CIVIL SOCIETY CONTRIBUTION TO THE 2003 / 2004 SUPPLEMENTARY APPROPRIATION BILL.

Submission to Members of the National Assembly by the

MALAWI ECONOMIC JUSTICE NETWORK (MEJN)
In collaboration with
The Economics Association of Malawi [ECAMA]

Postal Address:	***Physical Address***	***Phones & Faxes***
P.O. Box 20135,	GOWA House	Tel: +265 (0) 1 774 643
Kawale, Lilongwe 2,	African Unity Avenue	Fax: +265 (0) 1 774 648
Malawi	City Centre, Lilongwe	

Website: www.mejn.org email: mejn@sdnp.org.mw or mejn@mejn.org

Promoting Participatory Economic Governance in Malawi

Submitted to Members of the National Assembly on 16th March 2004

2003/ 04 SUPPLEMENTARY BUDGET STATEMENT

The Malawi Economic Justice Network [MEJN], a coalition of civil society organisation on economic governance in Malawi, prepared this submission as part of civil society contribution to the 2003/04 Supplementary Appropriation Bill with the objective of enhancing the understanding of the Bill by the Budget and Finance Committee and all the Members of Parliament. The drafting of this document was ably handled with some expertise obtained from the Civil Society Agriculture Network [CISANET] and the Economics Association of Malawi [ECAMA].

It is hoped that the contributions herein are going to be beneficial to the Honourable Members of the House in their deliberations over the 2003/04 Supplementary Bill. The submission is objective and non-partisan as stipulated by the Constitutions of all the parties concerned in its drafting. The submission was prepared as part of the Budget Monitoring exercise by the civil society.

This submission starts by reminding the House about the commitments that the Minister made in his Budget Statement delivered in the August House on 4th July 2003.

The Minister told this House, " *In the case of Malawi, high interest rates have mainly been attributed to the Government's appetite to spend more than available resources*". The Minister further said, " *the Government is fully aware that high interest rates, which arise from high levels of domestic borrowing, are a deterrent to private sector participation*. *The Government is also aware that the poor are the ones hurt most during inflationary periods. Government, therefore, will limit expenditures to available resources without recourse to domestic borrowing. This will imply a strict enforcement of the* *cash budget system.* ***The 2003/04 budget is, therefore, built on the principle of spending only what is available***.

The theme of the 2002/03 Budget is called "**FACING OUR REALITIES AND LIVING WITHIN OUR MEANS IN THE FIGHT AGAINST POVERTY**". Such an enticing theme was never supported by reality as Government failed to *LIVE WITHIN THE AVAILABLE MEANS*. What is amusing is the Minister's reference to the Malawian traditional custom when he said " *upon a young man getting married, gifts include a hoe, a bow and an arrow, implying that the newly wed is empowered to fend for himself and his family. This is what is required.* ***Handouts will simply create dependency on the part of our people***", He said.

Before getting down to the issue of the Supplementary Budget, let us salute Dr Matthews Chikaonda, who, in his 2001/02 Budget Statement said,

"***Mr. Speaker, Sir, as a country, we have indeed been living beyond our means****...What* ***this tells us is that as a nation we have refused to accept our reality, we have let the status quo continue to the detriment of the economy***.

The Supplementary Appropriation Bill is presented to this House in line with the provisions of Section 177 of the Constitution of the Republic of Malawi.

The Supplementary Appropriation Bill is requesting this House to approve additional expenditure of MK11.339 billion. K8.0 billion, of which, is to be spent on interest on domestic debt; MK1.796 billion for increased ORT expenditure in Votes that have over-spent and MK3.561 billion to be provided by donors for HIV/AIDS interventions.

It is very deliberate to make the quotations above in order to clarify a very important point. It is very clear that Government knows all the ills of this economy. It knows that excessive domestic borrowing is bad for the economy. As quoted above, the Minister promised this house that, "*Government will limit expenditures to available resources without recourse to domestic borrowing. This will imply a strict enforcement of the cash budget system.* ***The 2003/04 budget is, therefore, built on the principle of spending only what is available***.

What the Budget Statement is asking this House to approve is to allow Government to spend a total of K16.1 billion on interest payment for domestic debt. This amount is more than the total of both recurrent and development accounts of the three biggest Ministries of our concern, namely, Ministry of Education Science and Technology [K6.93 billion], Ministry of Health [K4.0 billion], Ministry of Agriculture Irrigation and Food Security [K1.69 billion]. Total expenditure of these three ministries put together is K12.62 billion; far less than K16.1 billion being requested for servicing domestic debt. Assuming that the amount for servicing external debt remains at K2.43 billion as approved in the original budget, then we are saying that the total amount for debt service would be K18.53 billion.

Mr Speaker, Sir, K18.53 billion is 27.2 percent of the total expenditure now proposed to be K68.2 billion. This means that more than a quarter of the proposed budget would go for a non-productive expenditure of debt servicing. Needless to say that this type of expenditure is counter-productive and contrary to the spirit of "*Poverty Reduction*" that all Malawians expect Government to pursue. As a civil society we were very alarmed when we calculated that the proposed K18.53 billion for debt service represents 9.3 percent of GDP. In the whole of Africa, Angola (11.0%) and Republic of Congo (14.3%) are the only countries with higher percentages of GDP spent on debt service. But both these countries spent like that in order to finance the wars that lasted more than two decades. Mozambique, which was at war for a long period, only spends 1.0 percent of GDP on debt service. Why should Malawi be comparable to war torn countries when our country has never known any war in modern history?

Ministry of Education Science and Technology is to spend 3.5 percent of GDP. The Corresponding percentage for the Ministry of Health is 2.0. What is most worrying is the fact that the allocations to the Ministries of Health, Education and agriculture are all on the decrease, in real terms. It is therefore not surprising that life expectancy has dropped from the one–time high of 51 to the present 37.5 years. It is very disheartening to note that Government is spending fewer resources for health when the maternal mortality rate has worsened from 620 per 100,000 live births in 1992 to 1,120 per 100,000 in 2000. The proportion of health expenditure to total recurrent expenditure, which was at 11.0 percent only last financial year, is going to drop to 7.1 percent if the K68.2 billion Budget is approved. The corresponding decline for the Ministry of Education is from 15.4 percent to 12.8 percent of total recurrent expenditure. For the Ministry of Agriculture, Irrigation and Food Security, the recurrent expenditure in 2003/04 is just 3.3 percent of total recurrent expenditure when the percentage was higher (3.8) last fiscal year. It does not surprise some the civil society that Food Insecurity is on the increase in Malawi, a country that was once known as "the country of plenty " and was self-sufficient".

The Supplementary Budget Statement tells us that Parliament approved interest payments on the domestic debt of K8.04 billion based on a domestic debt stock of K45.00 billion, a decline in interest rate from an average of 45 percent to 33 percent and an adherence to a no borrowing policy adopted earlier in the year coupled with fiscal discipline that would totally eliminate any extra-budgetary expenditure. Given that the debt stock was increased by K10 billion to K50.56 billion and that the interest rates dropped to only 35 percent and not 33 percent as anticipated, it is difficult to appreciate why the additional expenditure on debt service would be as much as K8.0 billion.

Of the K23.9 billion of donor inflows that Parliament approved in the original budget, K11.772 billion was supposed to be received during the first six months. Given that the disbursements received during the period are K5.2 billion (i.e. DFID $8.36 million, Norway $5.0 million, HIPC, $25.43 million and the IMF $9.26 million; The shortfall from the expected K11.8 billion is just K6.8 billion. If the delay in the disbursement of donor resources was the only reason that prompted Government to borrow locally, then the amount borrowed should not have been K10.0 billion but K6.8 billion as explained above. Even if you add interest at 35 percent for one whole year, the amount borrowed would not amount to the K10.0 billion. It is obvious that the culprit is the " Government's appetite to spend more than available resources"; in the words of the very Honourable Minister of Finance.

When highlighting the prospects for the second half of the fiscal year, the optimism of the Honourable Minister is enviable. It is assumed that the IMF and the EU will each disburse $18.00 million. The British Government and the African Development Bank are expected to disburse $10 million each and that Norway and Sweden will disburse $3.0 million each. These figures maybe in the foreign exchange cashflow projections of the Ministry of Finance; but are they going to be honoured? The civil society would not share the optimism of the Minister. The very conditions for which the donors failed to disburse funds are still there up to the present day. The British have categorically said that they will not disburse any further BOP Support to Malawi if the Corrupt Practices Act is not reviewed. It is therefore to our interest, as a nation, to make sure that the said Act is reviewed in line with the recommendations of the Special Law Commission on the Review of the Corrupt Practices Act.

It should not be forgotten that for the last five years or more, it has been the same accounts that overspend, year in year out. Foreign Affairs, Police, Special Activities, Office of President (OPC) and Cabinet and State Residences. According to the MPRS classification of expenditures, all these accounts fall under "Statehood Activities". These activities do not reduce poverty, according to the MPRSP. The category of " MPRS Activities" is the one that is composed of poverty reducing activities. Well, given the proper environment, Statehood Activities are surely those that can be scaled down in case of need. Take Foreign Affairs, for example. This Government made a commitment in this very August House to scale down the number of diplomatic representations and went ahead to mention the embassies that were going to be closed. Civil society is concerned that none of those embassies has been closed and the rationalisation of the diplomatic call has not happened. Civil society has already bemoaned the status of the OPC and State Residences since the extravagance of these votes is now common knowledge to all Malawians.

The Honourable Minister stated in his submission that he has protected the PPEs and has funded them accordingly. As a civil society we beg to differ with the Honourable Minister. In the report that was published in the local press on 2nd March, 2004, it showed that the PPE of "**MASAF Safety Nets**" received no funding during the first two quarters. The sad thing is that Malawians are still paying a total of K10.22 per litre of petrol for Safety Nets Levies. Our findings from both MASAF and the Ministry of Finance have confirmed that indeed there has been no funding to MASAF. The same thing happened last year. In the quest to understand the problem, we found out that the money remitted by the Petroleum Importers Limited (PIL) is not all recorded in the fiscal tables as receipts. We hope that the Budget and Finance Committee will seek the indulgence of the Honourable Members of the House to listen to the explanation from the Honourable Minister on the alleged lack of accountability. Moreover, the Minister would explain why the Safety Net Levy 2 in the fuel price build-up is levied on paraffin and not on diesel. Paraffin is a pro-poor expenditure because it is villagers, with no electricity, that use it. Furthermore, the Minister of Finance directed that Safety Nets Levy 2 be put in place on 18th October 2003 without the consent of Parliament. The levy is stifling the private sector by increasing their production costs. The Petroleum Pricing Committee requested the Minister to remove the Safety Nets Levy but to no avail. The most pressing issue is that Malawians would want to know what their money is being used for, if it does not go to MASAF.

Civil Society Organisations would only request Government to stick to its promises of limiting its expenditure to the available resources. There will be a lot of temptation to overspend as we approach the elections. Let wisdom rule over selfishness, over lack of political will and over the temptation of putting self-interest before the National Goals of growth and poverty reduction. This may be the last sitting of Parliament before the Elections. The Corrupt Practices Act, the Land Act and many more bills, which should have been presented in this House, were not presented and still are not approved. The destiny of our nation is in jeopardy if some of the conditionalities for donor financing are not met in time for them to resume the disbursement of BOP Support.

Given the concerns expressed above and that the promises have not been fulfilled, this submission recommends that the Bill be referred to the **Budget and Finance Committee of Parliament**. The Committee could swiftly prepare their submission to complete the exercise without requiring extra days of Parliamentary sitting.