resulting in social tensions and subsequent reduction in food production.
- ❑ A significant portion of the TIP packs that were distributed were incomplete.
- ❑ Political interference and reselling of inputs by the ultra-poor are some of the problems encountered.
- ❑ Field Assistants were supposed to receive a TIP bicycle and motorcycle allowances for their participation. In some cases the Field Assistants were not even aware of the existence of such an allowance. There is lack of transparency and possibility of fraud among the officers responsible for paying out this allowance.

3.8 2002 Committee Recommendations

2002 Committee Recommendation: : Substantially increase the budget for Government extension services, simplify and unify budgeting practices for extension services and assure all budget funds for extension services are expended for this purpose.

2002 Committee Recommendation: : Substantially increase the budget for support for programmes that provide credit and related services to poor farmers, and designate the same as a Priority Poverty Expenditure.

2002 Committee Recommendation: : Substantially increase the budget for the Targeted Inputs Programme (TIP), including funds to insure proper distribution and assisted delivery of extension services, and improve transparency and accountability of TIP.

4. MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

4.1 2001 Committee Recommendations (13, 14, & 15)

2002 Committee Recommendation: Substantially increase the budget for training primary school teachers, and designate the same as a Priority Poverty Expenditure.

2002 Committee Recommendation: Substantially increase the budget for personal emoluments (salaries and benefits) for teachers, and designate the same as a Priority Poverty Expenditure

2002 Committee Recommendation: Substantially increase the budget for teaching and learning materials in primary schools, and designate the same as a Priority Poverty Expenditure.

4.2 Current Status

4.2.1 In drafting this portion of the report, the Committee consulted with the Ministry of Finance and Economic Planning, the Ministry of Education, Science and Technology, the Canadian International Development Agency (CIDA) that funds the Grant to Support the Education Sector (GSES), and the Private Schools Association of Malawi (PRISAM).

4.2.2 In addition, the Committee took note of the comments made by the Civil Society Coalition for Basic Education. This group, a coalition of 22 organizations focused on improving primary education, first commented before the Committee in 2001, as it was drafting its recommendations for Priority Poverty Expenditures.

4.2.3 In May 2002, the Coalition presented its current findings on the implementation of the three Priority Poverty Expenditures in primary education for the first two quarters of this financial year 2001/02. Their research was based on a nationwide survey of 51 schools in 6 districts in all three regions. The Coalition completed questionnaires at both district and school levels and it conducted a literature review and desk research at the national level. While their report is not a scientific survey, it is a systematic attempt to determine what happened with the Priority Poverty Expenditures at the grass roots. For that reason, the Committee was particularly interested in what the Coalition found.

4.2.4 For the three Priority Poverty Expenditures in Education, the budget allocations in 2001/02 were substantially increased over the previous year. Most of this increase is attributable to HIPC resources. If the HIPC resources are excluded, then the Malawi Government's (GoM) contribution is marginal. Table 6, gives the details of allocations from both GoM and HIPC as well as the revised totals.

Priority Poverty Expenditure	2000/01 Revised	2001/02 GOM	2001/02 HIPC	2001/02 Vote	2001/02 Projected through June	% Change
Teacher Training	61.5	63.4	285.0	348.4	305	466.5%
Teacher Salaries	1,333.0	1,492.8	433.7	1,926.6	1,502.6 ³	13%
Teaching & Learning Materials	149.8	188.3	457.0	698.4	698.4	430%

Source: Monitoring Unit of the Budget Department in the Ministry of Finance.

4.2.5 The allocations for these three Priority Poverty Expenditures were revised during the year and there were variances in spending. The revised total for teacher training is only slightly less than the original allotment, but the projected allocation to the Ministry through June 2002 is K305.

4.2.6 The original allocation for teacher's salaries was K1,926.5 million (GOM = K1,492,820 plus HIPC = K433 740). However, recent tables indicate a revised allocation of K1,502.6 million of which K1,053.6 million, or 70.1% has been funded through March 2002. The Committee wishes to have explanations for these differences.

4.2.7 Finally, with Teaching & Learning materials, the projected allocation through June is K698.4 million, the full amount indicated in the Budget. Projected expenditures for the months of May and June are K192 million.

4.3 Expected Outputs

4.3.1 The extension outputs for this financial year as reported in the Budget Document 4A are as follows:

4.3.2 Output for Primary Education:

- 2,900,000 students enrolled in the primary education system

4.3.3 Outputs for Tuition, Teaching & Learning Materials:

- 8 exercise books per pupil for 2,900,000 pupils
- 1 set of teaching materials per teacher for 48,333 teachers

4.3.4 Outputs for Teacher Education

- 5,160 primary teacher education graduates trained to function effectively

³ This amount is based on funding through the end of March 2002.

4.3.5 Outputs for Administration and Support:

- Salaries paid on time
- 5,000 primary teachers recruited

4.4 Teacher Training

Table 7: Budget Allocation for Teacher Training in 2001/02 (in thousands of Kwacha)			
	Personal Emoluments	ORT	Total Revised
Teacher Training	27,702.7	320.7	348.4
<i>Source:</i> HIPC Monitoring Unit.			

4.4.1 The expected output for this Priority Poverty Expenditure in this financial year is summarised in Budget Document 4A as: *5,160 primary teacher education graduates trained to function effectively in the delivery of quality primary education.*⁴

4.4.2 Currently, one half of all primary school teachers in Malawi’s schools are untrained. That number is large because, when free primary education was initiated, there were not enough qualified teachers. To address the shortage of trained teachers, the Ministry established a timetable to reduce the number of untrained teachers. This timetable, as reported in its *Policy Investment Framework (PIF)*, is as follows:

- Reduce the number of unqualified teachers to 30% of the primary teaching force by 2002, and,
- Reduce the number of unqualified teachers to 10% of the primary teaching force by 2012.

4.4.3 Based on the Civil Society Coalition’s study, only 3200 teachers have been trained using this year’s budget allocation. In fact, the Teacher Training Colleges stood empty for two and one half months. The Committee crosschecked the actual allocations from the Ministry of Finance through March 2002 and established that only 21.8% of the funding for this item, or K75.8 million has been used.

4.4.4 The Civil Society Coalition argued that Cohort 7 of teacher trainees should be considered an output from the previous financial year because funding came from that budget (even though training was begun in this financial year). Cohort 8 entered the colleges on January 27th 2002 for 16 weeks, and is therefore the only output from the 2001/02 financial year. The Ministry will not be able to use the remaining funds because the next Cohort is scheduled to attend in the coming financial year.

⁴ However, the same document also states that there are to be 6,000 primary teacher education trainees enrolled in the six primary teacher training colleges.

4.4.5 The Ministry of Education responded that there are indeed more than 6,000 students in training in the current financial year. This is due to an overlap of Cohort 7 (2001-September 2002) and Cohort 8 (2002-2003). According to their calculations, therefore, by September 2004 there should be 9005 trained and qualified teachers.

4.4.6 The other observation made by the Coalition was that, given the current rate of training new teachers, the Ministry's target of reducing the number of untrained teachers to 10% by 2015 will not be achieved until 2040.

4.5 Teachers' Salaries

4.5.1 Based on its survey, the Civil Society Coalition found that by including allowances with basic salary increases, teacher salaries increased by an average of 68%. This is well above the 35.5% recommended by the Ministry of Finance and Economic Planning at the beginning of the year. The net increase is 37% up in real terms if we deflate the nominal increase to take care of inflation. The Coalition applauded Government for this achievement.

4.5.2 The Ministry of Education Science & Technology provided the current salary schedule (found below) and explained that the promise made by the State President of a carry home pay of K5,000 was fulfilled. The exception, as noted by the Civil Society Coalition, is that untrained teachers receive less than K5,000. The Ministry's position was that assistant teachers who are untrained cannot expect to receive a professional allowance. Therefore, their salaries are less than K5,000.

Grade	Salary	Housing Allowance	Professional Allowance	Total
PT1	4,758	9,000	1,000	14,758
PT2	4,327	9,000	800	14,127
PT3	3,325	6,000	800	10,125
PT4	2,125	2,500	800	5,425
TT	1,669	1,500	--	3,169

4.5.3 According to Budget Document 4A, personal emoluments for primary education in 2001/02 is K2,016 million (salaries and wages equals K1,077 million plus allowances of K939 million).

4.6 Teaching and Learning Materials

4.6.1 Outputs for teaching and learning materials are that the Ministry would procure and distribute the following materials:

- ❑ 8 exercise books per pupil for 2,900,000 pupils; and,

❑ 1 set of teaching materials per teacher for 48,333 teachers.

4.6.2 A set of teaching materials consists of 15 boxes of chalk, 35 exercise books, 30 pens, 1 register, 1 blackboard duster, 2 portable chalkboards per school. According the Civil Society Coalition for Quality Basic Education, the estimated cost of 1 set is K3,120.

4.6.3 In conducting their research, the Coalition asked survey respondents to distinguish between materials received from Government and those received from donors. On average, 51% of all the schools surveyed received their teaching and learning materials during the first six months of this financial year. That means 49 % of the schools surveyed did not.

4.6.4 The survey then compared the amount of materials received over the period July-December 2001 to the number received during the previous financial year. The Coalition learned that the number of exercise books, pens, pencils and chalk increased significantly by 58%, 91%, 92% and 72% accordingly.

4.6.5 The Coalition’s data suggests that six exercise books per pupil were delivered, which is well on the way to the budget target of eight exercise books per pupil per year. However, there is acute inequality in the distribution. Urban schools and those schools situated in an area that has a good road network received more materials than the rural and remote schools. For example, one urban school alone accounted for half of the deliveries received by all 51 schools surveyed.

	Exercise Books	Pens	Pencils	Chalk	Boards	Desks
Percentage of Schools that Received Materials	51%	41%	29%	47%	12%	2%

4.6.6 In response to the findings by the Civil Society Coalition, the Ministry of Education Science & Technology indicated that 49% of schools might not have received teaching and learning materials by the end of December. Civil society’s survey was conducted while the Ministry’s Supplies Unit was waiting for the Government Contracting Unit (GCU) to approve their distribution contracts. The Ministry states that by the second term, all teaching and learning materials had been distributed.

4.7 CIDA

4.7.1 At its May meetings, the Committee heard from a representative of the Canadian International Development Agency. She discussed that agency’s program to distribute schoolbooks to Malawian children (Grant to Support the Education Sector in Malawi). This project is distributing 11.4 million textbooks, teachers' guides, and 12,000 metal storage cabinets to the 4,363 government schools in Malawi. Some 3.2 million primary school pupils will receive textbooks. The project

aims at reducing the textbook ratio from the current 1:24 (i.e. 24 pupils sharing one book) to 1:1 (one book per pupil). The distribution of the books started in January 2002 and will last six months. Through March 2002, SVM-AMI, who won the distribution contract, had already distributed textbooks to nine districts.

4.7.2 The average cost for printing one textbook in Canada was only C\$0.70, which translates to MK35.50. This unit cost is far lower than printing locally. The whole exercise will cost CIDA C\$12.8 million or K640 million. Total budget for the GSES Project stands at C\$15 million (about K750 million). Phase Two of the project will start sometime next year. However, that phase will concentrate on other aspects of education (developmental) and not textbooks.

4.7.3 The Committee wishes to applaud the Government of Canada for its efforts to assist Malawi's primary school children.

4.8 School Blocks

4.8.1 The Committee raised concerns that in different parts of the country, school blocks remain unfinished. Constituents are asking their MPs when construction will be finished. In some areas, the local assemblies assumed responsibility and completed these blocks. The Committee wanted to know when the Ministry intends to have these school blocks completed.

4.8.2 In response, the Ministry indicated that there are three categories of uncompleted school blocks. The first consists of those schools that were under investigation in the Ministry of Education scam. In those cases where the Auditor General established that the contracts awarded were standard and that there was no issues of corruption, the contractors have now been ordered to complete these projects. The second lot of blocks are those built under the World Bank funded Primary Education Project. These are the blocks whose construction was starting with the roof before the erection of the walls. Thirdly, there are some schools constructed by the Government using proceeds from privatisation. Unfortunately, the funding was exhausted before completion of the school blocks. The Ministry of Education is finally taking over to have the construction completed. The blame should therefore not be directed at the Ministry because it was initially not responsible for the whole project and its supervision.

4.9 2002 Committee Recommendations

2002 Committee Recommendation: : Increase the budget for training primary school teachers, and designate the same as a Priority Poverty Expenditure.

2002 Committee Recommendation: : Maintain budget increases for personal emoluments (salaries and benefits) for teachers, and designate the same as a Priority Poverty Expenditure.

2002 Committee Recommendation: : Maintain the increased budget for teaching and learning materials in primary schools, and designate the same as a Priority Poverty Expenditure.

5. MINISTRY OF HEALTH AND POPULATION

5.1 2001 Committee Recommendations

2002 Committee Recommendation: : Substantially increase the budget for training front-line health care professionals, and designate the same as a Priority Poverty Expenditure.

2002 Committee Recommendation: : Substantially increase the budget for personal emoluments (salaries and benefits) for front-line health care professionals, including nurses, and designate the same as a Priority Poverty Expenditure.

2002 Committee Recommendation: : Substantially increase the budget for drugs and medical supplies, include adequate funds for proper distribution and increased security for drug stores and designate the same as a Priority Poverty Expenditure.

5.2 Current Status

5.2.1 The Committee consulted with the Ministry of Finance and Economic Planning, the Ministry of Health and Population, and the Malawi Health Equity Network (MHEN). This civil society grouping is made up of twelve organizations focused on improving health care. MHEN first commented before the Committee in 2001, as it was drafting its recommendations for Priority Poverty Expenditures.

5.2.2 In May 2002, MHEN presented its preliminary findings on the implementation of the three Priority Poverty Expenditures in health. Its research was based on a survey of six District Health Offices and 36 Rural Health Clinics. These facilities were in all three regions of the country. MHEN also reviewed orders and deliveries from Central Medical Stores for a pre-selected list of 16 drugs found at health clinics and 39 drugs at District Health Offices. The drugs included in the survey were taken from the Malawi Drug List and all are classified as vital drugs for district hospitals or health clinics. While the MHEN report is not a scientific survey, it is a systematic attempt to determine what happened to Priority Poverty Expenditures at the grass roots.

Priority Poverty Expenditure	2000/01 Revised	2001/02 GOM	2001/02 HIPC	2001/02 Vote	2001/02 Projected to June	% Change
Training	30.3	70.0	82.0	152.0	69.5	229%
Salaries	482.2	327.7	98.1	425.8	807.4 ⁵	167%
Drugs	721.3	833.5	547.0	1,380.5	823 ⁶	17%

Source: Monitoring Unit of the Budget Department in the Ministry of Finance.

⁵ This amount is the revised amount but it is not an end-of-year projection.

⁶ Projected expenditures for May/June are K185.

5.2.3 The allocations for these Priority Poverty Expenditures, like Agriculture and Education, were revised during the year and there were variances in spending. The categories were also modified, which made it difficult for the Committee to monitor whether the allocation for training, for example, was revised upward or downward during the year.

5.2.4 The line item for health worker salaries was revised upward by 167% during the year. Through March of 2002, K589.1 million or 73% of that amount had been expended.

5.2.5 The allocation for drugs was reduced by almost K375 million during the year, and the final projection for the end of this financial year is that expenditures will total only K868.7 million, or 79% of the original allocation.

5.3 Expected Outputs

5.3.1 The outputs for this financial year as reported in the Budget Document 4A are as follows:

- Train 410 Basic Nurse Technicians, 60 Generic Nurses and upgrade 150 Nurse Technicians
- Drug expenditures to equal US \$1.33⁷ per capita

5.4 Training of Front-Line Health Workers

5.4.1 According to the National Health Plan, Government Health facilities alone need at least 2,800 additional nurses, 383 medical assistants and 250 doctors. In Malawi, there is approximately 1 Physician per 50,000 people in contrast to the WHO recommendation of one per 12,000 people.

5.4.2 For the 2001/02 financial year, government stated that it planned to train 410 Basic Nurse Technicians, 60 Generic registered Nurses and upgrade 150 Nurse Technicians. The budget for the training of nurses was set at K150 million, of which K82 million was to be from HIPC resources. The revised budget for last year was only K30 million. However, it appears that Government has not yet used any of its own budget resources of K70 million for training.

5.4.3 For the other front-line health workers, the MHEN reported that the Ministry also planned to train 125 Medical Assistants, 75 Clinical Officers, 110 Technical Support Service personnel and post-basic training for 156 specialised personnel in various areas during this financial year.

5.4.4 Based on its survey of training institutions, MHEN concluded that, in general, Government is meeting its target for training nurses and other front-line health workers.

⁷ The training output listed above is found in Budget Document 4A. The \$1.33 per capita drug expenditure is taken from the Minister of Finance's Budget Address in June of 2001. Based on a population estimate of 10.1 million, and an exchange rate of K75 per \$1.00 US Dollar, the MK equivalent of \$1.33 per capita is K1,007 million.

5.4.5 The Ministry of Health & Population was invited to the Committee’s hearings to provide details about the number of health workers to be trained or in training this year. However, little information was provided on this or other specific outcomes. The Committee therefore still seeks information on the actual number of nurses and front-line health workers the Ministry trained or is training this year.

5.5 Salaries of Front-Line Health Workers

5.5.1 Budget Document 4A indicates an approved budget of K416 million and a revised figure of K614 million for 2000/01. The Ministry of Finance shows an approved figure of K312 million and a revised one of K482 million for the same period.

5.5.2 Information provided by the Ministry of Finance indicates that total allocation for Health Worker salaries were K425 million (GoM =K327.7 m + HIPC =98.1 m). However, recent reports from the Monitoring Unit of the same Ministry indicate a provision of K807.4 million and that actual funding through the month of March 2002 stood at K589.1 million, or 73% of the total.

5.5.3 Using the revised allocation of K614 million for 2000/01 and the provision of K807.4 million for 2001/02, the percentage increase from last year is only 31.5% in nominal terms. In real terms however, the allocation has remained constant.

5.5.4 MHEN reviewed salary data for every available employment grade in two clinics in each of six DHOs. The sample should be considered as indicative and not necessarily representative. Nonetheless, their findings indicate that salaries have increased substantially with the highest average increase of 113% for CEO grade and 43% for Health Service Assistants (HSAs). MHEN observed that although the percentage changes may seem high, for the most part they are measuring changes that continue to be grossly inadequate to attract the most qualified and committed candidates to health care service and delivery.

Grade	Low	High	Average	Change
HSA	3,202	3,991	3,522	43.2%
SHSA	3,422	10,299	5,219	54.8%
TA	5,153	8,501	6,457	106.4%
STA	5,854	10,399	7,522	83.8%
TO	6,625	14,609	9,754	100.0%
STO		5,996	12,058	10 1%
CEO	8,230	18,333	13,365	112.9%
P8	10,164	15,536	12,256	51.3%

5.5.5 Salary information from the Ministry of Health & Population is similar to the MHEN findings. On top of the average salaries indicated above, which include housing allowances, some health workers receive monthly professional/medical allowances that range from K545 for SC1 grade (hospital attendants, laboratory assistants & Health Surveillance Assistants) to K4,100 per month for clinical staff such as Medical Officers (PO), Nursing Officers, Medical Officers and Clinical Superintendents (P8) [see annexe 2A for full details].

5.5.6 The Ministry of Health and Population indicates that there are many vacancies for front-line health workers. At the Community Level, the Ministry has 5,875 units nation-wide that require 11,750 Health Surveillance Assistants (HSAs) but currently only 6,474 are in post, leaving a gap of 5,276. At the Health Centre level, the gap for all types of front-line health workers is currently at 900 for the 569 units under Government-run health centres. For the 27 District Hospitals and 3 central hospitals, the current gap is at 7,140 health workers with the highest gap of 2,096 for Enrolled Nurses.

5.6 Drugs

5.6.1 According to the Budget Document 4A, the approved allocation for *drugs vaccines & pharmaceuticals* for the 2000/01 financial year was K587 million. The revised total was K926 million⁸. The Committee was informed that K288 million of HIPC resources were allocated to the purchase of drugs in the previous financial year. It is not clear whether the revised budget of K926 million includes HIPC funds.

5.6.2 For 2001/02, the recurrent budget for the purchase of drugs is K833.543 million of Malawi Government resources and K547 million of HIPC resources, making a total of K1,380.543 million. Spending at this level easily meets and exceeds the goal of \$1.33 U.S. per capita expenditure. There is also a provision of K109.9 million under Development Account for drugs.

5.6.3 However, the 2001/2002 drug allocation was subsequently revised downward and is, as mentioned earlier, projected to total only K868.7 million. Based on this projection, the Ministry will not expend \$1.33 U.S. per capita for drugs this year.

5.6.4 Out of the projected K547 million of HIPC resources, K424 million has already been allocated. It appears then, that Government has spent only K170 million of its own resources to date for the purchase of drugs. This is on the low side and the HIPC resources that are regarded as supplementary financing are not being used as such. Using the Ministry of Finance figures, the increase in the allocation by the GOM is 39% over last year in nominal terms, but the value remains constant in real terms.

5.6.5 Table 5 in the Annex indicates the distribution of the K1,008.5 million allocation among the 33 Central and District Hospitals. Karonga District Hospital had already spent its budgetary allocation for drugs, whereas Zomba Mental Hospital had only consumed 7.4% of the budget. The Committee wishes to know why the

⁸ According to the Ministry of Finance, the revised figure is K721.3 million.

consumption in some district hospitals remains unacceptably low when there are shortages in almost all hospitals and clinics (Mzuzu 32%, Thyolo 32%, Mangochi 32%, Blantyre 28%, Salima 29%, Ntcheu 30%, Lilongwe 23% Zomba 18%).

5.7 Preliminary Findings by MHEN on Drugs

5.7.1 Based on its survey of six District Health Offices and 36 Rural Health Clinics, the Malawi Health Equity Network concluded that:

- District Health Offices do not always receive the drugs they request from Central Medical Stores (CMS) and clinics surveyed received drugs that were not requested.
- In total, 26 vital drugs were entirely out of stock at one or more of the five hospitals where MEHN collected data. Of the 36 clinics surveyed, each facility was out of stock of at least one vital drug on the MHEN list. One clinic was out of stock of 15 of the 16 essential drugs surveyed. Drugs used to treat cholera and malaria were available in most clinics but the drug most commonly out of stock was Salbutamol, used for asthma.
- In general, record keeping is inadequate and drug tally cards are not serving their intended purpose in clinics. Clinics claim that it is difficult to note which drugs were ordered because the requisition forms used to do that remain at the district hospitals.
- Neither Government nor CMS keeps record of what clinics used last year, how many drugs per capita are used, or an average usage for each clinic. CMS personnel said that this information is being compiled and will be available, hopefully, some time later this year.
- Drugs are transported to clinics in boxes that allow for quantities to be stolen.. In some cases, what the pharmacist from the district indicates to have sent does not tally with what is received at the clinics.

5.8 2002 Committee Recommendations

2002 Committee Recommendation: : Increase the budget for training front-line health care professionals, and designate the same as a Priority Poverty Expenditure.

2002 Committee Recommendation: : Increase the budget for personal emoluments (salaries and benefits) for front-line health care professionals, including nurses, and designate the same as a Priority Poverty Expenditure.

2002 Committee Recommendation: : Increase the budget for drugs and medical supplies to match the \$1.33 per capita goal, include adequate funds for proper distribution and increased security for drug stores and designate the same as a Priority Poverty Expenditure.

6. MINISTRY OF HOME AFFAIRS

6.1 2001 Committee Recommendation

2001 Committee Recommendation: : Substantially increase the budgets for training and employment for the Police Service (to increase the number of trained officers), and for instituting community policing, particularly in rural areas. Include in the budgets adequate funds for equipment and other materials, and designate the same as Priority Poverty Expenditures.

6.2 Current Status

6.2.1 Security is one of the top priorities to come from the PRSP District consultations. Police salaries were allocated at K30.1 million of HIPC resources, but the Committee has not determined how much of that is actually being spent. The priority however is on community policing which received no HIPC funding even though it has an allocation of K12.3 million.

6.2.2 Through March 2002, only K3.6 million (30 %) had been allocated. The Committee is concerned that, with the escalating levels of insecurity following the food crisis in Malawi, Parliament would want to know how the funds targeted for community policing are used.

6.3 2002 Committee Recommendation

2002 Committee Recommendation: : Substantially increase the budgets for training and employment for the Police Service (to increase the number of trained officers), and for instituting community policing, particularly in rural areas. Include in the budgets adequate funds for equipment and other materials, and designate the same as Priority Poverty Expenditures.

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>
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8. PARLIAMENT'S BUDGET

8.1 Current Status

8.1.1 To begin involving MPs in the formulation and implementation of Parliament's own budget, the Budget and Finance Committee's decided to review:

- The performance of Parliament's budget for 2001/02, taking into account monthly funding under the cash budget system and extra-budgetary allocations
- Parliament's 2002/03 budget process and the need to involve the Committee in all stages of the process
- Donor support for Parliamentary activities including the FIMTAP program for the Budget and Finance and Public Accounts Committees, the African Capacity Building Initiative, Canadian International Development Agency, and other likely donors
- Any aspects of Parliament's budget that are likely to raise concerns with the Ministry of Finance and Economic Planning, and,
- Preliminary budget targets for 2002/03.

8.1.2 The Committee delegated the responsibility for this review to a Task Force consisting of the Chair and Vice-Chair of the Budget and Finance Committee. It engaged a chartered accountant to assist the Task Force in reviewing procedures, practices, and controls, and in drafting recommendations to the House. The consultant spent several days reviewing accounting procedures. He and the Task Force then met with the Clerk of Parliament together with representatives of the Accounting Department. The Task Force's findings and recommendations are discussed below.

8.2 Parliament's Budget and Cash Budgeting System

8.2.1 The National Assembly's Vote in the national Budget is based upon eight separate programs. The four programs with 95% of this year's Parliamentary budget are Administration and Support (K215 million), Chamber and Liaison (K82 .2 million), Maintenance of the Parliament Building (K15.4 million), and Committee work (K14.7 million). The other four programs are: Parliamentary Contributions for Members, the Parliamentary Service Commission, Subscriptions for International Organizations, and the Parliamentary Press. The 2001/02 Vote included K142 million for Personal Emoluments and K204 million for Other Recurrent Transactions (ORT) for a total of K346 million.

8.2.2 Each year, Parliament's staff prepares the National Assembly's budget based on the projected costs for these eight programs. This is done in coordination with Treasury's ceiling for the National Assembly. However, in preparing their estimates, staff has not sought input from the Budget and Finance Committee or other committees, although the Parliamentary Service Commission does approve the submission made to Treasury.

8.2.3 Parliament is subject to the Cash Budget System and each year, after the House approves the Budget, the Accounting Department submits a month-to-month cash flow request to Treasury for the financial year. This document then forms the basis for Treasury's monthly funding. Under the Cash Budget System, however, there are no guarantees that the allocations will be made in full, and in most months, Treasury cannot forward the full allocation.

8.2.4 When Treasury does not fully fund Parliament's cash flow request, the Government's first priority is to fund Personal Emoluments, and only then, to allocate ORT as funds are available. The exception to this pattern occurs when Parliament is meeting in plenary. During those times, Treasury is likely to fully fund both Personal Emoluments and ORT.

8.2.5 Because of recurring shortfalls in allocations, Parliament created its own Prioritisation Committee, made up of staff from its different departments and chaired by the Deputy Clerk. This body decides how to utilize the allocations received from Treasury. Its spending priorities are as follows:

- Category One, entitlements per Conditions of Service, and payments for utilities and presidential trips that include MPs
- Category Two, office services, procurement, MASM, the superannuating scheme, and International Subscriptions
- Category Three, outstanding debts and personal claims.

8.2.6 Under the cash budgeting system, all transactions are expected to be on a cash basis. Goods and services are to be delivered only after Parliament issues a cheque, based on Treasury's allocation, for purchase. However, Parliament does not always follow this system. As mentioned earlier in this report, Parliament is in arrears to various creditors, and the amount of the arrearage is growing. At the end of March it totalled K24 million, which was K4 million more than in December.

8.2.7 The Budget and Finance Committee believes it should be involved in drafting and implementing the budget. To be effective, the Committee needs to be aware of problems and constraints, and should participate in the prioritisation of allocations received from Treasury.

8.3 Consultant's Review of Parliament's Accounting System

8.3.1 Parliament's Accounting Department is headed by the Principal Finance Officer, and under him are a Senior Finance Officer, Finance Officer, two Senior Accounts Officers, and four Accounts Assistants. When considering the volume of transactions generated by Parliament each year, the Accounts Department is understaffed. Further, it operates under a manual system, as the department has just one computer, and the staff is unfamiliar with computerised accounting systems.

8.3.2 Documents prepared by the Accounting Department are processed at Parliament through the Votes' Ledger. In turn, these are submitted to the Accountant General's Office where they are processed into the national accounts. The

Accountant General's tabulations serve as an audit trail that is returned to Parliament for reconciliation. Unfortunately, the Government's accounting system does not process these transactions on a timely basis. Delays frequently impede the reconciliation of accounts, leading to payment errors.

8.3.3 Committee meetings are a special case under the cash budgeting system. Such activities are part of Parliament's budget, but for a committee to meet, a special request must be made to Treasury for funding during the month in which it is scheduled to convene. The request to Treasury is to increase the amount of ORT funding to ensure that transport and subsistence allowances are paid in full to Committee Members. Committee meetings must be funded in full. Other ORT expenses can be reduced. This also means that whenever a committee meets, the Prioritisation Committee must reduce the percentage of available ORT allocations for other purposes.

8.3.4 The Consultant recommended that Parliament:

- Conduct a review of its accounting system with a goal of instituting a simple, cash-based accounting system using computerized spreadsheet software (e.g., Excel)
- Conduct a thorough review of bank reconciliations to resolve any outstanding issues
- Fill all critical staff vacancies, and,
- Conduct a through review of all advances so that Members know the amount of their indebtedness for motor vehicle and personal loans.

8.4 2002 Committee Recommendations (Parliament's Budget)

2002 Committee Recommendation: Parliament's Budget should be drafted and implemented with the full participation of representatives from the Budget and Finance Committee. A Member of the Committee should also be appointed to Parliament's Prioritisation Committee.

2002 Committee Recommendation: Funds for Parliamentary committees should be maintained separately from other programmes and expenditures, and a sub-vote created.

2002 Committee Recommendation: Information concerning any extra-budgetary expenditure should be communicated to the Speaker and the Budget and Finance Committee before any arrearages are incurred.

2002 Committee Recommendation: Parliament should seek donor support for computers and for training staff.

9. MONITORING STATUTORY CORPORATIONS

9.1 Current Status

9.1.1 Last November, the House approved a recommendation from the Ad Hoc Task Force for Parliamentary Development and Coordination that the Budget and Finance Committee should have “responsibility for oversight of the budgetary implications of statutory corporations.”⁹ The Committee accepted that charge and took its first steps forward to monitor the activities of these state-owned enterprises.

9.1.2 Last June’s *Budget Statement* noted that these institutions are crippled with problems, although a number of them are now making profits and paying taxes and dividends to Government. The Committee’s major concern is that, historically, parastatals have been a drain on the national budget. Taxpayers’ money could be better used in pro-poor expenditures than in supporting money-losing enterprises. Many of these corporations are heavily indebted, and, according to last year’s Budget Statement, are not well managed. Parastatals are required to submit financial statements to Parliament under the current Finance and Audit Act. A number do not.

9.1.3 The instructions to the Committee in its mandate of monitoring activities of statutory corporations are as follows:

- To review annual reports and accounts of all statutory corporations
- To invite the chairs and chief executives of statutory corporations to attend reviews of their annual reports and accounts
- To monitor corporate governance in statutory bodies and recommend corrective disciplinary measures where necessary
- To institute oversight into any issues or complaints on statutory corporations
- To recommend financial resources to be allocated by Parliament to subvented statutory bodies
- To report to Parliament findings and recommendations
- To contribute to the review of that part of the Finance and Audit Act that deals with parastatals.

9.1.4 As outlined in Section 1.3 above, the Budget and Finance Committee formed a Task Force on Statutory Corporations chaired by Honourable Nelson Chuti. It met with officials of the Public enterprise Reform and Monitoring Unit (PERMU) in the Ministry of Finance and Economic Planning. Much of the information contained in this report originates from the work of PERMU. The Committee also met with staff from the Department of Statutory Corporations.

⁹ In his most recent State of the Nation address, the President appealed to the House, “to play a more active role in enforcing accountability in statutory corporations through the Parliamentary Budget and Finance Committee.”

9.1.5 There are two major groups of statutory corporations. The first consists of the subvented organisations that depend solely on budgetary allocations. This would include: the University of Malawi, Malawi National Education Board, Christian Hospital Association of Malawi, Mzuzu University, the Malawi College of Health Sciences, and others. The second group is that of commercially oriented state enterprises such as Air Malawi, ADMARC, ESCOM, Malawi TelCom, and others (see Table ___). Subventions to parastatals in the 2001/02 Budget were K1,116 million¹⁰, 10% below the amount budgeted in the 2000/01 Budget. The actual amount allocated through March of this year is K1,209 million, 108% over budget.

9.1.6 In reviewing the budget ceilings for the next year's Budget, the Committee is concerned that subventions will increase by 40%. The ceilings are not to be considered as final and they did not include any donor or HIPC funding. Nonetheless, Parliament needs to receive a breakdown of the existing and proposed allocations by the Ministry of Finance and Economic Planning for subvented agencies. Parliament also needs to know the exact amounts of contingent liabilities for each subvented organization to evaluate the impact of arrears on the 2002/03 Budget.

2002 Committee Recommendation: The Ministry of Finance and Economic Planning should inform Parliament of the allocations for and the contingent liabilities of each subvented agency.

9.2 Findings

9.2.1 The Committee commends the Ministry of Finance and Economic Planning for establishing a unit (PERMU) to monitor the financial data, plans, and budgets of the various parastatals. The Committee is particularly pleased that this unit is to maintain strong links to the Budget and Finance Committee. At the present time, PERMU can only monitor the financial operations of the ten largest parastatals. These include the Agricultural Development and marketing Corporation (ADMARC), the Electricity Supply Commission of Malawi (ESCOM), Malawi Postal Corporation (MPC), Malawi Telecommunications Limited (MTL), the Malawi Development Corporation (MDC), Air Malawi and the Water Boards¹¹. The Ministry is strengthening PERMU with additional personnel and institutional capacity to expand its operations.

9.2.2 The Committee is not convinced there is significant overlap between PERMU and the Department of Statutory Corporations (DSC). DSC is responsible for administrative issues concerning parastatals. Its mandate also reaches beyond the parastatals covered by PERMU to include practically all state-owned enterprises (including the subvented ones).

¹⁰ The Budget Document No.4A includes a total of K1.113 billion when the Financial Statement (Budget Document No.3) has a total of K1.125 billion. The allocation of K1.116 billion is the one reported by the Ministry of Finance.

¹¹ Blantyre Water Board, Southern Region Water Board, Lilongwe Water Board, Central Region Water Board and Northern Region Water Board.

9.2.3 Without doubt, there are some minor overlaps and duplications in the activities of both PERMU and DSC. However, the two agencies are currently working together to streamline their terms of references to prevent duplications and overlaps.

2002 Committee Recommendation: Both PERMU and DSC should continue to function as separate agencies because their roles and functions are different.

9.3 Performance of Statutory Corporations

9.3.1 Historically, parastatals have performed poorly as businesses. The profit and loss accounts of most of the parastatals have registered negative balances over the years. Some must rely on Government to bail them out of their financial difficulties. There are a number of reasons for their poor performance. The World Bank cited the following: lack of prudence and sound financial management, lack of aggressiveness to generate sufficient income, political interference in the activities of the parastatals and poor quality of managers and board members¹². The table below shows 'pre-tax' profit and loss accounts for the major parastatals. ESCOM is the only parastatal that has managed to make pre-tax profits since 1994. However, looking at the pre-tax profit alone does not give the whole story about the financial soundness of these institutions.

Grade	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
ADMARC	22.1	22.7	33.4	-37.2	100.4	-853.9
MDC	26.3	32.1	34.8	6.5	-54.5	-142.0
ESCOM	19.6	243.1	96.3	63.7	67.7	-80.0
Air Malawi	-18.6	18.2	-17.6	-145.0	-89.0	-118.0
MHC	-31.8	-1.4	29.6	40.2	33.9	-15.0
BWB	-27.6	10.0	19.4	18.2	32.4	50.0
LWB	-102.6	-22.8	26.1	-56.9	-147.8	26.0
PCC	-51.8	202.1	13.0	7.9	3.3	281.8
TCC	-0.2	6.1	5.1	131.2	11.6	44.8

Source: Malawi Government Economic Reports and Budget Statements.

9.3.2 For the 2001/2002 financial year, there is improvement for a number of statutory corporations, which have, for the first time ever, paid dividends to Government. Quarterly reports provided by PERMU for the two quarters ending December 2001 present the following picture:

¹² World Bank Report on Malawi Public Expenditures (Issues and Options) September 2001.

Table 15: Quarterly Profit/Loss for the Ten Largest Parastatals (in millions of Kwacha)		
Parastatal	Quarter ending Sept. 2000/01	Quarter ending Dec. 2001/02
ADMARC	-164.4	-225.6
Air Malawi	74.38	-25
Central Region Water Board (CRWB)	23	Not available
ESCOM	833.6	1000
Malawi Housing Corporation (MHC)	34.9	-46.1
Malawi Property Corporation (MPICO)	17.6	Not available
Malawi Telecoms. Ltd	250	971 (before tax)
Northern Region Water Board	-9.8	-10 (before tax)
Southern Region Water Board	6.03	12.6 (after tax)
MDC		157
<i>Note:</i> Pre-Tax Profits Unless Stated Otherwise		
<i>Source:</i> PERMU, Ministry of Finance and Economic Planning		

9.4 ADMARC

9.4.1 ADMARC, the largest parastatal, continues to incur major losses. For the nine-month period ending December 2001, it registered a net loss of K225.6 million. The projection for the financial year ending 31 March, is that ADMARC will lose K232 million. Further, the corporation was not capable of paying all its creditors in the event of simultaneous demands for payment, according to PERMU. Nonetheless, the Committee believes ADMARC plays an important role in the economy. There is reason to believe that the Corporation can perform if it were not for structural bottlenecks that must be dealt with. Some of the reasons for the poor performance of ADMARC include the following:

9.4.2 ADMARC is called upon to perform social functions such as preserving food security. This includes maintaining some 200 non-performing rural and remote markets where there are no private traders. It distributes imported maize when private traders fail to deliver, and ADMARC was called upon to participate in the packing and distribution of the Starter Pack and the Targeted Input Programme. Government must compensate ADMARC for such functions. However, payments are not made on timely basis, which disrupts the commercial activities and the cash flow of the corporation.

9.4.3 In the current Budget, Parliament voted a statutory expenditure of K1,000 million to be paid to ADMARC. However, it appears that this payment was not made. The Committee would like to know why such a large expenditure was not made.

9.4.4 For a number of years, ADMARC financed the operations of the money-losing Grain & Milling Company, Shire BusLines, Cold Storage, and David Whitehead & Sons. ADMARC returned the management of these parastatals to Government, effective last April. The GOM will now be forced to pay the money due ADMARC for subsidising these operations. Government contracted with Peat Marwick KPMG to prepare audit reports of all four companies, but they were not made available to the Budget and Finance Committee or to the public.

9.4.5 ADMARC's management needs to streamline the company's core functions and improve the level of efficiency. ADMARC also needs to enhance its debt collection operations and see to it that all the debtors pay as soon as possible.

9.5 Privatisation of ADMARC

9.5.1 The question of the privatisation of ADMARC is one of the more contentious issues between Malawi and its co-operating partners. Arguments put forward by the proponents of the immediate privatisation of ADMARC ignore the fact that the Corporation plays a vital role in the food security equation in Malawi. There are reasons to believe that the National Food Reserve Agency (NFRA) cannot handle the problem of food security single-handedly without the compliment of ADMARC.

9.5.2 The Budget and Finance Committee raised this issue with the IMF during its most recent mission to Malawi. A Fund representative explained that their priority is transparency and not wholesale privatisation without a proper goal. The IMF indicated it has no problem with ADMARC operating as an efficient commercial operation while undertaking social functions. However, Government should pay ADMARC for such activities, and such costs should be included in the Budget.

9.5.3 The Concluding Statement of the IMF Mission dated 14th May 2002 reads:

" However, the parastatal sector will continue to pose risks to the successful implementation of the 2002/03 budget. Government interventions in the food and other agricultural markets ultimately led to the NFRA and ADMARC taking heavy recourse to budgetary financing, crowding out more productive spending.... We encourage the authorities to increase transparency by clearly budgeting any subsidies to parastatals and, in the case of liquidations, consider alleviating the social impact of retrenchment".

2002 Committee Recommendation: ADMARC should continue to play a role in safeguarding food security, and should not be privatised.

9.5.4 The Committee welcomes Government's move to find buyers for Grain & Milling, Cold Storage, and David Whitehead & Sons. However, the Committee strongly recommends that Government maintain majority ownership in Shire Buslines because of the social function it performs in serving rural routes that private transporters abandon.

2002 Committee Recommendation: Government should maintain a majority ownership in Shire Buslines to insure that rural routes are served.

9.6 Government Arrears to Parastatals

9.6.1 Government Ministries and Departments have accumulated almost K1 billion in arrears to ten of the largest parastatals. Most of the arrears are for unpaid utility bills, water, electricity, telephones and rentals. The actual amount of arrears is likely to be larger and the Committee recommends that a study be conducted to establish the exact amount.

Statutory Body	Amount
Lilongwe Water Board	90
Blantyre Water Board	200
Southern Region Water Board	85
Central Region Water Board	23
Northern Region Water Board	57
Malawi Housing Corporation	87
MPICO	140
Malawi Telecoms. Ltd (as of September, 2001)	252
ESCOM (as at September 2001)	7.5
Air Malawi (90 days & over)	5.9
Total	947.4 or (0.68% of GDP)
<i>Source:</i> PERMU, Ministry of Finance and Economic Planning	

9.6.2 The accumulation of Government arrears is characteristic of a "Commitment Control System (CCS)" that is not working well. A condition laid down by the IMF and the World Bank is that Government not accumulate new arrears.

9.6.3 The accumulation of arrears should therefore be discontinued. Revisions to the Finance and Audit Act are needed because of the financial imprudence of Controlling Officers. In the proposed Public Financial Management Act (see page 8) that will replace the existing Finance and Audit Act, Controlling Officers who over-spend will be disciplined. As an interim solution, the Accountant General's Department is directly paying utility bills for all ministries and government departments.

9.7 Parastatal Loans and Arrears to Government

9.7.1 Government has lent parastatals over K3 billion (3½ % of GDP). As of December 2001 only K83 million had been repaid while parastatals continued to accumulate additional arrears of K315.2 million to Government as of 20 May. These

loans are either local loans or external loans that the Government guarantees and lends to the parastatals.

Grade	Principle	Interest	Total
ESCOM	10.8	47.4	58.2
Lilongwe Water Board	11.3	37.0	48.3
Blantyre Water Board	53.3	96.6	149.9
Malawi Housing Corp.	2.3	0.2	2.5
Small Holder Tea Authority	1.1	1.2	2.3
KFCTA	3.6	0.0	3.6
Air Malawi	15.5	32.5	48.0
Total	100.1	215.2	315.3

Source: DAD, Ministry of Finance

9.7.2 Further, some parastatals do not remit their taxes to the Malawi Revenue Authority (MRA). The Committee is aware of K500 million that MRA claims are overdue remittances of Pay As You Earn (PAYE) tax deductions from employees. The parastatals are also supposed to pay corporate tax.

9.7.3 For example, MTL has outstanding arrears to MRA of K256 million. Some of these were inherited from the parent enterprise of Malawi Posts and Telecommunications Company (MPTC). Other parastatals also owe taxes. Non-payment, if unchecked, amounts to an indirect transfer from Government to the parastatal concerned.

9.7.4 The repayment of loans by parastatals constitutes a source of revenue to Government. Forecasts of such repayments are not always included in the budget, but the Debt and Aid Management Division has projected repayments for 2002/03 in the amount of K308 million. Details of the forecasted repayments are as follows:

Grade	Principle	Interest	Total
ESCOM	14.9	33.0	47.9
Lilongwe Water Board	13.0	8.4	21.4
Blantyre Water Board	60.8	15.8	76.5
Air Malawi	7.7	10.1	17.8
Malawi Housing Corp.	2.7	0.5	3.2
MDC	2.7	0.1	2.8

Dwangwa Cane Growers Ltd.	0.1	0.3	0.4
Small Holders Tea Authority	0.3	0.1	2.8
KFCTA	2.1	0.2	2.2
Madelco Fisheries Ltd.	0.5	0.6	1.1
Total	238.9	68.9	307.8
Source: DAD, Ministry of Finance			

9.7.5 Government has conducted financial operations aimed at netting out the amounts owed to parastatals and vice versa. Such operations were conducted with ESCOM, MTL, and other parastatals. In each case these operations should only be carried out in complete transparency.

9.8 Appointment of Board Members and Chief Executives

9.8.1 Last year's Budget Statement raised the issue concerning the quality of Board Members and the need "for the composition and qualification of Board Members to be relevant and in line with the objectives or missions of the parastatal...."

9.8.2 The current appointment process for parastatal Board Members is as follows: Line Ministries are required to suggest the names of candidates to serve on the Boards. The names are submitted to the Department of Statutory Corporations, which screens them and prepares a shortlist that is submitted to the Office of President for approval. Some Ministries have apparently discarded this process and appoint board members without the involvement of the Department of Statutory Corporations.

<p>2002 Committee Recommendation: The appointments of parastatal board chairs and chief executives should be subject to review by Parliament's Public Appointments Committee.</p>
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10. CONCLUSIONS

The Committee urges Parliament to support and Government to continue to identify, tag, and monitor Priority Poverty Expenditures for 2002/03. We trust Budget documents will provide the information needed to evaluate the amounts of spending proposed for these programmes.

The Committee supports Government's commitment to enforcing fiscal discipline. We hope budget documents will include a commitment to provide the information cited in this report as essential for tracking and monitoring Priority Poverty Expenditures. We also hope that Government will guarantee allocation and expenditure of the full amounts budgeted from all sources.

The Committee appreciates Government's interest in strengthening the role of Parliament and the public in the budgeting process. We hope Government and Parliament will insist on adequate time for citizen input on the proposed Budget, as well as enough time for a thorough debate in the House.

11. OVERALL 2002 COMMITTEE RECOMMENDATIONS

1. Parliament recommends that the budget be referred to committee and that the House allow 21 days for the budget debate.
2. Include funds in Parliament's budget for convening Parliament and its committees. Parliament should ensure that such funds are considered protected expenditures in accordance with Article 183(3) of the Constitution.
3. The Ministry of Finance and Economic Planning should carefully consider the Committee's recommendations, begin consultations with the Committee, and present the new finance and audit bills to Parliament at the next sitting of the House.
4. Even though Priority Poverty Expenditures are not specifically identified in the final version of Malawi's Poverty Reduction Strategy Paper, the tagging implemented in 2001/02 should be continued. Further, the Committee remains convinced that the recommendation to code for Priority Poverty Expenditures is necessary if poverty interventions are to be monitored
5. The Committee recommends that the budget, and particularly the Priority Poverty Expenditures in the budget, should be in a format that is readily understandable, provides total spending from all sources, costs for headquarters/administration, costs for personal emoluments, estimates approved by Parliament, and quantified, verified results expected.
6. Provide quarterly reports with expenditures from all sources, explanations of all spending variances, current estimates of quantifiable results, and explanations of variances from the anticipated results.
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 funds.
8. Government should commit to use HIPC funds exclusively for designated Priority Poverty Expenditures.
9. PRSP monitoring and evaluation committees should include a wide range of people including the poor themselves, service delivery representatives, and MPs.
10. Substantially increase the budget for Government extension services, simplify and unify budgeting practices for extensions services and assure all budget funds for extension services are expended for this purpose.
11. Substantially increase the budget for support for programmes that provide credit and related services to poor farmers, and designate the same as a Priority Poverty Expenditure.
12. Substantially increase the budget for the Targeted Inputs Programme (TIP), including funds to insure proper distribution and assisted delivery of extension services, and improve transparency and accountability of TIP.
13. Increase the budget for training primary school teachers, and designate the same as a Priority Poverty Expenditure.

14. Maintain budget increases for personal emoluments (salaries and benefits) for teachers, and designate the same as a Priority Poverty Expenditure.
15. Maintain the increased budget for teaching and learning materials in primary schools, and designate the same as a Priority Poverty Expenditure.
16. Increase the budget for training front-line health care professionals, and designate the same as a Priority Poverty Expenditure.
17. Increase the budget for personal emoluments (salaries and benefits) for front-line health care professionals, including nurses, and designate the same as a Priority Poverty Expenditure.
18. Increase the budget for drugs and medical supplies to match the \$1.33 per capita goal, include adequate funds for proper distribution and increased security for drug stores and designate the same as a Priority Poverty Expenditure.
19. Substantially increase the budgets for training and employment for the Police Service (to increase the number of trained officers), and for instituting community policing, particularly in rural areas. Include in the budgets adequate funds for equipment and other materials, and designate the same as Priority Poverty Expenditures.
20. The Committee recommends that all HIPC resources be allocated only with the full participation of the Parliament.
21. Parliament's Budget should be drafted and implemented with the full participation of representatives from the Budget and Finance Committee. A Member of the Committee should also be appointed to Parliament's Prioritisation Committee.
22. Funds for Parliamentary committees should be maintained separately from other programmes and expenditures, and a sub-vote created.
23. Information concerning any extra-budgetary expenditure should be communicated to the Speaker and the Budget and Finance Committee before any arrearages are incurred.
24. Parliament should seek donor support for computers and for training staff.
25. The Ministry of Finance and Economic Planning should inform Parliament of the allocations for and the contingent liabilities of each subvented agency.
26. Both PERMU and DSC should continue to function as separate agencies because their roles and functions are different.
27. ADMARC should continue to play a role in safeguarding food security, and should not be privatised.
28. Government should maintain a majority ownership in Shire Buslines to insure that rural routes are served.
29. The appointments of parastatal board chairs and chief executives should be subject to review by Parliament's Public Appointments Committee.

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12. ANNEX A: SUPPORTING FINANCIAL TABLES

Table 1: Priority Poverty Expenditures as Originally Reported by the Ministry of Finance and Economic Planning (in thousands of Kwacha)

Ministry	Purpose	2000/01		Recurrent 2001/02			Development 2001/02			2001/02 Total Allocation
		Allocation	Revised	GOM	HIPC	Total	GOM	HIPC	Total	
National Roads Authority (NRA)	Construction & Rehabilitation of Rural Roads	570,000	597,000	0	0	0	875,600	265,000	1,140,600	1,140,600
Health and Population	Purchase Drugs	587,000	721,265	833,543	547,000	1,380,543	109,947	0	109,947	1,490,490
	Nurses Training	34,870	30,270	70,000	82,000	152,000			0	152,000
	Primary Healthcare	360,371	362,075	865,990	202,000	1,067,990	0	0	0	1,067,990
	Health Worker Salaries	312,106	482,229	327,711	98,092	425,803	0	0	0	425,803
Education	Teaching & Learning Materials	370,000	142,368	188,000	457,000	645,000	53,422	0	53,422	698,422
	Teacher Training	88,739	61,494	107,933	85,000	192,933	-0	0	0	192,933
	Teacher Salaries	1,421,733	1,330,042	1,492,820	433,740	1,926,560	0	0	0	1,926,560
Agriculture	Targeted Input Programme (TIP)	160,000	180,000	160,000	0	160,000	0	0	0	160,000
	Extension Services	108,415	200,384	53,364	202,000	255,364	87,150	0	87,150	342,514
Water Development	Dispersed Boreholes	180,000	160,000	0	0	0		300,000	300,000	300,000
	Dam Rehabilitation			0	0	0	0	50,000	50,000	50,000
Police	Community Policing	0	0	3,218	0	3,218	0	0	0	3,218
	Police Officer Salaries	288,677	287,103	303,871	30,062	333,933	0	0	0	333,933
Community Service	Youth & Community Services	68,920	57,722	25,000	142,000	167,000	0	0	0	167,000
Labour & Vocational Training	Training Space for Technicians			68,900	195,645	264,545		78	78	264,623
Commerce & Industry	Commerce & Industry	28,403	21,330	43,682	153,000	196,682	50,000	0	50,000	246,682
Tourism	Tourism			90,825	130,000	220,825	6,900	0	6,900	227,725
Geological Survey	Surveying			24,825	60,000	84,825		11	11	84,836
Total				4,659,682	2,817,539	7,477,221	1,183,019	615,089	1,798,108	9,275,329

Source: Ministry of Finance and Economic Planning

**Table 2: Priority Poverty Expenditures through March 2002
(in millions of Kwacha)**

Ministry	Purpose	2001/02 Provision	Funded to Mar 02	Balance	% of Budget	Balance %
National Roads Authority (NRA)	Construction & Rehabilitation of Rural Roads	471.4	194.3	277.1	41.2	58.8
Health and Population (Budget Document 4A has 25.2)	Total	3,005.4	1,820.0	1,185.4	60.6	39.4
	Drugs	1,008.5	658.7	349.8	65.3	34.7
	Health Workers Salaries	807.4	589.1	218.3	73.0	27.0
	Primary Healthcare	1,068.0	546.4	521.6	51.2	48.8
	Preventive Health Care	24.3	19.0	5.3	78.2	21.8
	Secondary Curative Care	1,105.7	665.5	440.2	60.2	39.8
Education	Total	4,024.1	3,043.9	980.2	75.6	24.4
	Primary Education	2,844.9	2,508.7	336.2	88.2	11.8
	Teaching & Learning Materials	628.9	429.7	199.2	68.3	31.7
	Teacher Salaries	1,502.6	1,053.6	499.0	70.1	29.9
	Secondary Education	831.6	434.8	396.8	52.3	47.7
	Teacher Training	347.6	100.4	247.2	28.9	71.1
Agriculture	Total	377.3	218.2	59.1	84.3	15.7
	Targeted Input Programme (TIP)	160.0	165.0	-5.0	103.1	-3.1
	Extension Services	217.3	153.2	64.1	70.5	29.5
Water Development	Total	442.2	240.3	201.9	54.3	45.7
	Rural Water Supplies	77.2	46.5	30.7	60.2	39.8
	Development Projects	365.0	193.8	171.2	53.1	46.9
Gender, Youth and Community Services	Total	63.5	31.1	32.4	49.0	51.0
	Family Welfare Services	18.8	8.5	10.3	45.2	54.8
	Children Services	11.7	6.1	5.6	52.1	47.9
	National Adult Literacy Education	33.0	16.5	16.5	50.0	50.0
Police	Total	299.4	231.8	67.6	77.4	22.6
	Community Policing	12.3	3.6	8.7	29.3	70.7
	Police Officer Salaries	287.1	228.2	58.9	79.5	20.5
Labour & Vocational Training	Training for the Youth	69.1	44.9	24.2	65.0	35.0
Commerce & Industry	Commerce & Industry	42.8	40.4	2.4	94.4	5.6
Mines Department	Promotion of Small-Scale Mining	17.3	4.2	13.1	24.3	75.7

Note: Funding figures through December 2001

Source: Ministry of Finance and Economic Planning

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Date	Creditor	Amount	Amount in MK	Exchange Rate
30 Apr 01	UK	USD 76,175.52	4,718,311.71	61.94
30 Apr 01	Germany	USD 34,592.96	2,142,770.97	61.9424
30 Jun 01	South Africa	SAR 127,866.84	850,710.87	6.6531
13 Sep 01	Sweden	USD 69,702.66	4,317,550.05	61.9424
13 Sep 01	France	USD 127,900.89	7,922,488.09	61.9424
14 Sep 01	South Africa	SAR 246,595.64	15,274,725.77	61.9424
15 Sep 01	Italy	USD 418,386.44	25,915,860.22	61.9424
31 Oct 01	Austria	ASH 3,808,750.00	22,852,500.00	6
31 Oct 01	Italy	USD 928,072.40	63,851,381.12	68.8
31 Oct 01	UK	GBP 107,495.45	9,647,598.39	89.7489
31 Oct 01	Spain	EUR 419,079.67	23,459,409.40	55.9784
31 Oct 01	South Africa – IDC Combined	SAR 1,265,506.60	8,419,541.96	6.6531
31 Oct 01	Sweden	SEK 1,455,264.31	11,132,771.97	7.65
31 Oct 01	France	EUR 38,169.76	2,136,682.09	55.9784
31 Oct 01	South Africa	SAR 629,817.14	4,818,101.12	
31 Oct 01	Germany	EUR 90,733.34	5,079,107.20	55.9784
31 Oct 01	France	EUR 90,406.15	5,060,791.63	55.9784
31 Dec 01	South Africa	SAR 127,866.84	850,710.87	6.6531
31 Dec 01	Austria	ASH 3,808,750.00	213,207,731.00	60.1117
07 Jan 02	Spain	EUR 298,005.07	23,924,761.37	80.2831
	Total		455,583,505.80	

Table 4: Statutory Corporations External Debt Outstanding (in millions of US Dollars)			
Year	Parastatal Debt	Total Debt	Parastatal Debt to Total Debt
1993	34.1	1702.6	2.00 %
1994	26.9	1898.7	1.42 %
1995	47.5	2088.9	2.27 %
1996	53.6	2227.0	2.41 %
1997	61.2	2072.0	2.95 %
1998	72.2	2509.3	2.88 %
1999	70.4	2530.4	2.78 %
2000	63.0	2469.2	2.55 %
2001	63.1	2570.8	2.45 %
<i>Source:</i> DAD, Ministry of Finance			

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Table 5: CMS-Drug Consumption Return for Ministry of Health and Population Headquarters and Government Hospitals as of 31st January 2002 (in millions of Kwacha)

No	User Unit	Annual Provision	Cumulative Totals	Actual Balance	% Spent
1	Secretary H&P	8.1	6.3	1.8	77.7
2	Lilongwe CH	71.0	50.9	20.0	71.8
3	Lilongwe DHO	77.2	17.8	59.4	23.0
4	Mchinji DHO	26.8	15.2	11.6	56.6
5	Dowa DHO	33.1	11.8	21.3	35.6
6	Dedza DHO	42.1	22.6	19.6	53.5
7	Ntheu DHO	32.7	9.8	22.9	29.9
8	Ntchisi DHO	14.9	9.1	5.8	61.1
9	Nkhotakota DHO	20.4	11.9	8.5	58.5
10	Kasungu DHO	39.4	15.8	23.5	40.2
11	Salima DHO	21.3	6.2	15.1	29.1
12	QECH	76.1	39.1	37.0	51.4
13	Blantyre DHO	48.3	13.7	34.6	28.3
14	Balaka DHO	20.6	8.0	12.6	38.9
15	Mulanje DHO	33.8	17.8	16.0	52.7
16	Phalombe DHO	20.9	4.5	16.4	21.6
17	Zomba DHO	38.4	7.0	31.4	18.3
18	Zomba Mental	14.2	1.1	13.1	7.4
19	Zomba Central	44.6	16.9	27.7	38.0
20	Machinga DHO	33.9	10.4	23.5	30.7
21	Mwanza DHO	11.3	7.6	3.7	66.9
22	Chiradzulu DHO	19.7	9.3	10.4	47.4
23	Chikwawa DHO	25.0	11.9	13.1	47.6
24	Nsanje DHO	13.7	7.9	5.8	57.9
25	Mangochi DHO	51.1	16.7	34.5	32.6
26	Thyolo DHO	38.3	12.4	25.9	23.3
27	Mzuzu CH	40.1	13.0	27.5	32.2
28	Rumphi DHO	10.7	8.7	2.2	79.7
29	Likoma Island	--	--	--	--
30	Nkhata Bay DHO	13.6	10.5	3.1	77.2
31	Mzimba DHO	44.6	26.9	17.7	60.4
32	Chitipa DHO	9.4	5.9	3.6	62.3
33	Karonga DHO	12.9	13.0	(0.1)	100.7
	Total	1,008.5	439.6	568.9	43.6

Source: Monitoring Unit, Ministry of Finance