Response to Malawi National Draft Budget 2003/2004

by

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A RESPONSE TO THE 2003/04 BUDGET

1. Introduction

This note reviews the 2003/04 Budget Statement delivered by the Minister of Finance on 4th July, 2003. While poverty and unemployment have evidently been on the increase, economic growth has remained low or negative in recent years. Hence the theme of this year's Budget "Macroeconomic Stability: a Pre-condition for Economic Growth and Poverty Reduction in Malawi" is both relevant and timely for two reasons. First, poverty reduction takes place only when there is substantial and sustained economic growth. Second and in the context of Malawi, which is a poor country characterized by a highly unequal pattern of income distribution, poverty reduction can only be sustained if the poor and small-scale operators are directly and adequately involved in the targeted economic growth programmes. Thus central questions to be addressed in this report are:

i. Is there adequate provision for "pro-poor and small-scale sources of growth" in the 2003/04 Budget?
ii. Will the estimated real economic growth rate of 3.4 percent in 2003/04 be achieved in the context of the 2003/04 budgetary framework?

The first part of the theme for the 2003/04 Budget highlights the point that restoring macroeconomic stability is a pre-condition to achieving both poverty reduction and economic growth in Malawi. The Budget Statement for 2003/04 acknowledges the following as the fundamental constraints in this regard: the prevailing high interest rates associated with Government's appetite to over-spend relative to available resources, the resulting huge domestic debt stock, and unemployment resulting from weak economic growth. Needless to add that weak economic growth, for its part, does not facilitate the realization of macroeconomic stability. We will, in this paper, question and analyse whether the 2003/04 Budget has adequate provisions for addressing these fundamental constraints and generating an adequate level of macroeconomic stability.

In brief, this presentation will focus on the following key issues of the 2003/04 Budget:

- pro-poor expenditures, analyzing how these have evolved over time and their relative importance in this year's Budget;
- non pro-poor expenditures, analyzing how these impact on poverty reduction and economic growth;
- pro-poor growth expenditures: analyzing their adequacy relative to allocations supporting large-scale sources of growth, and assessing whether constraints to economic growth which do not require funding are being adequately addressed by Government;
- analysing the adequacy of capacity to implement the Budget in the key social and economic growth ministries, the effectiveness and efficiency of the expenditures being incurred at the local level in relation to supervision/administration costs incurred at the ministry headquarters: i.e. the need for expenditure tracking and for a functioning performance management system to enhance budget implementation will be highlighted;
- introducing the gender question: is the Budget gender balanced?
- macroeconomic stability: are there adequate provisions in the 2003/04 Budget for generating macroeconomic stability?
- the involvement of the Civil Society in the entire budgetary process.

2. Preamble of the Budget

The MPRSP, which was reviewed in the course of the 2002/03 financial year, continues to be a guiding tool for budget formulation and execution through the Medium Term Expenditure Framework (MTEF) and the recently re-introduced Public Sector Investment Programme (PSIP). The commitment to utilize MPRSP as a guiding tool for planning and budgeting has been strengthened by the recent passing in Parliament of three legal instruments, namely; the Public Finance Management Act, the Public Audit Act, and the Public Procurement Act. In particular, the Public Finance Management Act makes it a legal requirement that budget estimates for consideration by the National Assembly should be presented in terms of activities and outputs. To this effect, Controlling Officers will be held accountable not only for expenditure over-runs but also for failing to achieve results. **However, the operational constraint we see here is that the Office of the President and Cabinet does not have a properly functioning performance management system to implement this provision of the Act.**

Because improving macroeconomic conditions of the country is a major priority of the government, Government intends to ensure that expenditures remain as much as possible within the limit prescribed by the amount of domestically generated revenues. In addition, the Budget Statement indicates the intention to reduce the debt stock to sustainable levels in order to achieve the much needed reduction in interest rates.

3. Guiding Principles and Challenges for the 2003/04 Budget

The 2003/04 Budget formulation exercise was guided by six principles. The first guiding principle is the emphasis on economic empowerment as articulated in the Malawi Poverty Reduction Strategy (MPRS). **However, economic empowerment is not elaborated and specific programmes for economic**

empowerment are not presented in the Budget Statement. Our understanding is that a National Economic Empowerment Programme is in the early stages of being designed. Government should be urged to expedite design work on the National Economic Empowerment Programme, possibly through a dedicated multi-institutional task force to include Civil Society.

The second principle, related to MPRS, is the Public Sector Investment Programme (PSIP) which is a list of all on-going development projects under implementation and those development projects in the pipeline. The basis for entry of projects into the PSIP is that they should be pro-poor. The PSIP ensures that projects conform to national economic growth and development priorities. The PSIP provides the long-term framework for determining the balance between other recurrent transactions (ORT), activities for achieving sustainable economic growth, and poverty reduction.

Third, related to the MPRS, is the Medium Term Expenditure Framework (MTEF). The philosophy behind the MTEF is that one has to prioritise the limited available resources, in the context of the national budget, in such a way that those activities that have a direct impact on poverty reduction should be allocated adequate resources within the medium term prospective.

Fourth, the 2003/04 Budget aims at drastically reducing the level of domestic debt to sustainable levels by ensuring that recurrent expenditures and the cost of domestically financed development projects do not exceed total domestically generated revenue. The architecture of the budget has, therefore, been guided by the fact that domestic debt has to be retired. This, it is intended, will assist to achieve the much-needed reduction in interest rates. Such an approach would also assist to augment foreign reserves and stabilize the currency. **The question, however, is how will the vast amount of domestic debt be retired when an IMF**

Programme continues to be elusive for Malawi? The Budget Statement does not answer this question.

Fifth, the 2003/04 Budget formulation process has been guided by the Growth Strategy which has just been formulated by Government. The Growth Strategy stemming from Pillar 1 of the MPRS, which promotes pro-poor growth, aims to ensure that the poor are the key participants and beneficiaries of growth.

Sixth, the 2003/04 Budget does not have significant reductions in tax rates. However, Government undertakes to implement a tax reduction programme in the next three fiscal years. The tax burden will decline as the economy stabilizes over this period.

4. Summary of Government Operations

Total revenue and grants is estimated to go up by 35.1 percent from the revised figure of K39,468 million in 2002/03, with revenue increasing by 20.1 percent and grants by 71.4 percent. With respect to grants, the 2003/04 Budget assumes that there will be a resumption of donor support to Malawi in the course of the fiscal year. **We find this rather presumptuous in a General Elections year whereby the budgetary provisions for State Residences, OPC, the National Intelligence Bureau, the National Assembly, and the Ministry of Foreign Affairs have been increased by substantial margins (see Table 4). In other words, we doubt that fiscal prudence will be adhered to in the course of implementing the 2003/04 Budget.**

The 2003/04 Budget forecasts an overall deficit of K20,531.94 million to be wholly funded by grants from donors. **The Minister of Finance should be asked to clarify the sources of grant funding given the fact that foreign pledges**

Table 1: Summary of Government Operations (in millions of Kwacha)

Description	2002/03 Approved	2002/03 Revised	2003/04 Estimate	%Change from Revised
Total Revenue and Grants	**43,153.80**	**39,468.00**	**59,973.10**	**52.0**
Revenue	27,144.40	30,509.00	36,014.10	18.0
Total Grants	16,009.40	8,959.00	23,959.00	167.4
Total Expenditure	**45,262.96**	**53,944.00**	**56,546.04**	**4.8**
Current Expenditures *	32,716.56	40,812.00	41,108.36	0.7
Other Recurrent Expenditure	15,078.51	17,767.00	15,979.00	-10.1
Development Expenditure	12,546.40	13,132.00	15,437.68	17.6
Domestically Financed	2,693.70	2,208.00	3,115.68	41.1
Foreign Financed	9,852.70	10,924.00	12,322.00	12.8
Overall Balance (Excl. Grants)	-18,118.56	-23,435.00	-20,531.94	-12.4
Overall Balance (Inclu. Grants)	-2,109.16	-14,476.00	3,427.06	-76.2
Total Financing	-2,109.16	-14,476.00	3,427.06	-76.2
Foreign (net)	3,735.50	-1,547.33	6,996.50	-352.2
Domestic (net)	-1,626.34	16,023.33	-10,423.57	34.9

* **Comprises wages and salaries, pensions and gratuities, and interest payments**

have not been honoured in recent years. The implication is that if these grants are not received, the government will have to source them domestically with unfavourable consequences on the already high inflation and interest rates. This will generate additional macroeconomic instability. For details on the external resource inflows expected in 2003/04, please refer to Appendix Table 1.

We need to find out the causes of slippages in the implementation of the last budget as reflected by the discrepancy between the approved estimates and the revised estimates for 2002/03. Unless the causes of slippages are identified, the solutions to budgetary controls for this year's budget will be difficult to define. If one takes a cursory look at previous budgets, the problems faced are the same and the solutions proposed each year are also the same. The question is: where do we go wrong?

5. Expenditure Pressure Points

Whereas recurrent expenditure allocations to four economic ministries and departments have increased, the following are the other ministries and public

TABLE 2: RECURRENT EXPENDITURE ALLOCATIONS (K'000)

Ministry /Institution	**2002/03 approved**	**2003/04**	**% Change**
State Residence	256,915.90	327,573.00	27.5
OPC	485,165.00	868,709.00	79.1
The 1st Vice President Office	64,708.70	75,082.00	16.0
The 2nd Vice President Office	0	54,000.00	-
The National Assembly	387,328.00	491,384.00	26.7
National Intelligence Bureau	60,313.00	158,000.00	162.0
Ministry of Foreign Affairs	821,201.00	1,228,554.90	49.6
Ministry of Education	5,051,920.70	6,412,180.40	26.9
Poverty Alleviation Trust Fund	0	1,995.70	-
Immigration Department	106,949.50	141,350.60	32.2
Administrator General	7,744.80	13,531.60	74.7
Human Rights Commission	30,627.50	41,662.80	36.0
Anti-Corruption Bureau	61,433.00	82,000.00	33.5

institutions whose recurrent expenditure allocations for 2003/04 have increased substantially: the National Assembly, the Ministry of Foreign Affairs and International Cooperation, and the Presidency. The Presidency comprises State Residences, Office of the President and Cabinet, the National Intelligence Bureau, Office of the First Vice President, and Office of the Second Vice President. **Particularly worrying, in this regard, is the doubling of recurrent expenditure allocation to OPC from K485,165,000 in 2002/03 to K868,709,000 in 2003/04 and the trebling of the recurrent expenditure allocation to the National Intelligence Bureau from K60,313,000 in 2003/04 to K158,000,000 in 2003/04.** We make the following observations in this regard:

i. **The substantially increased allocations to the Presidency, the National Assembly, and the Ministry of Foreign Affairs and International Cooperation demonstrate that Government is not highly committed to the fundamental goal of restoring macroeconomic stability as a precondition for achieving sustainable poverty reduction and economic growth, which is in itself the theme running through the 2003/04 Budget.**

ii. **Whereas the Minister of Finance asserts, in his 2003/04 Budget Statement, that fiscal discipline will be maintained right through the 2003/04 General Elections year, the evidence from the increased allocations to the Presidency, the National assembly, and the Ministry of Foreign Affairs suggests that fiscal policy management will not be "elections neutral" and, by extension, that it will not**

generate the conducive environment required for the economic ministries to promote economic growth. Evidently, there is insufficient political will and commitment on the part of Government.

iii. **There is also evident lack of political will to implement reforms announced through the 2002/03 Budget, notably the failure so far to merge the Malawi Export Promotion Council (MEPC) and the Malawi Investment Promotion Agency (MIPA), the failure so far to close three embassies (Kenya, Namibia and France) as announced through last year's Budget Statement, failure to close down the Poverty Alleviation Trust Fund and the rather indifferent manner in which the reforms and privatization of some public institutions is proceeding (notably David Whitehead & Sons, Malawi Telecommunications Limited, the National Food Reserve Agency and Malawi Development Corporation). Having decided to postpone the privatization of Air Malawi, what tangible plans does Government have for the long-term sustainability of the airline?**

iv. Against the background of the analysis presented above, we doubt that the 2003/04 Budget implementation process will make a dent on reducing domestic debt substantially. In this regard, the 2003/04 Budget appears to be an inadequate vehicle for garnering the donor confidence required for the re-introduction of an IMF Programme in Malawi. When all is said and done, the increased expenditure allocations to the economic ministries may amount to merely throwing good money after bad.

v. The achievement of macroeconomic stabilization is further compromised by the allocation of K2,882,247,000 to Special Activities as detailed in Table 3.

6. 2003/04 Recurrent Expenditures: What Gives?

Given that recurrent expenditure allocations to the four key economic ministries departments have been increased substantially for 2003/04 as have those for the Presidency, the National Assembly, and the Ministry of Foreign Affairs and International Cooperation, the question is which activities and sectors have been compromised?

Table 3: SPECIAL ACTIVITIES

ACTIVITY	2003/04 Estimates (K)
MRA Capitalization	158,000,000
General Elections	1,536,000,000
ADMARC Restructuring	60,000,000
Subscriptions	90,000,000
Dornier & Eurocopter Agreements	38,247,000
Arrears	30,000,000
City Rates	10,000,000
Amount committed under Japanese Debt Relief	960,000,000
TOTAL	**2,882,247,000**

The sectors whose recurrent expenditure allocations have been reduced substantially are: the Ministry of Gender and Community Services (from K312,587,600 in 2002/03 to K231,491,364 in 2003/04), the National Roads Authority (from K1,431,700,000 in 2002/03 to K1,152,267,140 in 2003/04), the Ministry of Water Development (from K187,478,000 in 2002/03 to K148,572,519 in 2003/04) and the Ministry of Labour and Vocational Training (from K237,900,200 in 2002/03 to K235,292,419 in 2003/04). The Malawi Export Promotion Council (MEPC) and MIPA have also witnessed reductions to their allocations.

Allocations to some ministries/departments have remained more or less static in 2003/04, notably: the Ministry of Health and Population (K3,654,299,600 in 2003/04 compared to K3,529,129,200 in 2002/03), the Ministry of Agriculture and

Food Security, the Ministry for Disaster Preparedness and Poverty Alleviation, the Department of Local Government, the Malawi Police, and the Ministry of Transport and Public Works. In respect of the ministries and public institutions which have played an accommodating role in order to generate the additional resources allocated to the four key economic ministries, the Presidency, the National Assembly, and the Ministry of Foreign Affairs and International Cooperation, we have the following observations to offer:

i. The Gender Question

In view of the substantially reduced allocation to the Ministry of Gender and Community Services, the 2003/04 Budget may be said not to be gender neutral. However, in order to adequately substantiate the gender element of the Budget, we would need to quantify the allocations to women-in-development activities in all ministries/departments. It is perhaps high time that the gender element in the Budget was singled out and highlighted in the same manner that HIV/AIDS programmes are singled out for each ministry/department. The starting point would be a review of the Policy Paper and Action Plans for Women-in-Development, involving all stakeholder institutions including Civil Society.

ii. The Economic Growth Objective

We welcome the 2003/04 Budget's recognition and prioritization of the economic growth imperative in our poor country. In this regard, we regret that the total recurrent expenditure allocation to the Ministry of Agriculture, Irrigation and Food Security has remained rather static in comparison to the last fiscal year's allocation. We would urge Parliamentarians, as they debate the 2003/04 Budget, to push for a

modest increase to the allocation to this ministry at the expense of the Presidency/National Assembly/Ministry of Foreign Affairs, with the proviso that the additional amount prioritises "pro-poor sources of growth", particularly the revival of cotton growing in order to enhance the country's prospects for exploiting the AGOA Initiative and the All-But-Arms Initiative. We doubt that the economic growth target of 3.4 percent for 2003/04 will be achieved when the budgetary allocation to the Ministry Agriculture has not increased.

iii. Other Deserving Activities

We similarly feel that other deserving activities and programmes which have witnessed reduced or static recurrent expenditure allocations in the 2003/04 Budget, notably the Ministry of Health, the National Roads Authority and the University of Malawi should have received modestly increased allocations at the expense of the Presidency, the National Assembly and the Ministry of Foreign Affairs. **This is an issue which Parliamentarians may consider to raise as they debate the 2003/04 Budget. It is time that Parliamentarians, as part of the checks and balances system, led by example by checking Parliament's own huge appetite for expenditure at the expense of the nation's economic and socio-political interests.**

iv. The University of Malawi

Whereas the University of Malawi should be adequately supported, perhaps Parliamentarians across the political divide should forge a common position to push for long-overdue reforms in the national university so that the university may optimally contribute to poverty reduction and economic growth. Perhaps Parliament's Committee on

Education should put together a relatively autonomous task force to over-see reforms in the University of Malawi.

7. Tax Measures

The following tax measures have been introduced:

i. Income Tax Measures

The withholding tax rate for the supply of goods and services has been reduced from 10% to 4%. Simultaneously, Government has withdrawn exemption tax certificates after noting that some contractors and suppliers have been taking advantage of the withholding tax exemption certificates, thereby denying Government revenue. The reduced withholding tax rate of 4.0 percent will minimize cashflow problems for businesses.

ii. Customs Duty Measures

The Customs and Excise measures which have been effected are as follows:

a. Import duty and excise duty on Hessian sacks imported by members of the Tobacco Association of Malawi (TAMA), meant for packing tobacco for export, will be reduced from 5 percent and 20 percent, respectively, to zero percent. This measure is aimed at increasing tobacco farmers' income, which has over the years been eroded by the high cost of inputs, declining tobacco auction prices and the incidence of numerous levies on tobacco.

b. Import duty on bovine, animals, textiles, raw skins, sacks, bags and cartons has been eliminated under the Southern Africa Development Community's (SADC) trading arrangement involving

Malawi, Mozambique, Tanzania, Zambia, Botswana, Lesotho, Namibia, and Swaziland referred to as the MMTZ-BLNS Trading Arrangement. The arrangement seeks to improve access to the regional market by the contracting parties. This measure will, however, be effective from 1st January, 2004 to coincide with the SADC Calendar of programmes.

iii. Surtax Measures

The following surtax measures have been introduced:

a. The rate of surtax has been reduced from 20 percent to 17.5 percent. This measure is aimed at giving relief to consumers by reducing the cost of goods and services.
b. Hessian sacks imported for packing tobacco for export have been exempted from surtax.

iv. Administrative Tax Measures

In addition to the tax policy measures outlined above, the following other measures have been introduced:

a. The processing fees for Customs and Excise documentation has been increased from MK200 to MK600 in order to cover the high cost of producing and processing the documents.

b. The Government service charge related to hotel, motel, and lodge accommodation or similar accommodation in the tourism industry has been reduced from 10 percent to 5 percent. The remaining 5 percent will cover 4 percent payable to hotel staff and 1 percent to benefit the Malawi Institute of Tourism as a training levy. This measure confirms Government's commitment to supporting key growth sectors like tourism that will help develop this country.

c. **Overall, the tax measures introduced through the 2003/04 Budget will benefit the poor and are supportive of the country's economic growth imperative.**

8. Pro-Poor Expenditures

Through MPRSP, Government identified Priority Pro-poor Expenditure (PPE) activities whose provisions are protected from reductions or cuts in the light of resource constraints as they immediately and directly impact on poverty reduction. In the course of implementing the 2002/03 Budget, PPEs were not only protected but were funded in full in spite of financial difficulties which prevailed during the year. This practice is expected to continue in 2003/04 and beyond. The budgetary provisions for protected pro-poor growth and poverty reduction activities for 2003/04 are presented in Table 4.

From the pro-poor expenditure allocations in Table 4, we make the following observations:

i. **There has been a very marginal increase in the total provision for pro-poor expenditures from K10,292,300,000 in 2002/03 to K10,729,186,540 in 2003/04;**

ii. **Whereas the provision for teachers' salaries in primary schools has somehow increased for 2003/04, there is absolutely no provision whatsoever for teachers' salaries in secondary schools;**

iii. **Whereas there is a significant increase to K100,000,000 for teaching and learning materials for secondary schools, we note a substantial decline in the provision for teaching and learning materials in primary schools from K436,311,000 in 2002/03 to K300,000,000 in 2003/04, which must be an extremely worrying trend indeed;**

Table 4: Pro-Poor Expenditures (K'000)

Description	2002/03 Approved	2002/03 Revised	2003/04 Estimate	% share of PPPEs	% change
Pillar 1: Pro-Poor Growth	**1,480,983.00**	**1,476,856.00**	**911,889.15**	**8.5**	**-38.3**
Agriculture	**528,570.00**	**543,750.00**	**457,499.39**	**4.3**	**-15.9**
Agriculture Extension	238,386,00	249,965.00	342,103.37	3.2	36.9
Small Scale Irrigation	290,184,00	293,785.00	115,396.02	1.1	-60.7
Water	**275,019.00**	**253,242.00**	**96,609.00**	**0.9**	**-61.9**
Rural Water Supply	75,019.00	53,242.00	21,268.75	0.2	-60.1
Borehole/Dam Construction & Rehabilitation	200,000.00	200,000.00	75,341.20	0.7	-62.3
National Roads Authority	**400,000.00**	**400,000.00**	**115,000.00**	**1.2**	**-71.2**
Rural Feeder Roads	400,000.00	400,000.00	115,000.00	1.2	-71.2
Natural Resources	**161,275.00**	**159,876.00**	**96,885.45**	**0.9**	**-39.4**
Small-scale mining	78,348.00	78,341.00	89,547.53	0.8	14.3
Small-scale fish farming	82,927.00	81,535.00	7,337.92	0.1	-91.0
Commerce	24,860.00	24,860.00	54,996.36	0.5	121.2
Small-scale and Medium Enterprise Promotion	24,860.00	24,860.00	54,996.36	0.5	121.2
Tourism, Parks & Wildlife	91,259.00	95,128.00	90,898.00	0.8	-4.4
Tourism Services	33,590.00	34,061.00	31,193.00	0.3	-8.4
Conservation & Protection of Wildlife	57,669.00	61,067.00	59,705.00	0.6	-2.2
Pillar 2: Human Capital Development	**8,034,045.00**	**9,087,977.00**	**9,538,628.72**	**88.9**	**5.0**
Education	**4,953,808.00**	**5,902,981.00**	**6,145,985.70**	**57.3**	**4.1**
Primary Education	3,825,611.00	4,576,429.00	4,269,813.00	39.8	-6.7
Teaching & Learning Materials	436,300.00	436,311.00	300,000.00	2.8	-31.2
Teachers' Salaries	3,184,773.00	3,934,542.00	3,969,813.00	37.0	0.9
Secondary Education	667,214.00	814,564.00	1,389,592.20	12.9	70.6
Teaching & Learning Materials	61,867.00	61,867.00	100,000.00	0.9	61.6
Teachers' Salaries	319,847.00	395,147.00	0.00	0	-
Tertiary/Teacher Training	350,983.00	371,988.00	406,580.00	3.8	9.3
Teachers' Houses	110,000.00	140,000.00	80,000.00	0.7	-42.9
Health	**2,767,873.00**	**2,861,597.00**	**3,049,404.00**	**0.3**	**6.6**
Primary Health Care	856,773.00	867,655.00	776,441.73	7.2	-10.5
Preventive Health Care	24,251.00	24,407.00	15,352.79	0.1	-37.1
Secondary Curative Care	567,692.00	566,878.00	679,085.67	6.3	19.8
Health Workers' Training	317,157.00	317,157.00	299,005.00	2.8	-5.7
Drugs	1,002,000.00	1,085,500.00	1,279,518.84	11.9	17.8
Health Workers Salaries	0.00	0.00	0.00	0	-
Gender, Youth & Community Services	**144,279.00**	**152,353.00**	**180,938.00**	**1.7**	**18.8**
Family Welfare Services	61,308.00	64,077.00	70,444.00	0.7	9.9
Children Services	9,158.00	9,491.00	13,147.00	0.1	38.5
Adult Literacy Education	73,813.00	78,785.00	97,347.00	0.9	23.6
Labour	**168,085.00**	**171,046.00**	**162,301.00**	**1.5**	**-5.1**
Technical & Vocational Training	168,085.00	171,046.00	162,301.00	1.5	-5.1
Pillar 3: Improving the Quality of Life for the Most Vulnerable	**426,000.00**	**323,000.00**	**46,400.00**	**0.4**	**-85.6**
Targeted Inputs **Programme**	100,000.00	323,000.00	46,400.00	0.4	-85.6
Safety Nets – MASAF	326,000.00	0.00	0.00	0	-

Pillar 4: Good Governance	**351,272.00**	**356,485.00**	**232,268.67**	**2.2**	**-34.8**
Police	**351,272.00**	**356,485.00**	**232,268.67**	**2.2**	**-34.8**
Community Policing	219,468.00	222,989.00	162,747.67	1.5	-27.0
Police Officers Training	131,804.00	133,496.00	69,521.00	0.6	-47.9
TOTAL	**10,292,300.00**	**11,244,318.00**	**10,729,186.54**	**100.0**	**100.0**

iv. In the health sector, the total pro-poor expenditure allocation has gone up marginally from K2,767,873,000 in 2002/03 to K3,049,404,000 in 2003/04 with the bulk of that increment being accounted for by drugs (up from K1,002,000,000 in 2002/03 to K1,279,518,840 in 2003/04). There are reduced provisions for primary and preventive health care while the PPE allocation for secondary curative care has been increased from K567,592,000 in 2002/03 to K679,085,670 in 2003/04;

v. The total PPE provision for Gender, Youth and Community Services has been increased from K144,279,000 in 2002/03 to K180,938,000 in 2003/04, with the Family Welfare Services, Children Services and Adult Literacy Education expenditure lines all benefiting from the enhanced allocation;

vi. The substantial reduction in the PPE allocation of the Targeted Inputs Programme (TIP) from K426,000,000 in 2002/03 to a mere K46,400,000 in 2003/04 is also an unwelcome development from the view-point of pro-poor growth and poverty reduction.

vii. Similarly worrying is the substantial decline in the aggregate allocation to Community Policing and Police Officers' Training from K351,272,000 in 2002/03 to K232,268,670 in 2003/04 when we ought to be consolidating security and good governance ahead of next year's elections. For its part, a pro-growth budget also requires a secure environment for its successful execution as there cannot be meaningful economic growth in an insecure country.

9. Economic Growth

Government has, through this budget, substantially increased expenditure provisions to four institutions which directly and indirectly contribute to or facilitate economic growth, namely: the Ministry of Economic Planning and Development (from K36,450,900 in 2002/03 to K92,000,000 in 2003/04), the

Department of Mines (increased to K86,388,800 in 2003/04), the Ministry of Commerce and Industry (from K106,246,100 in 2002/03 to K270,000,000 in 2003/04), and the Ministry of Tourism, Parks and Wildlife (from K142,051,300 in 2002/03 to K172,352,451 in 2003/04). It is hoped that the enhanced intervention of these institutions in the economy will set the pace for the expected growth.

Rather surprising for a pro-growth budget though, the PPE allocation for Technical and Vocational Training has declined from K168,085,000 in 2002/03 to K162,301,000 in 2003/04. Parliamentarians may wish to signal in their interventions that this development does not promote the cause of pro-poor growth.

In addition to the reduced allocation to Technical and Vocational Training, we also observe from Table 4 that the total allocation to Pro-poor Sources of Growth, in the context of protected Pro-Poor Expenditures, has declined by a substantial 38..4 percent from K1,430,983,000 in 2002/03 to K911,889,150. The particular activities which have received reduced allocations are: Small-scale Irrigation (down from K290,184,000 in 2002/03 to K115,396,020 in 2003/04), Water Development (substantially down from K275,019,000 in 2002/03 to K96,609,000 in 2003/04), Rural Feeder Roads (down from K400,000,000 in 2002/03 to a minimal K115,000,000 in 2003/04), Small-scale Fish Farming (down from K82,927,000 in 2002/03 to a token K7,337,920 in 2003/04), and Tourism Services (down from K33,590,000 in 2002/03 to K31,193,000 in 2003/04).

The only activities which have had their allocations enhanced for 2003/04 are: Agricultural Extension, Small-scale Mining, and Small-scale and Medium Enterprise Promotion. **Overall, we can conclude that the economic growth process funded through the 2003/04 Budget exhibits eliticism and large-scale enterprise bias. We would recommend to Parliamentarians to raise this issue**

in the debate on the Budget. It is in the interest of the goal of poverty reduction that pro-poor sources of growth be adequately provided for in the Budget. Such pro-poor sources of growth should go beyond those listed in the Budget to include the revival of cotton growing and tailoring, small-scale horticulture, small-scale tobacco farming, handicrafts, cultural villages, Soya beans production and processing, smallholder sugar/tea/coffee production, environmental management at the village level as a cross-cutting issue for both sustainable poverty reduction and pro-poor growth, small-scale rice farming, cassava farming and processing, etc.

The issue of pro-poor sources of growth deserves further design and action planning work by Civil Society and other stakeholders.

10. Good Governance Institutions

Table 5 below illustrates the budgetary allocations to institutions that encourage accountability and good governance. The role that these institutions play to promote the poor is very important and cannot be over-emphasized.

Table 5: Budgetary Allocations to Accountability Institutions (Kwacha)

Description	**2002/03 Approved**	**2002/03 Revised**	**2003/04 Estimated**
The National Assembly	387,328,200	491,384,000	493,856,187
The Judiciary	209,945,000	231,557,733	292,695,000
Office of the Ombudsman	28,111,700	30,068,000	31,888,977
The Anti-Corruption Bureau	61,433,000	73,289,283	82,000,000
The Law Commission	28,111,700	30,068,000	31,888,977
Human Rights Commission	30,627,500	37,796,700	41,662,827
National Audit Office	37,011,922	49,335,000	61,965,000

It is pleasing to note from Table 5 that all Good Governance Institutions will benefit from improved allocations in 2003/04.

11. Budget Implementation

Similar to the Monetary Policy Committee at the Reserve Bank of Malawi, we recommend the establishment of a multi-institutional Fiscal Policy Committee that will monitor developments on the fiscal front. Any outliers in expenditure will result in this committee making recommendations to the Cabinet Committee on the Economy on the appropriate measures to be taken.

Any significant deviation to the budget should not be left to the Ministry of Finance alone to address. Parliament should be involved in one way or another perhaps through its Budget and Finance Committee, which needs to be much more pro-active than it has been to-date.

The Ministry of Finance's Budget Monitoring Section should be vigilant and collaborate with the Ministry of Economic Planning and Development on physical monitoring of budget implementation. **We further recommend that, for its part, Civil Society should spearhead the process of introducing Expenditure Tracking activities by members of Area Development Committees at the local level in view of the evidence coming through that a substantial portion of the PPE funds are wastefully spent at the district assembly and local levels.** Funding for this may be sourced from the World Bank- funded FIMTAP Project and other donors.

There should also be some flexibility to vier funds from one ministry or department to another if there is proof that some institutions are failing to implement their respective budgets adequately.

12. The Involvement of Civil Society

Civil Society should continue to be vigilant and to actively participate in both the design and monitoring processes of the Budget, including the introduction of Expenditure Tracking at the Area Development Committee level. Civil Society should also consider taking up the challenge of initiating debate on the possibility of introducing a "Gender Balanced" Budget. Further, Civil Society should consider carrying out further design and action planning work on "pro-poor sources of growth" in view of the fact that the poor must directly participate in generating economic growth, the latter being a pre-condition for sustained poverty reduction.

13. Concluding Remarks

The 2003/04 Budget aims at achieving poverty reduction principally through economic growth, not hand-outs, in an environment where macroeconomic stability is restored. We welcome the growth orientation of the Budget. Our worry, however, is that the economic growth planned for through the 2003/04 Budget exhibits eliticism and a large-scale bias in that the expenditure allocation to "pro-poor and small-scale sources of growth" has been reduced by a substantial 38.4 percent for 2003/04 from last year's level. Many deserving activities (including small-scale irrigation, rural water supply/boreholes/dams, rural feeder roads, and small-scale fish farming) will suffer the blunt of the Budget's elitist orientation. Who is this growth intended to benefit if not people in the villages?

We recommend that Parliament should push for a re-allocation of some resources from State Residences, OPC, the National Intelligence Bureau (NIB), the National Assembly, and the Ministry of Foreign Affairs to pro-poor growth activities, other pro-poor activities, and the Ministry of Agriculture.

Another worry we have is that macroeconomic stability, as a pre-condition for economic growth and poverty reduction, will not be realized in 2003/04 because of the huge increases in expenditure allocations to State Residences, OPC, NIB, the National Assembly, and the Ministry of Foreign Affairs. **Given this situation, we doubt that normal donor support to Malawi will resume. By extension, we wonder where the funding for the liquidation of domestic debt will be sourced from. Parliamentarians would do themselves a favour by asking the Minister of Finance to clarify and substantiate the source of funds for the retirement of domestic debt. The Minister of Finance should also be urged to explain the context of the Government's Macroeconomic Stabilization Programme: what precisely will generate macroeconomic stability in the 2003/04 fiscal year?** The huge increases in expenditure allocations to OPC, State Residences, the National Intelligence Bureau, the National Assembly, and the Ministry of Foreign Affairs portray this year's budget as one primarily crafted for the forthcoming General Elections.

The other concluding remarks may be summarized as follows:

Guiding Principles and Challenges for the 2003/04 Budget

- Economic empowerment, which is a necessary to for facilitating pro-poor growth, is not elaborated and specific programmes for economic empowerment are not presented in the Budget Statement. Our understanding is that a National Economic Empowerment Programme is in the early stages of being designed. **Government should be urged to expedite design work on the National Economic Empowerment Programme, possibly through a dedicated multi-institutional task force which should include Civil Society.**

- On the Government's intention to liquidate domestic debt in 2003/04, the question is how will the vast amount of domestic debt be retired when an IMF Programme continues to be elusive for Malawi? The Budget Statement does not answer this question., nor does it explain how it intends to convince donors to resume normal support. In this respect, we find it rather presumptuous to indicate the intention to liquidate domestic debt in a General Elections year whereby the budgetary provisions for State Residences, OPC, the National Intelligence Bureau, the National Assembly, and the Ministry of Foreign Affairs have been increased by substantial margins. In other words, we doubt that fiscal prudence will be adhered to in the course of implementing the 2003/04 Budget.

- The Minister of Finance should be asked to clarify the sources of grant funding given the fact that foreign pledges have not been honoured in recent years.

2003/04 Recurrent Expenditures: What Gives?

- **The Gender Question**

  In view of the substantially reduced allocation to the Ministry of Gender and Community Services, the 2003/04 Budget may be said not to be "gender neutral". However, in order to adequately substantiate the gender element of the Budget, we would need to quantify the allocations to women-in-development activities in all ministries/departments. It is perhaps high time that the gender element in the Budget was singled out and highlighted in the same manner that HIV/AIDS programmes are singled out for each ministry/department. The starting point would be a review of the

Policy Paper and Action Plan for Women-in-Development, involving all stakeholder institutions, including Civil Society.

- **The Economic Growth Objective**

  We welcome the 2003/04 Budget's recognition and prioritization of the economic growth imperative in our poor country. In this regard, we regret that the total recurrent expenditure allocation to the Ministry of Agriculture, Irrigation and Food Security has remained rather static in comparison to the last fiscal year's allocation. **We would urge Parliamentarians, as they debate the 2003/04 Budget, to push for a modest increase to the allocation to this ministry at the expense of the Presidency/National Assembly/Ministry of Foreign Affairs, with the proviso that the additional amount prioritises "pro-poor sources of growth", particularly the revival of cotton growing in order to enhance the country's prospects for exploiting the AGOA Initiative and the All-But-Arms Initiative.** We doubt that the economic growth target of 3.4 percent for 2003/04 will be achieved when the budgetary allocation to the Ministry Agriculture has not increased.

- **The National Assembly**
  It is time that Parliamentarians, as part of the checks and balances system, led by example by checking Parliament's own huge appetite for expenditure at the expense of the nation's economic and socio-political interests.

- **The University of Malawi**
  Whereas the University of Malawi should be adequately supported, perhaps Parliamentarians across the political divide should forge a

common position to push for long-overdue reforms in the national university so that the university may optimally contribute to poverty reduction and economic growth. Perhaps Parliament's Committee on Education should put together a relatively autonomous task force to over-see reforms in the University of Malawi.

Tax Measures

- Overall, the tax measures introduced through the 2003/04 Budget will benefit the poor and are supportive of the country's economic growth imperative.

Economic Growth

- It is rather surprising for a pro-growth budget that the PPE allocation for Technical and Vocational Training has declined from K168,085,000 in 2002/03 to K162,301,000 in 2003/04. Parliamentarians may wish to signal, in their interventions, that this development does not promote the cause of pro-poor growth.

- **Overall, we can conclude that the economic growth process funded through the 2003/04 Budget exhibits eliticism and large-scale enterprise bias.** We would recommend to Parliamentarians to raise this issue in the debate on the Budget. It is in the interest of the goal of poverty reduction that pro-poor sources of growth be adequately provided for in the Budget. Such pro-poor sources of growth should go beyond those listed in the Budget to include the revival of cotton growing and tailoring, small-scale horticulture, small-scale tobacco farming, handicrafts, cultural villages, Soya beans production and processing, smallholder sugar/tea/coffee production, environmental management at the village level as a cross-cutting issue for both sustainable poverty reduction and pro-poor growth, small-scale rice farming, cassava farming and processing, etc.

The issue of pro-poor sources of growth deserves further design and action planning work by Civil Society and other stakeholders.

Budget Implementation

- Similar to the Monetary Policy Committee at the Reserve Bank of Malawi, we recommend the establishment of a multi-institutional Fiscal Policy Committee that will monitor developments on the fiscal front. Any outliers in expenditure will result in this committee making recommendations to the Cabinet Committee on the Economy on the appropriate measures to be taken.

- We further recommend that, for its part, Civil Society should spearhead the process of introducing Expenditure Tracking activities by members of Area Development Committees at the local level in view of the evidence coming through that a substantial portion of the PPE funds are wastefully spent at the district assembly and local levels.

Appendix Table 1: Summary of Sources and Type of Resource Inflows for the 2003/04 Financial Year

CODE	DONOR	GRANTS		LOANS	
		BOP	Projects	BOP	Projects
02	IFAD				95,072.397
03	IDA		326,152.781	3,360,000.00	2,972,867,651
05	ADF		105,876,610	-	3,120,346,172
06	ADB			960,000,000	
07	USAID	960,000,000	456,848,424		
08	AUSTRALIA		781,766		
09	FINNIDA		3,908,830		
10	UNFPA		88,535,627		
11	UNDP		111,169,942		
12	UNCDF		71,922,473		
13	UN Global Fund		195,441,504		
14	NORWAY	835,200,000	47,342,186		
15	NORAD	-	360,777,198		
16	NETHERLANDS		139,310,704		
17	KFW		170,815,874		
18	UNAIDS	-	1,094,472		
20	GTZ		138,372,585		
22	EUROPEAN UNION	1,680,000,000	1,341,542,982		
24	WFP		80,756,429		
25	BADEA		8,286,720		348,598,789
26	SWEDEN	480,000,000			
28	CIDA		134,364,251		
29	NDF		-		433,746,981
30	FAO		31,270,641		
31	KUWAIT FUND				46,078,422
32	WHO		12,820,963		
33	EDRP			2,496,000,000	
35	OPEC FUND	-	-		348,598,789
38	DFID	2,160,000,000	763,683,295		

39	JICA		102,192,560		
42	ACBF		14,697,201		
43	BELGIUM	-			31,690,799
44	UNCEF		183,808.825		
45	ICEIDA		30,098,092		
46	IRISH Trust Fund		3,127,064		
47	OTHER	4,719,800,000	-	46,000,000	
	TOTAL	**10,835,000,000**	**4,925,000,000**	**6,862,000,000**	**7,397,000,000**
	TOTAL BOP	**17,697,000,000**			
	TOTAL PROJECTS	**12,322,000,000**			

Appendix Table 2: Summary of Public Debt Charges

	Approved 2002/03	Revised 2002/03	Estimate 2003/04
Foreign Debt:			
Interest	2,240,009,609.000	2,477,036,453.00	2,429,860,000.00
Sub-Total	**2,240,009,609.000**	**2,477,036,453.00**	**2,429,860,000.00**
Domestic Debt:			
Local Registered Stocks:			
Interest	849,821,238.00	849,821,238.00	1,301,921,068.00
Sub-Total	**849,821,238.00**	**849,821,238.00**	**1,301,921,068.00**
Treasury Bills:			
Interest	3,011,969,153.00	7,000,178,762.00	4,835,981,000.00
Sub-Total	**3,011,969,153.00**	**7,000,178,762.00**	**4,835,981,000.00**
Ways & Means:			
Sundry advances	500,000,000.00	1,023,000,000.00	1,901,197,932.00
Sub- Total	**500,000,000.00**	**1,023,000,000.00**	**1,901,197,932.00**
Grand Total	**6,601,800,000.00**	**11,350,036,453.00**	**10,468,960,000.00**

Appendix Table 3: Summary of Draft Estimates of Recurrent Expenditure for the 2003/04 Financial Year

VOTE	MINISTRY/DEPARTMENT	PERSONAL EMOLUMENTS	OTHER RECURRENT TRANSACTIONS	TOTAL RECURRENT
	Statutory Expenditure			
010	The Presidency	6,599,484	-	6,599,484
020	Compesation and Refunds	-	190,000,000	190,000,000
030	Pensions and Gratuities	-	1,680,000,000	
040	Public Debt Charges	-	10,468,960,000	10,468,960,000
	Total Statutory Expenditure	**6,599,484**	**12,338,960,000**	**12,345,559,484**
	Voted Expenditure			
050	State Residences	82,105,456	245,467,545	327,573,001
060	National Audit Office	30,965,000	31,000,000	61,965,000
070	The Judiciary	222,695,000	70,000,000	292,695,000
080	National Assembly	262,850,635	231,005,552	493,856,187
090	Office of the President & Cabinet	298,708,863	570,000,000	868,708,863
091	Local Government Department	60,619,375	55,000,000	115,619,375
092	Ministry of Statutory Corporation	8,460,646	10,000,000	18,460,646
093	Department of Human Resources Management and Development	44,182,994	30,842,651	75,025,645
094	District Assembly	63,411,870	178,485,768	241,897,638
095	National Intelligence Bureau	78,000,000	80,000,000	158,000,000
096	National Statistical Office	24,349,138	40,000,000	64,349,138
097	Public Service Commission	15,000,000	20,000,000	35,000,000
100	Ministry of Defence	7,603,805	30,393,835	37,997,640
101	Malawi Defence Force	647,998,544	450,000,000	1,097,998,544
110	Development	27,000,000	65,000,000	92,000,000
130	Surveys	70,000,000	60,000,000	130,000,000
180	Ministry of Sports & Culture	42,388,471	35,000,000	77,388,471
190	Ministry of Agriculture & Irrigation	697,893,991	938,515,268	1,636,409,259
200	Disabilities	8,136,756	20,000,000	28,136,756

210	Ministry of Water Development	78,052,019	70,520,500	148,572,519
220	Ministry of Housing	51,906,734	309,168,627	361,075,361
240	Office of Vice President	20,520,305	54,561,732	75,082,037
250	Ministry of Education, Science & Technology	4,722,740,274	1,689,440,138	6,412,180,412
260	Ministry of Foreign Affairs & International Corporation	637,043,244	591,511,659	1,228,554,903
270	Ministry of Finance	53,164,535	100,867,105	154,031,640
271	Accountant General's Department	34,737,033	70,000,000	104,737,033
272	Depart. Of Information System Technology & Management Service	18,950,753	87,814,032	106,764,785
273	Malawi Revenue Authority	-	692,450,000	692,450,000
275	Subvented Organisations	-	1,830,375,242	1,830,375,242
277	Special Activities	337,841,466	2,882,247,000	3,220,088,466
278	Unforseen Expenditures	-	50,000,000	50,000,000
280	Office of the Second Vice President	10,321,713	54,000,000	64,321,713
300	Ministry of Poverty and Disaster Management Affairs	8,034,493	19,000,000	27,034,493
310	Ministry of Health & Population	1,183,000,350	2,471,299,234	3,654,299,584
320	Ministry of Gender, Youth & Community Services	111,491,364	120,000,000	231,491,364
330	Ministry of Information	37,570,266	41,000,000	78,570,266
340	Ministry of Home Affairs	11,430,710	20,988,530	32,419,240
341	Police	484,540,904	600,000,000	1,084,540,904
342	Prisons Department	50,440,833	120,000,000	170,440,833
343	Immigration Department	21,350,568	120,000,000	141,350,568
350	Ministry of Justice	17,157,070	25,000,000	42,157,070
351	DPP & State Advocate	10,294,242	15,000,000	25,682,075
352	Registrar General's Department	5,682,075	20,000,000	25,294,242
353	Administrator General's Department	3,531,578	10,000,000	13,531,578
354	Legal Aid	6,862,828	10,000,000	16,862,828
370	Ministry of Labour & Vocational Training	69,704,906	165,587,513	235,292,419

390	Ministry of Commerce & Industry	30,247,362	239,752,638	270,000,000
400	Ministry of Transport & Public Works	141,449,860	315,000,000	456,449,860
420	National Roads Authority	-	1,152,267,140	1,152,267,140
430	Human Rights Commission	31,029,764	10,633,063	41,662,827
460	Electoral Commission	51,703,890	30,000,000	81,703,890
470	Ministry of Natural Resources & Environmental Affairs	390,665,600	102,662,052	493,327,652
471	Geological Survey Department	12,141,948	37,000,000	49,141,948
472	Mines Department	16,388,800	70,000,000	86,388,800
510	Anti-Corruption Bureau	46,000,000	36,000,000	82,000,000
550	Office of the Ombudsman	21,850,135	10,038,842	31,888,977
560	Law Commission	21,743,757	10,032,990	31,776,747
570	Ministry of Tourism Parks & Wildlife	72,352,451	100,000,000	172,352,451
	Total Voted Expenditure	**11,514,314,374**	**17,514,928,656**	**29,029,243,030**
	GRAND TOTAL	**11,520,913,858**	**29,853,888,656**	**41,374,802,514**