

NATIONAL ASSEMBLY



BUDGET AND FINANCE COMMITTEE

SUBMISSION OF REPORTS TO THE NATIONAL ASSEMBLY

1st APRIL 2004

1. Mr. Speaker, Sir and Honourable Members of the House, Please allow me to start my speech by greeting you all. Since we are meeting for the first time since the beginning of the year 2005, let me take this opportunity to salute you all and to wish you all a Happy New Year. All the Honourable Members of Budget and Finance Committee are very saddened by the demise of the late Honourable F.Aniva who, until his demise, was a very active member of the Committee. May his soul rest in peace.

2. I stand before the House in my capacity as Chairman of the Budget and Finance Committee to submit three reports prepared by the Committee. The first report submitted is the 2003/04 Pre-Budget Report dated 7th September, 2004. The second report is the 2004/05 Post-Budget Report dated 20th September 2004. As can be appreciated from the dates of the two reports, these are reports were supposed to be submitted to the House during the last sitting of the House which was the Budget Session. However, our Committee was not given the time to present these reports. The underlying problem was that this House proceeded in breach of **Standing Order No. 208 (3)** which reads:

“The Budget debate shall last for a period not less than 1 Calendar days and the Speaker shall preside over it.”

3 Mr Speaker Sir, there is one more thing that has not happened since the Budget was approved in October 2004. The Ministry of Finance is supposed to prepare and distribute copies of the “Approved Budget Documents”. I am sad to report to this House that our Committee has not yet received such documents. Instead, our Committee is compelled to use copies of the “Draft Estimates of the Budget” as presented by the Minister

in this House. This is a sad development and needs to be rectified as soon as possible. Moreover, the Budget Document No. 5 which provides details of the Budget down to cost centres has never been distributed to this House; even in its draft form. Mr Speaker Sir, procedures in the presentation of the Budget to the House need to be followed and respected.

4 Mr Speaker, Sir, our Committee is appointed pursuant to Section 56 (7) of the Constitution of Malawi. For our Committee to be useful, it is imperative that we be given the chances to undertake our oversight functions and to report to this House at the opportune time. It is disheartening to the Committee to know that some of the recommendations contained in the two reports may now be obsolete. Our Committee is convinced that a lot of things would have improved in the way the budget is implemented only if this House was given a chance to listen to some of the recommendations. Our Committee worked very hard to come up with these reports and it would be very gratifying to all the members if this House takes our recommendations seriously.

5. Mr Speaker Sir, I will still give a statement that summarises the major recommendations contained in the two reports; at least those that are still useful. In addition to the two reports, our Committee is also submitting a third report that emanated from the meetings that we had with the Minister of Finance and the Minister of Agriculture, Irrigation and Food security.

6. Mr Speaker Sir, when making his Budget Statement on 3rd September, 2004, the Minister of Finance said that the amount of arrears accumulated in the system was not known. Furthermore, he said that it would take more than a year to establish the amount of arrears. The

Committee was alarmed that the Ministry had no idea of the amount of arrears and that the exercise of auditing would take more than a year. Mr. Speaker Sir, the Committee has had two meetings with the Minister of Finance; the latest of which was held very recently on 29th March, 2005. The only encouraging thing that has happened is that the exercise of auditing all the ministries is said to have been finalised within a much shorter period than what the Minister thought. However, the most discouraging development is that arrears are now said to be around K10 billion. This is an alarming figure which has to be discussed in this House and the solution to be found urgently. The recommendation of the Budget and Finance Committee is that the Auditor General should finalise the report on arrears as soon as possible. As required by the Public Audit Act, the report should be submitted to the National Assembly. Once submitted, the Budget and Finance Committee will work hand-in-hand with the Public Accounts Committee to prepare a separate report to the House. In the past, repayment of some of the arrears was done by issuing government paper (Treasury Bills or Treasury Bonds). The Ministry of Finance should desist from that practice of securitisation of arrears until Parliament decides how to handle the arrears. The repayment of arrears of that magnitude was not included in the 2004/05 Approved Budget.

7. The information (fiscal tables) given to our Committee by the Ministry of Finance shows that there are no more arrears accumulating in the system in the present fiscal year. Such information may be erroneous and needs to be cross-checked. Indeed, the Minister of Finance explained that Malawi Embassies abroad have accumulated a lot of arrears emanating from unpaid utility bills. There is currently a big problem in the way Treasury is financing the different votes in the Budget. Treasury is in

the process of changing their methodology of funding from a system of monthly funding to that of quarterly funding. Controlling Officers are required to spend according to their priorities as indicated in the budget documents. However, the same funding is expected to carter for the payment of arrears. The whole system of prioritisation of expenditure is then disturbed because the payment of arrears is being done even though it may not necessarily be on the original list of priorities. In the past, the payment of such arrears was being done by the Accountant General's Department. However, that system has since been discontinued and individual controlling officers are paying the arrears from their meagre funding they receive from the Treasury. The Health Committee has information regarding the lack of adequate amounts of drugs that is brought about due to the payment of arrears some of which date as far back as five years ago. Our Committee recommends that Government should revert to the old system whereby the payment of arrears was done by the Accountant General. The recommended system encourages prudent financial management on the part of Controlling Officers. The payment of arrears is done by reducing the planned amount of funding by the amount of arrears to be paid. It does not translate into more expenditure on the part of the Treasury.

8. Mr Speaker Sir, members of the Budget and Finance Committee were very delighted to hear the presidential directive that suspended all the activities of the National Intelligence Bureau (NIB). Our Committee reached the same conclusion long before the presidential directive. NIB was a big drain on the budget for activities that remained dubious and difficult to monitor. However, salaries to the officers of NIB are being drawn for no work done. According to the Minister of Finance, he may

ask the House to spend even beyond the K80 million approved for personal emoluments of NIB. The suspension of the activities of NIB will be meaningless to the expenditures if the officers continue to draw their salaries and allowances as is the case at present. We therefore recommend that the restructuring of NIB be done with expediency and the officers who are being paid for doing nothing should be re-deployed elsewhere within the public service.

10. Mr Speaker Sir, we have some information regarding the funding for the refurbishment of the New State House. The Budget provided for K225 million but we are told that the whole activity needed an amount that was below K50 million. This is a very good surprise to the Committee. The Committee has no basis on which to disbelieve the figure of K50 million even though it looks to be on the lower side.

11. Mr Speaker Sir, the issue of the New State House naturally brings me to the issue of the construction of the New Parliament. The Budget and Finance Committee joins all Malawians in thanking the Republic of China for the timely present of offering to build the New Parliament Building for our country. A gesture like this goes with a lot of honour and dignity and solidifies our bilateral relationship with the people of the Republic of China. It is the understanding of the Committee that the Republic of China will fund the totality of the expenditures to be incurred for the construction of the New Parliament. Having said that, we are also aware that the 2004/05 Budget included some funding for the construction of the New Parliament. Our Committee will be very vigilant to see to it that the amount of money meant for the Parliament will not be squandered on other expenditures.

12. Mr Speaker Sir, our Committee received the budget out-turn for the first six months of the fiscal year through December 2004. The picture looked very good because total expenditure did not exceed the target that was agreed with the International Monetary Fund (IMF) in their programme. Actual expenditure for the period under review amounted to K40.3 billion, which is K5.3 billion less than the mid-year expenditure target of K45.6 billion. However, the Minister explained that the under-expenditure was mostly explained by the fact that most of the bills for the importation of fertilisers and other agricultural inputs will fall due during the second half of the financial year. Therefore, the under-expenditure may not be anything to write home about; at least for the time being. Mr Speaker Sir, the Committee noted that the fact that the Ministry of Finance may have spent less than planned should not necessarily be a matter over which Honourable Members of the House should rejoice. The under-expenditure would actually be a sad development if the Ministry of Finance is leaving a lot of activities not financed in order to be in good books with the IMF. The interest of the all of us in the House is to see to it that the public services that the budget is expected to provide are reaching the intended beneficiaries out there. It would indeed be futile to spend less money so as to please the IMF and secure a new programme with them if such a policy is at the expense of the poor people who do not get the public services they deserve.

13. The interesting development that is worthy noting, Mr Speaker Sir, is that out of all the government accounts; no vote has spent more than its allocation except for the Ministry of Information and Tourism. Reasons were given for the over-expenditure to say that the Ministry of Finance has decided to combine vote number 091 [Department of Information

Systems, Technology and Management Services] with vote number 330 [Ministry of information and Tourism]. Whatever the good reasons may be for having taken that decision, the Budget and Finance Committee is of the opinion that the Treasury should have consulted other branches of Government before taking such a decision.

14. Mr Speaker Sir, it is gratifying to learn that our cooperating partners have honoured their pledges for the disbursement of aid to Malawi. All BOP related-grants of K3.7 billion were received as at December 2004. The slack in disbursements was in project grants where the receipts of K3.7 billion were lower than the mid-year target of K6.2 billion. One of our recommendations in the post-budget report was calling on the cooperating partners to start disbursing aid to Malawi even before the end of the IMF Staff- Monitored Program. We sincerely thank the British Government (DfiD) for having released over K3 billion. Norway is the only other country that disbursed BOP Support and receives full acknowledgement and gratitude from our Committee.

15. Mr Speaker Sir, domestic revenue has over-performed by K2.9 billion. K1.99 billion of this amount will, with the permission of this House, be used for the over-run in salaries and gratuities which has arisen due to the fact that the effective rate of increase in salaries has been 40 percent instead of the 25 percent estimated in the budget.

16. Mr Speaker Sir, the decision to do away with the vote No.277, Special Activities is applauded by our Committee. The vote was indeed abused as a lot of extra-budgetary expenditures were channelled through it. The Mini-budget for the first quarter (July- September 2004) had provisions of K864.8 million for special activities. The Committee was informed that only K317.3 million was spent. Mr Speaker, Sir, the

immediate question we had was whether the balance from the K864.8 million would be carried forward but spent under other votes as vote 277 was defunct from October 2004. The question called for yet another question regarding how the items that used to be funded under *Special Activities* will now be funded after the closure of the vote. Mr Speaker Sir, it was suggested by the Ministry of Finance that the different items that used to appear under *Special Activities* would be transferred to their line ministries. For example, the maintenance of the presidential helicopters and jet would be transferred to the Malawi Defence Force [Vote No. 101]. Whereas some of these transfers may be acceptable, the suggestion to fund all ADMARC expenditures under the Ministry of Agriculture was rejected by the Committee on the grounds that such a move would inflate the accounts of the Ministry and would therefore send wrong messages. The Committee has learnt that transfers to ADMARC are done directly from the Ministry of Finance. The other recommendation that the Committee was that the balance from the allocation to *Special Activities* should not be spent on anything and that the balance of K547.5 million should go towards reducing the overall budget deficit.

17. In the Approved Budget all the activities on the Integrated Financial Management Information System [IFMIS] were under the portfolio of the vote number 091 and the decision to do away with that vote would create problems on the implementation of the installation of IFMIS in all government ministries. The Committee was informed that it was a mistake to have included IFMIS under vote 091 but that it should come under the Accountant General's Department. The Minister promised to rectify the problem to the satisfaction of our Committee which recommended the same in the Post-Budget Report.

18. Mr Speaker Sir, there is talk about redefining FIMTAP which is a World Bank-Funded Project meant to promote Financial Management Transparency and Accountability in Malawi. Mr Speaker Sir, the redefinition of the project is being done between the Ministry of Finance, OPC and the World Bank. Yet it is this August House that approved that project and yet they are not involving us in the redefinition of FIMTAP. It was intimated to our Committee by the Ministry of Finance that the redefinition has been necessitated by the fate of the retrenched Principal Secretaries. During our meeting with the Minister of Finance, he told us that the World Bank has given the Malawi Government a grant of \$5 million which will be used to pay terminal benefits of the retrenched PSs. The money to be used is from FIMTAP and that the World Bank has requested Government to redefine the project. Mr Speaker Sir, our Committee finds this type of arrangement to be unacceptable. What is most disgruntling is that the redefinition of FIMTAP will exclude the National Assembly as a beneficiary. Under FIMTAP the Public Accounts Committee and the Budget and Finance Committee were earmarked K26 million for their oversight functions. The Ministry of Economic Planning and Development (EPD) as well as the Office of the Auditor General are some of the probable casualties. Again, Mr Speaker Sir, this arrangement is unacceptable and any redefinition of FIMTAP should have the blessing of this House.

19. Mr Speaker Sir, the issue of fertiliser subsidy and the Targeted Input Programme (TIP) is a complex one. A lot of mistakes were made and the looming food insecurity in Malawi has a lot to do with the way these two programmes were handled. The first mistake was that provisions for the purchase of fertiliser and other agricultural inputs were

not included in the July-September mini-budget. Consequently, this delayed the procurement of agricultural inputs. It is said that the procurement started in October after the budget was approved. This miscalculation meant that the distribution of fertilisers to the beneficiaries was delayed to the detriment of the crops. The Ministry of Finance admitted their mistake of not including the provision for the purchase of fertiliser in the July- September mini-budget and promised to do better next time.

20. The second mistake, Mr Speaker Sir, was that the budgetary provision of K2.5 billion for both the Fertiliser Subsidy and TIP was allocated to the Accountant General's Department and not the Ministry of Agriculture which is the lead ministry in as far as implementation of such programmes is concerned. The Ministry of Agriculture is the one that handled all the TIP programmes in the past. The Ministry of Agriculture was, for political reasons, sidelined in the funding, logistics and the implementation of the TIP and the fertiliser subsidy; hence the bad execution of the programmes. The government bodies involved in the TIP and the Fertiliser Subsidy included the Department of Poverty and Disaster Preparedness, the Ministry of Finance, Accountant General's Department and the Ministry of Agriculture. However, there were no proper mechanisms of coordination between all these players. The poor management has a lot to do with the sorrowful state of the agricultural crops this year.

21. Mr Speaker Sir, it is obvious that there were some genuine reasons for the bad crop this year. For example, the damage on the Rivirivi River meant that trains could not cross over from Mozambique into Malawi. There were logistical problems in Mozambique emanating from the

elections that took place there. During that period the trains were used to ferry people to political rallies and no trains were available to carry fertilisers. The most compelling factor for the bad crop is the dry spell that hit our country. All these reasons are real but remain additional to the blunders that were made by the authorities.

22. Mr Speaker Sir, will remember that it was said in this very House that the Fertiliser Subsidy would be universal and that the subsidy scheme would be operated separately from the TIP programme. In the end, the fertiliser subsidy was not universal and nothing like a fertiliser subsidy ever existed. Our Committee was told that Government gave up on the idea of making the fertiliser subsidy universal because such a programme would require not less than \$7.5 billion to administer. Our budget would not have that amount of money to spend on that. The Government later realised that people were even too poor to afford the subsidised fertiliser at K1,400/ bag and opted to intensify the TIP programme instead. The British Government joined in and added K1.04 billion to be spent on TIP. The total figure spent on TIP is K4.2 billion because Government had to spend more due to higher fertiliser prices than anticipated. In the end, it is TIP that has been implemented and the programme of subsidised fertiliser, whereby people would be able to buy fertiliser at K1,400/ bag, has failed completely. Mr Speaker Sir, such a policy reversal has had a big negative impact on the agricultural production. Even private sector imports of fertiliser were disturbed and the impact will affect all the types of crops including export crops. Our Committee would have preferred Government to go back to the people to explain why it failed to do as promised. Mr Speaker Sir, the pressure was finally on honourable Members of Parliament to explain to their subjects.

23. We should all learn from the mistakes made this year in order to improve our planning for the coming planting season, Mr Speaker Sir. Our Committee produced a press release to tell Malawians about the current situation and that they should brace themselves for another year of food insecurity and that Government should already be preparing to import a lot of maize because of the looming hunger. Mr Speaker Sir, our Committee produced the press release after consultations with the Agriculture Committee. Mr Speaker Sir, our committee was ridiculed and called all sorts of names including “prophets of doom”. The so-called technocrats within the civil service said December was too early for us to make any reasonable estimates since the maize crop was just knee-high. Today, three months down the line, it is very clear that what our Committee predicted is true. Government is now sure that there is need to import maize again this year. Mr Speaker Sir, what is most disturbing is that the Government officers are waiting for the second round smallholder crop estimates and for the next IMF Mission before deciding on the importation of maize. We are saying that Government should start immediately to scout around for possible sources of maize. Experience has shown that importation of maize should be done before the hunger situation becomes alarming. The land-lockedness of our country complicates the logistics of bringing in imported maize. We are very sympathetic to the advice of the IMF but heaven knows that we do not need them to tell us how much maize we need to import! Why wait for the next IMF Mission then?

24. Mr Speaker Sir, let me tackle the difficult issue concerning the Malawi Rural Credit Scheme and the establishment of the Malawi Rural Development Fund. Mr Speaker Sir, our Committee has spent long hours

debating on the subject and we have had thorough discussions with the Minister of Finance on the same.

23. Mr Speaker Sir, Government announced that they would set up the Malawi rural Credit Scheme with an amount of K800 million. Later, the amount was increased to K1 billion. The seed money to be used for the credit scheme would come from dormant funds from blocked accounts within the Reserve Bank of Malawi (RBM). These funds have been lying idle either because the donor conditionality for the usage of the money was not met or that they were left-overs of donor –funded projects that expired. The Malawi Rural Development Fund (MRDF) is to be established at the Malawi Savings Bank which is the implementing agency. Micro-Finance Institutions (MFIs) would be the agents to apply for the funds from the MRFD administered by the MSB. The MFIs would be lending to individuals who are organised into groups. The interest rate to be charged on all loans will be 15 percent.

24. The Malawi Rural Development Fund is to be run by a Board of 7 members and that the Chairman of the Board, was already hand-picked in Mr Victor Mbewe who has since been appointed as Governor of the Reserve Bank. The Minister of Finance said that following the appointment of Mr Mbewe as Governor, Government will identify someone else to replace him. Our Committee was told that the Chief Executive of MRFD was already identified. The Fund will have three regional offices with 12 members of Staff. The Minister of Finance told our Committee that the National Insurance Company (NICO) was requested to insure all the loans to shield the capital money against default. Mr Speaker Sir, our Committee has the following observations regarding the Malawi Rural Credit Scheme.

25. The establishment of the credit scheme has been done by the State President and the Ministry of Finance without involving Parliamentarians. The Budget and Finance Committee strongly feels that the National Assembly should have been consulted in the design of the credit scheme. Furthermore, it is our opinion that the funds to be used for the scheme can be defined as *public money* the usage of which should be subjected to the Public Finance Management Act (PFMA). We recommend that the establishment of the credit scheme should be tabled in this House for discussion.

26. Mr Speaker Sir, the manner in which the Chairman of the Board and the Chief Executive were identified does not inspire the spirit of transparency and good practice in cooperate governance. Mr Speaker Sir, Government should be reminded that appointments to such high positions are subjected to the scrutiny and approval of the Public Appointments Committee of Parliament. Moreover, that Mr Victor Mbewe is still serving as Chairman of the Board and Governor of the Reserve Bank of Malawi opens the avenues of conflict of interest which the Minister of Finance should not have allowed to happen. Mr Speaker Sir, the only alternative is to let the interested party chose between the two positions as to which one he wants to serve but not both.

27. Mr Speaker Sir, our remarks should not be construed as if we are completely against the idea of the rural credit scheme. The idea is a very good one and that it will assist rural Malawians to access credit. As we all know, currently, it is difficult for the rural people to get credit from the formal financial institutions. What the Committee is against is the way the whole scheme has been handled and the arrogance of the executive to sideline the legislature in the setting up of the scheme.

28. Mr Speaker Sir, the Committee wishes to make sure that the public money, once lent out will be repaid back by the beneficiaries. Such schemes set up by Government have often been misconceived as hand-outs and the clients do not feel very obliged to repay the loans. The examples of DEMATT and SEDOM are still fresh in our minds whereby politicians abused the credit facilities and that the loans contracted have not yet been repaid up to the present day.

29. Mr Speaker Sir, I cannot finish my statement without congratulating the Minister of Finance for instilling some sense of discipline in the way the budget is implemented. It is the first time in a decade that ministries and government departments get to the mid-year without over-expenditures in their respective votes. Our Committee is aware of some Ministries which were chronic over-spenders like the Ministry of Foreign Affairs and State Residences. It is gratifying to see that they are now living within their means. We encourage the Minister to continue instilling principles of prudent financial management. Mr Speaker Sir, let me take this opportunity to warn all the Controlling Officers that the Budget and Finance Committee will not hesitate apply the provisions of the Public Finance Management Act by punishing those officers who overspend. We should all be reminded that it is unlawful to spend any public money which is not appropriated for.

30. Let me finish by thanking the Honourable members of the Budget and Finance Committee for their hard work which culminated into the production of the three reports that we have submitted to the House. I, as Chairman of the Committee have confirmed that it is indeed possible to work beyond the strains of our political divides in the interest of our Mother Malawi. I thank you Mr Speaker Sir, Honourable Members for your attention.

Thank you.