RESPONSE TO THE PROPOSED NATIONAL BUDGET 2004/5

Presented to

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Promoting Participatory Economic Governance in Malawi

1. PREAMBLE

This paper reviews the 2004/05 Budget proposal delivered by the Honourable Minister of Finance on 3rd September 2004. We appreciate the difficulties of our economy and we would want to congratulate the Minister of Finance for his well-thought budget. We further appreciate the classification that the 2004/05 budget is a transitional one and that budget may not anchor all the features that can anchor the economic growth that we all want.

Overall we see the budget as aimed at bringing the economy back from the dungeon it was, before we start taking the economy forward. We understand that efforts to bring about change in such environment can be inflationary if not well done, and so caution must be practiced. We agree with the two observations made that 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 and very high domestic debt, poverty reduction can only be sustained if the poor and small-scale operators are directly and adequately involved in the targeted economic growth programmes. There is however no choice over the livelihood of the poor: Government must do something for them. The challenge for Government, especially the Ministry of Finance, is enormous.

1.1 The President in his 2004/05 Budget opening speech set the preamble for understanding and analyzing the budget. He presented the theme for this year's budget as: ***'Keeping our heads above the water'.*** According to the President's speech, the major issues included in the budget are:

- Good governance
- Economic planning
- Stabilization of macroeconomic conditions
- Fertilizer subsidy
- Public sector investment programme
- Institutional capacity building
- Cotton development project
- Irrigation
- Tourism
- Public health and HIV/AIDS
- Energy
- transport

The key question is how have these been translated in the budget? Are there significant changes in amount and structure compared to last year?

1.2 Following the President's speech, the minister of finance presented the budget statement giving more details of the budget. There are a number of issues which have been highlighted in the budget statement by the minister of finance. These issues reflect the nature, structure and scope of the budget. Some of the highlights include the statement that this budget is being considered as a transitional budget to those of the next four years in the life of the current parliament. The reasons why this is a transitional budget include:

- Budget lacks some key features to support economic growth strategies of the country (e.g. lower current expenditure accounts relative to investment account

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expenditure, generation of savings rather than emphasizing consumption). Future Budgets to act as central instrument for economic development.
- Budget provides a framework for eliminating obstacles (practices, habits and mindsets) to the exercise of fiscal discipline and good governance.

1.3 Based on these premises, this review aims at providing a critical appraisal of the budget in terms of its goals and objectives as they are reflected in revenue and expenditure projections. It also analyses how the budget is focusing on national priorities as specified in the MPRSP and other policies. An attempt is also made at analyzing the macro-economic aspects of the budget as well as the expenditure control and management measures being propagated in the budget statement. Due to the limited time available for this analysis, only selected variables and components of the budget are analyzed to give a picture of the overall budget.

2. Budget Structure

a. ***Comparability with past revenue collection/spending performances and future revenue collection/expenditure plans beyond the present fiscal year*** – the Budget Documents' presentation format does not permit easy comparison with past revenue collection/spending levels and future revenue collection expectations and expenditure intentions. This is particular relevant for Budget Document No 3: Financial statement for Financial Year 2004/05. The information is presented in a manner that is cumbersome for legislators to interpret.

b. ***Inconsistencies within and among budget documents***: E.g., Budget Document No. 4 on page 6 Item 2.3.1 that indicates "the K16,715 million allocated for domestic debt servicing is based on the debt stock of ***K54,000*** million and an average interest rate of ***30%"***. Yet the same document on ***page 29*** indicates that "the K16,715 million allocated for domestic debt servicing is based on the debt stock of ***K60,000*** million and an average interest rate of ***25%"***.

c. ***Errors of omissions***: The **"Special Activities and the VVIP"** votes have been eliminated for the current budget estimates. As a minimum, the Government requires to inform as to how the resources allocated to these votes were expended in the last fiscal year, especially given the fact the level of expenditure far exceeded what was approved. Additionally, the **"Special Activities Vote"** provided for payments to the TEVET Fund. While the approved allocation to that Fund was far less than the 1% of Government's basic payroll, there is **NO** provision for this Fund in the current estimates. The TEVET Act passed earlier by Parliament provides for payment by Government of 1% of basic payroll into the TEVET Fund. This implies that in the current draft estimates some MK153 million should be included as an allocation to the TEVET Fund based on the MK15.3 billion provided for personal emoluments.

Pro-Poor Expenditures: In Budget Document No.3 "Table 2: 2003/4 Approved, Revised Budget – Pro-poor Expenditures (PPE) Allocation and 2004/05 Draft Estimates" needs to indicate that the figures are in MK'000. Furthermore, the summary provided in this Table does not correspond to the details provided by spending agencies in Budget Document No. 4. For example, Summary information provided for Pillar 1:Pro-Poor Growth in

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Budget Document No. 3 Page 7 does not correspond to details provided in Document No.4, Table 5.2 page 194.

Non-tax Revenue: Details of "Original and Revised Revenue and Projections" shown in Budget Document No.3 do not agree with the summary shown in Table 1 of the same document. Details regarding the approved, revised and projected revenue from **fuel levy** should be disclosed.

d. ***Errors of Commission***: The amount of MK39,497 million allocated to the "Office of the Former Presidency" under Vote 050 "State Residences" is fairly substantial and deserves explanation as to what it is actually intended to be used for. (Page 32 Budget document No. 3). It is more inviting to note that the OPC vote 090 has allocated MK57,811 for office of the Former President (Document No. 3 page 66). Above all we wonder whether the Former President's entitlements are not supposed to be part of the "Pensions and Gratuities Vote" which has also gone up this year.

e. ***Fertilizer Subsidy and Maize Purchases***: Owing to the volume of resources allocated for each of these elements, it is highly advisable, for transparency and accountability purposes, to provide separate own budget lines

3. Review and Comments on the 2004/05 Budget (Budget document No. 1 and other Budget documents (No. 2, 3 and 4.

3.1 Main objective of the budget is to provide a framework for economic development of the country. Reducing interest rates is one of the most immediate objectives for this financing year. The ways of doing this are not clear in the budget.

3.2 The Budget has been presented using MTEF i.e. containing estimates for 2004/05, 2005/06 and 2006/07). What is the methodology used to come up with the estimates beyond this year? The general trend being observed in these estimates is that of ever increased public expenditure in the next three years. How does this relate to the overall goal of reducing expenditure especially recurrent and debt servicing?

3.4 It has been indicated that Government is on an IMF Staff Monitored Programme for first half of the budget to provide frameworks to deal with obstacles to sound fiscal management. The programme will help the government to re-establish expenditure control. The question we have here is How?? Any there guarantees that the IMF will not shift goal posts or that the Government will perform??

3.5 It should be noted that financing of the development budget is mostly foreign. From MK19.66 billion development expenditure estimate, only MK3.42 billion (17.4%) will be financed from domestic resources. Related to this issue, the government indicates that the foreign support is based on confirmed donor inflows. What does this mean specifically in relation to the IMF program? Does it mean if the government performs, there will be additional donor resources to the budget?

Strategy for dealing with the large domestic debt:

3.6 The Minister acknowledges the existence of large domestic debt which has resulted from borrowing from the domestic market to finance increasing public sector expenditure. The details of the debt are as follows:

- December 2000 – MK12.4 billion
- June 2004 – MK54.0 billion

This debt is mostly short term in form of TB. This large debt has resulted in huge interest payments on the debt. It is clear that the Government has been living well beyond its means for several years, which has brought the nation to the verge of an unstoppable debt and deficit- financing spiral. The fiscal crisis is increasingly starving the social sectors of funding. Domestic debt servicing is the largest expenditure item and threatens to consume all domestic revenue if radical action is not taken urgently.

3.7 Government's short term policy will therefore focus on ways of neutralizing the detrimental effects of domestic debt. Measures to include reducing the size of debt and to convince the domestic capital market to take long term view of the economy and to make government long term debt attractive. The government strategy is to reduce the domestic debt service ratio from 9 percent of GDP in the preceding year to 7 percent of GDP in the current financial year. While the reduction in this ratio is welcome, there is ample opportunity to bring down the ratio to approximately 5% of GDP by more quickly and dramatically cutting down Government deficit in the next few months or else the government will be forced to still borrow more, print more money –which will lead to hyper inflation and/or stop paying salaries and curtail core public services. Clearly exercising restraint on planned aggregate spending level in the current fiscal year could substantially reduce the deficit. Looking at this year's budget, it is evident that this is not the case being pursued. Planned overall spending is some 51 percent above expenditure approved for 2003/04 fiscal year or 18 percent above actual overall spending for the year. Planned total recurrent spending is nearly 60 percent of approved and 23 percent of actual spending in the last financial year. Planned discretionary recurrent spending (i.e., recurrent expenditure net of statutory and personal emoluments) is planned to be some 63 percent of what was approved in 2003/04 and 34 percent of actual spending sustained in that year.

Is there a possibility that government can use net proceeds from privatization to clear or reduce domestic debt??

3.8 It has also been acknowledged that there is excessively large recurrent expenditure account of the budget (about 30.7% of GDP or 78% of total expenditure of the budget. About 30% of the recurrent expenditure (MK19.7 billion) is for interest payments. The government therefore puts as one the most important budgeting goals to pursue policies that will reduce recurrent budget so as to balance it with domestic resources in the medium term. In most of the key sectors, recurrent expenditure has actually increased in this year's budget compared to last year.

4. Domestic revenue

4.1

Table 1 depicts an analysis of the domestic revenue projections in for the draft estimate. It shows that domestic revenue is expected to grow by 47 percent from the 2003/04 approved and the 22 percent from actual revenue collection. However, the increase of nearly 237 percent of non-tax revenue collection is clearly an overly optimistic estimate, especially given last fiscal year's revenue collection performance. Broadly, non-tax revenue collection targets from departments lack a solid foundation and are not matched by any revenue goals in the output budgets. In the case of reimbursements receipts from parastatals, the figure allocated for collection seems to

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represent what may be due and clearly not what can reasonably be expected to be collected, based on past performance.

Table 1: Domestic Revenue Projection Analysis

Revenue Projections	Proposed increase as % of Approved	Proposed increase as % of Actual	Projections Analysis	Percentage
Tax Revenue	43	13	Domestic Revenue/Total Expenditure	59
Non- Tax Revenue	87	237	Total Domestic Revenue /Total Recurrent Expenditure	76
Total Domestic Revenue	47	22	Total	

Non-Tax Revenue Projections

4.2 The basis for domestic revenue projections has not been made apparent. In particular, non-tax revenue projections are clearly overestimated. The projections bear no correspondence to what was actually collected by departments in the last fiscal year. Table 2 shows the actual revenue collection performance and projected percentage revenue collection increase of selected ministries to underline what clearly appear to be too optimistic revenue collection targets.

Table 2: Non-Tax Projections for Selected Agencies

	Original approved 2003/04	Revised Estimates 2003/04	Draft Estimates 2004/05	Revised as % of Approved	Draft Estimates as % Revised estimates
Ministry of Agriculture	24,131,856	1,675,303	14,589,900	-93	771
Ministry of Education	281,828,860	20,506,5000	154,464,860	-93	653
Ministry of Education	33,720,721	6,509,172	17,325,650	-81	166
Ministry of Transport & Public Works	646,324,600	801,855,352	1,006049,788	24	25
Physical Planning	300,000	2,900,000	73,910,000	867	2449
Ministry of Finance (Treasury)	1,217,147,688	161,379,000	1,491,154,098	-87	824

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4.3 It is also highlighted that Government will also conduct a comprehensive tax review in the coming financial year to support its revenue base. We recommend that this should be done while realizing that increasing personal incomes is necessary for poverty reduction and this can come about through increased remuneration or reduction in income tax. There may therefore be more economic gains in reducing income taxes to increase purchasing power.

5. Government wage policy

The following actions are highlighted in the budget statement:

- A series of 'catch-up' salary reviews to be done for a period of 3-5 years subject to favorable financial position.
- This year government to implement a general salary adjustment of the public service of about 25.5% across the board.
- Minimum wage in government increased from MK2, 729/month to MK4500/month.
- Proposed establishment of an independent Public Service Remuneration Board – to be responsible for the determination and periodic reviews of conditions of service in government.

The trend in government wages adjustment appear to be one where wages have been allowed to erode significantly over time necessitating huge discrete increments. This practice has had clearly adverse consequence on the entire economy and therefore would want to emphasize the need for a comprehensive Government wage policy that is subject to more regular review. It is also intuitive that any upward wage adjustment should be accompanied by a corresponding adjustment in the non-taxable income threshold to promote equity in the tax system

6. Rural Development

Rural development is recognized and articulated as a key component of government's poverty reduction strategy. This is a commendable rethink for the government as it will allow integrated and holistic approaches in line with MPRSP and decentralization policy. Specific strategies include the following:

- Government to strengthen economic growth centers in districts through integrated rural development programmes.
- Government to pilot a number of integrated multi-sectoral projects in many areas to address rural sector development in a coordinated manner. Issues to be addressed include: access to land, farm inputs, environment, nutrition and empowerment with supportive infrastructure of rural road networks, water, electricity and telephones.
- Rural credit facility (MK800 million) as part of integrated rural development programme to be introduced. The stated Government instrument for achieving rural development is to make available funds amounting to MK800 million in 2004/05 fiscal year through a Rural Credit Facility. Even though the exact details of the scheme are yet to be released, experience with these sought of schemes, even with the best intentions, there is potential to tremendous damage to the rural financial market. These schemes, like the ones before it (e.g., the Small and Medium Enterprise Fund (SMEF) and the Youth Credit Scheme) are obvious important sources of patronage in terms of promising services to citizens and providing jobs to the faithful. These characteristics have

worked to destroy value, increase risk and diminish confidence at the rural and frontier levels as the level of bad debts losses have accelerated.

The proposed rural credit scheme is arguably based on the assumptions that the binding constraint to rural credit access is liquidity and that this constraint can be overcome by injecting the required liquidity. These assumptions are at best misplaced. The Government can avoid repeating costly errors by concentrating its efforts reducing structural and environmental obstacles of rural access to credit including the development of a comprehensive Microfinance Policy (the draft of which was prepared some four years ago), the introduction of national identity scheme to facilitate credit reference and contracts enforcement, and rural infrastructure development (e.g., rural feeder roads, communications facilities, etc.,).

Finally, the provision is NOT in the budget. According to the Minister's statement, this is an off-the-budget item "as it merely represents a movement of funds from one bank to another". It's not entirely clear what this means. How will transparency and accountability be assured with these funds? In any case it also not clear why this can not be reflected in the budget so that it can be associated with certain votes and can be subjected to public scrutiny.

7. Food security

Achieving food sufficiency and security is indicated as the overarching priority of government.

- As a main strategy to deal with food insecurity, Government is to implement targeted fertilizer subsidy – targeting majority leaving below the poverty line (about 2 million families). The scheme is to involve about MK2.5 billion (also supported by DFID) and to be administered by Accountant General's department.

The issue of fertilizer subsidy needs realistically to be put into the context of a national Food and Security Policy (understandably being developed) aimed at achieving national and household food and nutrition security (as opposed to national food "**sufficiency"** and security) as a critical element towards poverty reduction and promoting economic growth. The emphasis on "security" rather than "sufficiency" has important implications on both orientation and rolling out of the new policy. It also needs to be made clear whether the subsidy is going to be a permanent or temporary feature and whether or not it will be kept at the same level and targeting the same group.

A major concern of the subsidy, however, relates to the timing of implementation given the late submission to Parliament of the budget estimates. This is critical given that it is not entirely clear how the new voucher system is going to be administered and the extent to which the supporting delivery systems have been developed. Farming decisions are also critically dependent on how the subsidy is going to be structured and administered

- Government will also increase investment in irrigation facilities around the country. A World Bank loan is expected to support this. Why the loan and what are the details?? Why are there decreases in allocation to irrigation development in the budget?
- Government also plans to import maize to address a shortfall in food as maize production has dropped by 515,800Mt from 1,983Mt in 2003. the budget does not seem to clearly show the budget line for this.

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8. Other sectors of growth

In line with government's economic strategies aimed at transforming the country, government has allocated resources to development expenditure to support activities of:

- Ministry of Information and Tourism (MK225 million)
- Ministry of Trade and Private Sector development (MK155m compared to MK4.3m
- Ministry of Industry, science and technology
- Ministry of Mines, Natural Resources and Environment (MK852m
- Ministry of Transport and Public Works

It is clamed that the budget is increasingly priotising economic sectors that would stimulate economic growth. This is line with the president's budget opening speech. However it is difficult to establish whether these are optimal levels for achieving the intended results in conformity with PSIP

10. Other observations on the budget

MPRSP and Pro-Poor expenditures

10.1 The concept of PPEs clearly needs to be revisited. The size of the budget allocated to PPE's is insignificant in comparison to the total budget. The amounts of Pro-poor expenditure though increased seem to be a very small proportion of the MPRSP resource envelope. There seems to be too many PPEs spread around the 4 MPRSP pillars resulting in too small (or insignificant) allocations. There might be need to review and streamline the number of and allocation to PPEs to ensure significant impact. Rather than isolating tiny expenditure items for spending protection, what is, perhaps, more fundamental is to reorient the entire expenditure budget towards pro-poor and economic growth spending. In a large measure, the current budget proposals meet this test. We therefore recommend that the principles of the PPE implementation be applied to the whole budget.

Table 4 below gives some insights.

Table 4: MPRSP Allocations and Pro-Poor Budgets for 2004 - 05 (MK million)

MPRS Pillar	item	MPRSP costing 04/05	PPE allocation 04/05	PPE/ MPRSP %	PPE allocation 03/04	PPE change %	Budget allocation 04/05	Allocation -MPRS %
	statutory	8,516.15					22,003.2	258.37
	statehood	2,236.58						
1	Pro-poor growth	9,331.92	2.71	0.03	1.56	173.92		
2	Human capital dev	17,188.92	10.36	0.06	10.15	102.07		
3	most vulnerable	2,307.96	2.50	0.11	0.54	462.82		
4	governance	3,952.77	0.68	0.02	0.28	238.78		
Cross-cutting		2,465.78						
M&E		270.00						
to be identified		4,000.00						
total		**35,516.90**						

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10.2 Analysis of the budget also shows that it is difficult to directly relate the MPRSP overall costings by Pillar with the voted expenditure in the budget as they do not directly tally and some elements may be appearing in different votes e.g. nutrition and food security appears both in agriculture and health. There might be need to code or summarise the budget expenditure votes by MPRSP classification.

10.3 On the other hand, the institutions created to safeguard democratic and economic governance and the rule of law, in general, function on extremely tight budgets. It seems prudent to extend, instead, funding protection to these institutions. In other words, make funding to these institutions PPEs!

10.4 The Government has consistently lacked disciplined implementation leadership to command compliance with existing rules. Regulations, laws and the Constitution itself are routinely ignored and violations rarely punished. In particular, the present practice of cash management system has been tantamount to a hidden second budget that is not accountable to Parliament and determined not by rational strategy but political influence behind the scenes. Some areas of spending are expanded greatly while others have been cut. Some cuts have had the effect of subverting key constitutional institutions of accountability including Parliament, the Ombudsman, the Auditor General, the Anti-Corruption Bureau, the Malawi Law Commission, the Malawi Human Rights commission and the Auditor General. The executive branch of government wields disproportionate power, which the other branches of government have been only marginally able to check and enables it (the executive) to get around or subvert parliamentary oversight.

11. Analysis of expenditure estimates

11.1 In terms of actual estimates of expenditure for different ministries and organization, the table below gives a summary analysis of some selected key votes in terms of total and recurrent expenditures as compared to 2003/04 fiscal year. Overall there is an increase in estimated expenditure both for statutory (10.22%) and voted expenditure (20.38%). Much of this change is due to recurrent expenditure which constitutes almost 69% of the total estimated expenditure in 2004/05. The objective of reduction in expenditure especially recurrent expenditure does not seem to manifest in this budget.

11.2 In terms of overall expenditure estimates, education, health and agriculture are the top three respectively. In general there has been an increase in total estimated expenditure for most of the votes with human rights, poverty & disaster, ACB, Agriculture and social development and disabilities being the top five in that order compared to last year. Table 5 below shows the top ten based on expenditure increases in this year's budget compared to last year.

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Table 5 Changes in expenditure allocations for selected votes

Budget Item	Sub-Item	MK Million 2004/05	MK Million 2003/04 (rev)	% change
Voted Expenditure	Human Rights Com	210.00	44.19	375.21
	Poverty & Disaster	103.00	32.72	214.81
	ACB	220.00	85.72	156.66
	Agriculture	7,096.50	3,141.98	125.86
	Social Dev & Disabilities	52.05	23.74	119.22
	Local Govt Fin Comm	526.50	269.07	95.68
	Trade & Private Sector	349.50	192.99	81.09
	Health	9,118.60	5,365.46	69.95
	Lands & Housing	1,991.50	1,241.53	60.41
	Min Of Justice	84.60	63.76	32.69

In terms of the three key sectors of agriculture, health and education, agriculture has received the highest increase of 125.8% compared to last year, seconded by health (70%) and education (12.63%).

Allocation of the Local government finance Committee has also been increased by 95% to cater for the district assembly budgets in line with the decentralization. However, the MPRSP monitoring team have expressed their concern on the usefulness of this committee since funding is channeled from treasury straight to the districts as such why create a ‘mini-treasury’ which just increase costs and bureaucracy.

The big increase in expenditure allocation of the Human Rights Commission is a welcome one as this contributes to promotion of good governance which is key to economic development. Other governance institutions which have registered increased estimates include Police, Anti-Corruption Bureau and Office of the DPP.

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12. Highlights of Other selected key expenditure votes

12.1 Ministry of Health

Table 6. Some selected ORT expenditures on Ministry of Health ('000)

Vote	item	2003/04	2004/05	comment
Health	Administration and support services	443,439	214,341	reduction
	Curative health services	1,440,963	1,888,421	Increase
	Preventive health services	357,020	79,372	reduction
	Infrastructure development, rehabilitation and maintenance	77,782	292,321	Increase
	Manpower development and institutional development	0	256,000	New??
	Population and clinical services	17,789	0	Removed. Why?
	Nutrition and food security	0	26,779	New? (How does this relate to one under Agriculture?
	Technical services	12,033	86,261	Increase

Development budget = 4,632,600 (donor = 4,313,100 & govt = 319,000)

The above table shows some selected expenditure items under Ministry of Health. Notable among these items are the reduction in expenditure under preventative health services and new allocations on manpower development and nutrition and food security. It has always been said that prevention is better than cure but this does not seem to be respected in this budget. It is recommendable that the Ministry of health has specific allocations for nutrition and food security as this has been a big outcry and a missing link between food security nutrition and health.

The low government contribution to the development budget is as is the case with other key sectors worrisome.

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12.2. Ministry of Agriculture

Table 7: Some selected ORT expenditures for Agriculture ('000)

Vote	Item	2003/04	2004/05	comment
agriculture	Administration and support services 1. tech coord. & investment program 2. pro-poor expenditure coordination	247,837 0 9,560	297365 2,251 16,632	Increase New? Increased (why?)
	Extension services 1. irrigation dev 2. irrigation mgt	480,932 162,062 5,377	357,404 65,595 9,816	Reduction Reduction increase
	Technology generation and development	89,591	485,610	increase
	Food security initiatives	104,002	0	removed
	Nutrition and food security	0	1,814,164	New?
	PPEs 1. PPE expenditure coordination 2. extension 3. nutrition and food security 3. research, tech generation and development	**1,621,409** 9,500,000 855,324 0 462,642	**2,304,533** 42,589 758,981 677,137 373,108	Increase Decrease Decrease New? decrease

Development = 1,745,000 (donor = 1,377,000 Govt = 368,000)
Development expenditure on Promotion of cotton from domestic funding: cotton council = 6,000; commercial cotton production = 110,000

Ministry of agriculture is handling one of the most important sectors of the economy. The table above shows remarkable decrease in expenditure for extension services and irrigation development both in overall budget and as PPEs. This could be considered as a problem area considering the importance accorded to these issues in the MPRSP.

The budget also shows some changes requiring more explanation especially on the difference between food security initiatives and nutrition and food security as well as support to commercial maize.

Commensurate with the government's objective of promoting cotton development, the budget contains some allocation to promote commercial cotton production and the formation of a cotton council. There is needed to get more details as to how the program is to be implemented as development expenditure.

We do not understand why Coordinating PPEs in agriculture (worthy MK 2 billion) should consume an entire MK16.632 million

12.3 National Roads Authority (NRA)

Rural infrastructure especially roads (rural, feeder roads) are a critical ingredient to rural development. NRA is responsible for coordinating this sector. Below are some of the highlights of the budget for NRA.

Table 8: some selected expenditures for National Roads Authority (NRA) '000

Vote	item	2003/04	2004/05	comment
NRA	ORT Infrastructure dev, rehabilitation and maintenance	1,579,250	1,630,000	Increase
	Development 1. donor 2. govt	2,910,215 2,000,000 910,215	4,154,565 3,265,617 798,948	Increase Increase Decrease

From the above table, there is general increase in allocation for NRA on ORT and development. However, the development component is heavily donor funded and it can be affected by uncertainties and problems of disbursement. Another worrisome issue is that, there is a reduction in government contribution to the development budget despite having a fuel levy to support that cause.

OTHER VOTES

Table 9 below provides more analysis of the budget from a number of key expenditure areas (votes) in comparison with last year and also comparing changes in recurrent expenditure between this year and last year.

12.4. The presidency under statutory expenditure has also been increased significantly by 32.86%. State residences expenditure has also been increased by 7.31% from last year. This seems to contradict the statements of cutting costs as also demonstrated by an increase in state residences vote. The increased state residences expenditure is indicated to also contain costs pertaining to the retirement of the former head of state (MK39, 497,000). No further details are given on this. How about the retirement of the vice president(s)? Furthermore, how does this allocation differ from, or relate to, the allocation in the Office of President and Cabinet?

12.5 There are some votes which have experienced reduction in their estimated expenditure as compared to last year. These include: EPD (71.6%), water (49.5%), unforeseen circumstances (34.76%), NIB (9.66%) and NSO (6.72%).

The reduction in budget of NSO is worrisome as the institution is the sole responsibility of all official statistics and information for appropriate decision making and policy formulation. In addition, NSO has been given new responsibilities such as crop estimates which require more resources.

The 49.5% reduction in water allocations is solely due to reduction in its development expenditure as the recurrent component has been increased by 47%. This raises serious

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questions as to why cut on development or capital expenditure when access to clean and safe water remains a big problem for most of the rural areas.

The allocation of unforeseen expenditure has also been reduced from 168.6 million last year to 110 million this year. There are no explanations given in the budget about these allocations especially in terms of how we used last year's allocation. This vote is based on the provisions of the Public Finance Management Act which provides a proposed appropriation on this vote not exceeding 2 percent of 'the total appropriation for outputs'. The act gives the responsibility to the minister to use these funds in exceptional circumstances but with approval by the Cabinet. The problem with this is that parliament (and other stakeholders) is not given chance to scrutinize and/or approve the use of these funds as such it is subject to abuse and manipulation by the executive and politicians.

12.6 Other details of expenditure allocations on some important votes are given in the table 6 below. These include the police, NIB, parliament, natural resources and environment, lands and housing and foreign affairs. All these have increased expenditure allocations this year compared to last year.

13. Conclusion

The budget presented has a lot of questions and issues to be considered and reviewed. This analysis has just isolated a few requiring consideration. Other sectoral stakeholders for sure will identify and analyze in more detail the budgets of different sectors of the economy.

Overall, the budget does not fully match with its stated objectives as it reflect increased expenditure, budget deficit, increased borrowing and increased recurrent expenditure at the expense of development expenditure. The development budget is also heavily conditional on donor funding which based on IMF program may not be realized. There may be need to review and realistically consolidate the budget to reflect the tough economic situations.

The success or performance of the budget apart from consideration of the budget allocations will also depend on the funding flows in terms of timeliness and adequacy for the cost centers. The system of financial allocation or funding flows has not been explained in the budget as such it may not be subjected to the necessary public or parliament's scrutiny. It s hoped that that the government will allocate the necessary resources to the key sectors for economic growth and poverty alleviation.

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Table 9 Summary Of Some Key Expenditure Items (MK Million))

Budget Item	Sub-Item	2004/05	2003/04 (rev)	2003/04 – 2004/05 % change	recurrent 04/05	recurrent 03/04	2003/04 - 2004/05 Recurrent change %	Recurrent vs Total 04/05 (%)	Recurrent vs Total 03/04 (%)
Statutory Expenditure	**Total**	**22,003.22**	**19,962.12**	**10.22**	**22,003.22**	**19,962.12**	**10.22**	**100.00**	**100.00**
	Presidency	9.00	6.77	32.86	9.00	6.77	32.86	100.00	100.00
	Public Debt Charges	19,280.00	18,139.93	6.28	19,280.00	18,139.93	6.28	100.00	100.00
Voted Expenditure	**Total**	**63,597.07**	**52,828.17**	**20.38**	**43,934.07**	**33,626.44**	**30.65**	**69.08**	**63.65**
	Education	10,683.61	9,485.49	12.63	7,904.51	7,379.78	7.11	73.99	77.80
	Health	9,118.60	5,365.46	69.95	4,829.00	3,591.43	34.46	52.96	66.94
	Agriculture	7,096.50	3,141.98	125.86	5,351.50	2,147.44	149.20	75.41	68.35
	NRA	4,171.50	3,294.52	26.62	1,482.00	0.00		35.53	0.00
	Foreign Affairs	2,102.00	1,801.60	16.67	2,062.00	1,801.60	14.45	98.10	100.00
	Lands & Housing	1,991.50	1,241.53	60.41	1,389.00	731.25	89.95	69.75	58.90
	Police	1,778.00	1,417.05	25.47	1,778.00	1,417.05	25.47	100.00	100.00
	Nat. Resource & Env	1,526.50	1,199.51	27.26	674.50	491.26	37.30	44.19	40.95
	Water	863.00	1,709.10	-49.51	173.00	117.32	47.46	20.05	6.86
	National Assembly	782.50	638.74	22.51	782.50	638.74	22.51	100.00	100.00
	Transport & Public Works	722.25	640.01	12.85	482.25	383.28	25.82	66.77	59.89

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	EP&D	568.30	2,002.67	-71.62	93.50	56.27	66.18	16.45	2.81
	Local Govt Fin Comm	526.50	269.07	95.68	526.50	269.07	95.68	100.00	100.00
	State Residences	505.00	470.59	7.31	405.00	470.59	-13.94	80.20	100.00
	Trade & Private Sector	349.50	192.99	81.09	194.50	188.73	3.05	55.65	97.79
	Labour & Voc Training	288.50	242.25	19.09	250.50	242.25	3.41	86.83	100.00
	ACB	220.00	85.72	156.66	140.00	85.72	63.33	63.64	100.00
	Human Rights	210.00	44.19	375.21	50.90	44.19	15.18	24.24	100.00
	Industry, Science & Tech	136.00			136.00				
	NIB	125.25	138.65	-9.66	125.25	138.65	-9.66	100.00	100.00
	Unforeseen Expenditure	110.00	168.60	-34.76	110.00	168.60	-34.76	100.00	100.00
	Poverty & Disaster	103.00	32.72	214.81	84.00	32.72	156.74	81.55	100.00
	Min Of Justice	84.60	63.76	32.69	84.60	63.76	32.69	100.00	100.00
	NSO	70.50	75.58	-6.72	70.50	75.58	-6.72	100.00	100.00
	Social Dev & Disabilities	52.05	23.74	119.22	52.05	23.74	119.22	100.00	100.00
	DPP	24.55	23.14	6.08	24.55	23.14	6.08	100.00	100.00
	Nat AIDS Com				0.00				

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