

Analysis of the Proposed 2005/2006 Malawi National Budget

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By

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Promoting Participatory Economic Governance in Malawi

1. INTRODUCTION

The 2005/06 Budget Analysis report is prepared by MEJN to help the civil society, parliamentary committees and other stakeholders to understand the budget as was tabled in Parliament on 10th June 2005. It gives a quick synopsis of the 2005/06 Budget as well as bringing out the salient issues from the 2004/05 Budget. Recommendations from this report will be submitted to the Budget and Finance Committee for inclusion in their submission to the National Assembly and other members of Parliament. This approach assures us that the contributions from the civil society will contribute to the debate on the Budget in the National Assembly. The report will also be made available to members of the civil society, government officials and donors.

2. BACKGROUND

The first three-year Malawi Poverty Reduction Strategy Paper (MPRS) expired in the 2004/05 financial year. The second generation MPRS is still in the making and it is not certain whether it will be called MPRSP or something else. The 2005/06 Budget is therefore the first one presented without the backing of the MPRSP. However, the budget is said to have taken into consideration elements of the MPRS through the Malawi Economic Growth Strategy (MEGS), which is an offshoot of the MPRS. The immediate consequence of this is that all the Protected Pro-poor Expenditures (PPE) that used to fall under Pillar 3 “improving the quality of the most vulnerable” have been discontinued. The two PPEs under this Pillar were the “Safety Nets MASAF” and the Targeted Input Programme (TIP). The Presidential Budget Speech categorically specified that Government and Malawi’s developing partners have decided to discontinue the practice of providing free distribution of inputs. The move is towards subsidising the inputs instead of giving free handouts.

However, the principle of protecting some pro-poor expenditure seems to have come to stay since some of the PPEs are still there in the 2005/06 Budget. It is to

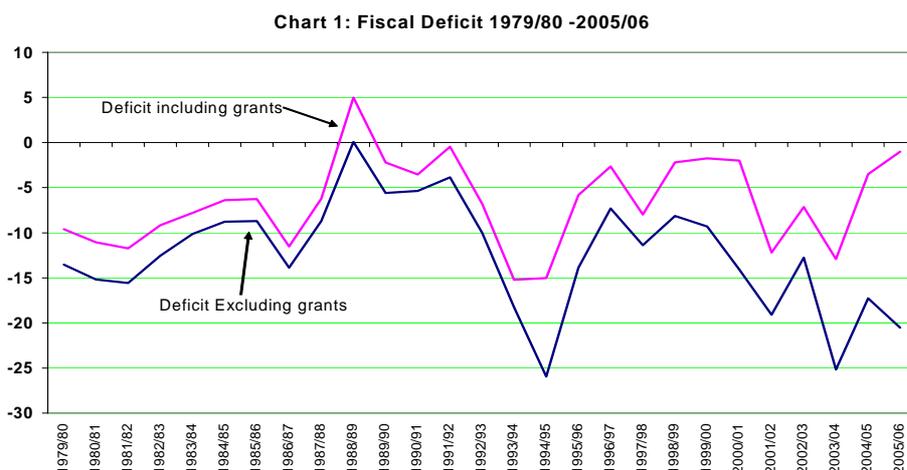
be assumed therefore that for all the other budgetary allocations the same principles embedded in the MPRSP and the MEGS still apply.

3. REVIEW OF 2004/05 NATIONAL BUDGET

3.1 OVERALL DEFICIT

The outturn for the 2004/05 Overall Budget could be said to be one of the best in as far as the levels of the overall deficit are concerned. Overall deficit (including grants) has improved from -12.9 % of GDP in 2003/04 to a mere -3.5% of GDP in 2004/05. This good performance in terms of the reduced overall deficit is the best since 2000/01 when the overall deficit was only -2.2% of GDP. In fact, the actual overall deficit of K7.86 billion is less than the K8.8 billion envisaged in the approved budget.

It should be noted that in terms of the budget deficit excluding grants, the worst performance was in 1994/95 with a deficit of -25.94% of GDP and in 2003/04 with a deficit of -25.14% of GDP, coinciding with the periods of presidential and general elections. It goes without saying that Government expenditure during elections always goes beyond the projected amounts. As one observer said that democracy is not cheap, it still begs the question as to know whether all the expenses towards elections can be justified.



- While the overall deficit may show an improvement in the fiscal performance in 2004/05, the question that is more pertinent is to know whether the quality of expenditure has been as good.
- Furthermore, has the apparent fiscal discipline not denied the Malawian population essential services that were not provided by government in the name of fiscal prudence? The answer to this question is definitely yes. It will be shown below that the expenditure on PPEs was below what was envisaged in the original budget because the allocations were revised downwards.
 - To give concrete examples from the expected outputs in the Ministry of Agriculture; it was expected that in 2004/05 9,800 farmers would benefit from the Rural Income Generation Project, but instead, only 6,850 farmers actually benefited. Under the same Ministry, extension services targeted 194 849 hectares under which soil fertility technologies would be applied. However, only 80,264 hectares actually benefited.
 - **These examples drive the point that spending less money should not always be applauded because it could be at the expense of important outputs, which were not undertaken.**

3.2 TOTAL REVENUE AND GRANTS FOR 2004/05

Total revenues and grants of K84.0 billion were 3.6% higher than the approved budget of K81.1 billion. As a proportion of GDP, the revenue and grants for 2004/05 are 38% of GDP; setting a record that was never attained before in Malawi. Domestic revenue of K53.7 billion was 3.7% higher than the approved sum of K51.8 billion. The good performance emanated from tax revenue which registered K 3.1 billion more than the target of K44.6 billion.

- **Non-tax revenue** of K5.95 billion realised fell short of the K7.13 billion approved target. The biggest underperformance arose from the proceeds from the sale of maize. The commercial maize that was being sold by ADMARC was expected to yield K2.16 billion, which was supposed to be deposited into a special account in the Reserve Bank

of Malawi. According to the budget documents, only K63.9 million was realised from the sales.

RECOMMENDATION 1

The proceeds from the sale of maize were budgeted at K2.16 billion. The Ministry of Finance needs to explain why only K63.9 million was realised. **Was ADMARC really depositing all the proceeds into the special account at the Reserve Bank of Malawi?**

- The non-tax revenue that over-performed was that of **Safety Nets Levy** on fuel. Instead of the K1.0 billion budgeted for, actual receipts realised amounted to K1.95 billion or 95 percent more than the target. Civil society organisations and the private sector in Malawi have all been crying foul on why they are heavily levied for a levy that was originally intended to finance a PPE called Safety-Nets-MASAF when the proceeds do not get to the intended destination.

RECOMMENDATION 2

Safety Nets levy is still being imposed on fuel in Malawi. The proceeds from the levy were not being sent to MASAF as intended.

- **How were the proceeds being used?**
- **Now that the PPE called Safety Nets MASAF is no longer there in the 2005/06 budget, will the fuel levy now be removed?**

- What is remarkable with the **performance in grants** is the fact that actual receipts exceeded the target notwithstanding the fact that Malawi still does not yet have a new PRGF programme with the International Monetary Fund (IMF). Coming from a background whereby the IMF and other bilateral donors had frozen their balance-of

– payment (BOP) assistance to Malawi, it can only be gratifying that some bilateral donors like the British Government and the Norwegians resumed the disbursement of aid to Malawi without waiting for the IMF to raise the flag. It should be mentioned that the donors were encouraged by the performance of the government and the policy direction taken to achieve macroeconomic stability. Malawi is under a Staff- Monitored Programme (SMP) that is likely to culminate into the signing of a new PRGF with the IMF in July or later.

- In the budget documents, the sources of project grants were indicated except for K2.495 billion marked as “others”. It would be embarrassing for the donors (whosoever they are) to be listed under “others”.

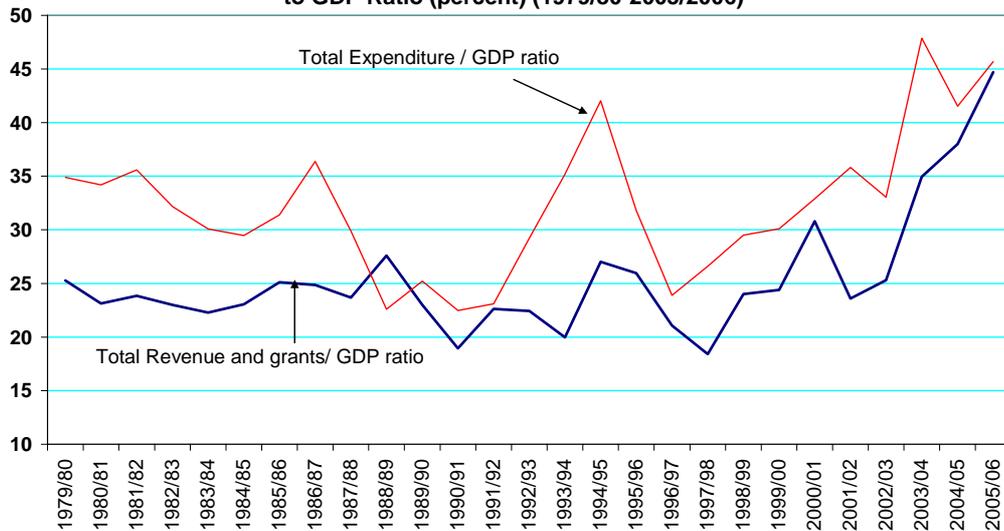
RECOMMENDATION 3

The Ministry of Finance should explain the origin of the project funds totalling K2.5 billion listed as coming from “others”. **If this is from the Japanese Debt Relief then it should be said so.**

3.3 TOTAL EXPENDITURE FOR 2004/05

Total expenditure for the 2004/05 financial year was K91.9 billion, up from the K79.6 billion of 2003/04. The outturn of K91.9 billion is K2.0 billion more than the approved budget of K89.9 billion. As a percentage of GDP, the K91.9 billion represents 41.5% of GDP, which is reduction from the all-time high of 48% of GDP reached in 2003/04. Chart 2 below graphs the trend in the total expenditure as a percentage of GDP and compares with the trend in total revenue and grants.

Chart 2: Total Revenue and Grants and Total Expenditure to GDP Ratio (percent) (1979/80-2005/2006)



- The narrowing up of the gap between the two graphs in the chart is a good development indicating the bridging of the deficit. However, the bridging of the deficit is mostly contributed by foreign inflows and not from domestic revenue. The primary budget deficit is therefore not improving and levels of dependency on foreign inflows are actually reaching very worrisome levels.

RECOMMENDATION 4

The Ministry of Finance should explain the reasons behind the over-expenditure in the three items of fertiliser subsidy, arrears and presidential portraits. Implementation of the fertiliser subsidy started late, which means it, did not benefit as many people as anticipated. How come the total expenditure was more than anticipated?

For the presidential portraits it is said that the 2004/05 budget overlooked the budget item and that K94 million was spent for the first lot of portraits. How much was spent for the second lot of portraits and which vote was debited?

- Foreign financed development budget constitutes 86.5 percent of the total development budget and total grants account for 56.5 percent of domestic revenue. Such levels of dependency are unprecedented.

Over-Expenditure

- The K2.0 billion **over-expenditure** in 2004/05 is explained mostly

by the extra K800 million spent on the fertiliser subsidy bringing the total to K3.3 billion instead of the budgeted K2.5 billion; K500 million more spent for the payment of arrears and another amount for the production of presidential portraits.

- The civil society thinks that to spend K94 million just for the production of presidential portraits lacks credibility and to spend the same amount twice is tantamount to lack of seriousness on the part of government. The total of K180 million could better be spent on other more valuable pro-poor expenditure. The reasons

RECOMMENDATION 5

The Ministry of Finance should explain how wages and salaries spent 11.8 percent beyond the budgeted amount.

- There are some civil servants (senior) who opted to resign from the civil service because their salaries were going to be less than before. **Can the Ministry explain?**
- **Are the wages and salaries for NIB staff still being paid (under OPC)?**
- **When will the NIB personnel be redeployed? Will NIB resuscitate through the OPC or POLICE?**

for re-reproducing the presidential portraits do not suffice to justify the expenditure of such a huge sum of money.

- Wages and salaries spent K17.1 billion instead of K15.3 billion that was approved. The 11.8 percent overrun in the expenditure category of wages and salaries is said to have emanated from the fact that the general salary increase that civil servants got was more than the 25 percent that was envisaged. The Budget Statement said that all civil servants are now receiving salaries that are higher than what they were receiving before October 2004. Yet we know of some civil servants who opted to move out of civil service because the rationalisation process was going to see them worse off than they were. This included top officials whose departure is a loss to the civil service.
- The other reason why the budget for wages and salaries overshot was that the members of the suspended National Intelligence Bureau (NIB) were still receiving their salaries well beyond the announcement of their

suspension. What was interesting is that the revised budget provided more allocation to the NIB vote of personal emoluments. The Minister of Finance should explain the fate of the NIB officers and the possibility of their being re-deployed or posted elsewhere within the civil service.

- Vote number 275 is named “Subventions” and the subvented organisations are listed in the budget documents. In 2004/05 K3.59 billion was actually spent under this vote instead of the K3.41 billion that was approved. It is intriguing that on top of the subventions under vote 275, there are other votes that have a budget line called “grants

and subventions”. For example Vote 90 “Office of the President and Cabinet” has this type of budget line (in both the recurrent and in the development budgets), which, in 2004/05 had a total of K158 million allocated to it. **It does not make much sense not to include these subventions under OPC in vote 275 in order to have a wholesome figure for subventions.**

RECOMMENDATION 6

- The budget line of “grants and subventions” under the OPC should be relinquished and the amounts allocated should go to vote number 275 called “subventions”.
- The grants and subventions worthy K158 million made by the OPC should be made known and the beneficiaries properly identified.
- In any event, budgetary resources shall not be used for politicking or campaigning unless the amounts are appropriated expressly for that purpose. The practice of Presidents giving gifts or “subventions” during political rallies breeds fiscal indiscipline in the country.

3.4 PERFORMANCE OF PROTECTED PRO-POOR EXPENDITURES [PPEs] IN 2004/05

The principle of prioritising some expenditure to be called Protected Pro-poor expenditures (PPEs) was agreed upon by all MPRS stakeholders. In the event of a shortfall in resources to the budget, these expenditures are protected from ensuing expenditure cuts. The budget documents have special sections that

look at the performance of PPEs since their importance is central to the MPRS process.

- For the 2004/05 the list of PPEs drawn missed out some PPEs, which used to be on that list in the past. These include small-scale irrigation, teachers' salaries and health workers' salaries, Safety Nets MASAF. No explanation was given as to why these PPEs were left out. Instead, other new PPEs were added onto the list. These included "Youth Development Services" and "Food Security Initiatives". The executive arm of Government did the inclusion of these PPEs unilaterally without prior consultations with the legislature, civil society, private sector and all the other MPRS stakeholders defeating the very nature of the MPRS process, which is consultative. It is not even very clear what the two new PPEs were supposed to address because the nomenclature remains very ambiguous. **One cannot tell what the exact activities to be financed under "youth development services" would be. In fact, some quarters within the civil society were of the opinion that the PPE was brought about in order to finance the activities of "Young Democrats".**
- The non-inclusion of Safety Nets MASAF was not surprising because the money collected from the fuel levy meant to finance the PPE was never remitted to MASAF. **What is surprising is that the safety nets fuel levy is still being imposed on the pump price.** [see recommendation 2 above].
- When the 2004/05 draft estimates were presented in the house, the proposed expenditure on PPEs was K16.247 billion. During the budget debate, the House did not discuss anything towards suggesting a reduction in the allocations to PPEs. It was surprising that when the approved budget documents were printed, the total allocation to PPEs was reduced to K14.86 billion; a K1.4 billion reduction in the process.

RECOMMENDATION 7

The Ministry of Finance should explain why the total amount allocated to PPEs was reduced from K16.247 billion indicated in the draft estimates to the K14.86 billion as indicated in the 2004/05 approved budget documents and in the 2005/06 draft estimates.

Table 1.1 has 2004/05 allocations to PPEs as well as the MPRS costing for some selected PPEs. Take Agriculture Extension, for example; the MPRS costing for 2004/05 envisaged an allocation of K813.45 million but the draft estimates showed an allocation of K758.9 million whereas the actual provision was only K733.0 million. Another striking example is that of rural feeder roads

RECOMMENDATION 8

The Ministry of Finance should explain why the allocation to the PPE of rural feeder roads is only K20 million when the collections from the road levy were K1.3 billion. The primary aim for imposing a road levy on fuel was for the proceeds to be used to finance the maintenance and construction of rural feeder roads. **If the money is not used for that, what is the money being used for?**

The allocation for Food Security Initiatives, which according to the draft estimates was at K677.137 million was reduced to K278.915 million in the approved documents. However, it has been said that government has spent K1.515 billion for the importation of maize. Our understanding is that the importation of maize would fall into the "Food Security Initiatives" category.

RECOMMENDATION 9

The Ministry of Finance should explain what activities are categorised as Food Security Initiatives and why the importation of maize is not one of those activities.

Table 1.1 Protected Pro-Poor Expenditures for 2004/05 and 2005/06 (K' Million)

Pillar/Sector/Activity	Revised	MPRSP	Draft Estimates	Provision	REVISED	Draft	% growth
	2003/04	2004/05	2004/05	2004/2005	2004/2005	2005/2006	(nominal)
Column Number	8	9	10	11			
Pillar 1: Pro-Poor Growth	1,558,816.61		2,711,036.71				
Agriculture	1,017,432.88		1,809,136.00	1,401,681.00	1,392,983.00	1,615,318.00	15.96
Agriculture Extension	824,591.8	813.45	758,891.0	733,047.00	738,798.00	1,035,832.00	40.21
Small Scale Irrigation	192,841.1	194.04	-				
Food Security Initiatives	134,924.1		677,137.0	278,915.00	278,915.00	263,227.00	-5.62
Research	25,365.8		373,108.0	8,698.00			
Water	126,256.2		61,886.7	49,337.00	49,337.00	51,077.00	3.53
Rural Water Supplies	28,193.6	1076.64	15,846.6	34,786.00	34,786.00	36,525.00	5.00
Borehole /Dam Construction & Rehabilitation	98,062.5		46,040.1	14,551.00	14,551.00	14,551.00	0.00
National Roads Authority	78,000.0		518,700.0	20,000.00	20,000.00		
Rural Feeder Roads	78,000.0	1259.02	518,700.0	20,000.00			
Natural Resources	101,110.2		106,649.2	110,381.00	110,381.00	114,383.00	3.63
Small Scale mining	65,681.9	33.38	60,000.0	44,336.00	44,336.00	44,336.00	0.00
Small Scale fish farming	35,428.3	194.86	46,649.2	66,045.00	66,045.00	70,047.00	6.06
Trade and Private Sector Development				70,760.0	70,760.00	81,284.00	14.87
Industrial Development				16,024.0	16,024.00	18,500.00	15.45
Enterprises Development				29,145.0	29,145.00	35,265.00	21.00
Cooperatives Development				25,591.0	25,591.00	27,519.00	7.53
Youth, Sports and Culture	28,534.0		29,373.0	29,373.0	29,373.0	32,125.0	9.37
Youth Development Services	28,534.0		29,373.0	29,373.0	29,373.0	32,125.0	9.37
Commerce	135,753.4		29,549.8				
Small and Medium Enterprise Promotion	135,753.4	171	29,549.8				
Tourism	100,264.0		185,115.1	130,674.00	130,674.00	182,010.00	39.29
Tourism Services	42,869.4	172.5	85,733.6	46,376.00	46,376.00	44,066.00	-4.98
Conservation and Protection of Wildlife	57,394.6	110.4	99,381.5	84,298.00	84,298.00	137,944.00	63.64

Source: Ministry of Finance, Budget Documents

Under Pillar 2: Human Capital Development, there are some PPEs that were left out as well. Teachers' salaries which were indicated as a PPE with an allocation of K4.661 billion in the 2004/05 draft estimates no longer appears as a PPE in the approved budget documents nor does it appear in the 2005/06 budget. Delays in the payment of teachers salaries is a big concern to the education sector and the inclusion of the salaries as a PPE would go a long way towards resolving the existing problem. The same is true for Health workers' salaries which were originally classified as a PPE but no longer appear as such in the 2004/05 budget.

RECOMMENDATION 9

Teachers' salaries and health workers' salaries should be reinstated on the list of PPEs. The removal of activities from the PPE list should be done consultatively

Table 1.2 Protected Pro-Poor Expenditures for 2004/05 and 2005/06 (K' Million)

Pillar/Sector/Activity	Revised	MPRS	Draft Estimates	Provision	REVISED	Draft	% growth
	2003/04	2004/05	2004/05	11	2004/05	Estimates	(nominal)
Column Number	1	9	10	11			
Pillar 2: Human Capital Development	10,149,121.8	17,188.3	10,358,971.1				
Education	6,687,944.7	10,782.6	6,174.0	8,562,475.0	8,562,475.0	9,158,659.0	6.96
Primary Education	4,663,509.9	7,454.8	5,145,289.2	6,174,332.0	6,174,332.0	6,466,844.0	4.74
<i>Teaching and Learning Materials</i>	847,918.7		483,429.2	372,000.0	372,000.0	1,770,301.0	375.89
<i>Teachers' salaries</i>	3,815,591.2		4,661,860.0				
<i>Inspectorate</i>							
Secondary Education	1,690,945.7	2,777.9	1,117,912.2	1,996,537.0	1,996,537.0	2,420,648.0	21.24
<i>Teaching and Learning Materials</i>	780,404.5		159,748.6	243,091.0	243,091.0	243,000.0	-0.04
<i>Teachers' salaries</i>	910,541.2		958,163.6				
<i>Tertiary</i>							
Teacher Training (Primary Level)							
Teacher Training (Secondary Level)	295,619.7		194,541.3	398,606.0	398,606.0	271,167.0	-31.97
Teachers Houses [Development Account]	37,869.4		80,000.0	2,000.0	2,000.0		
Health	3,151,654.1	5,663.2	3,608,855.0	3,531,609.0	3,531,609.0	5,772,830.0	63.46
Primary Health Care							
Preventive Health Care	709376.33		100,754.0	122695	122,695.0	424,565.0	246.03
Secondary Curative Care							
Health Workers' Training	148,784.7		1,500,000.0	256,000.0	256,000.0	500,000.0	95.31
Curative Health Services	906,715.2		936,589.0	905,749.0	905,749.0	1,574,447.0	73.83
Health Technical Services			510,724.0	612,389.0	612,389.0	723,741.0	18.18
Health infrastructure Devp. & Rehabilitation	104,825.5		304,788.0	125,697.0	125,697.0	750,077.0	496.73
Drugs	1,260,075.0		256,000.0	1,500,000.0	1,500,000.0	1,800,000.0	20.00

Source: Ministry of Finance, Budget Documents

Table 1.3 Protected Pro-Poor Expenditures for 2004/05 and 2005/06 (K' Million)

Pillar/Sector/Activity	Revised	MPRSP	Draft Estimates	Provision	Provision	Draft	% growth
	2003/04	2004/05	2004/05	2004/2005	2004/2005	Estimates	(nominal)
Column Number	1			11	12	13	
Gender, Youth & Community Services	112,474.6		69,498.3	91,024.00	91,024.00	61,854.00	-32.05
Family Welfare Services	37,505.5		-	22,581.0	22,581.0	11,010.0	-51.24
Children Services	10,695.8		5,953.5	8,333.0	8,333.0	664.0	-92.03
Adult Literacy Education	55,293.1	266.7	57,718.4	60,110.0	60,110.0	50,180.0	-16.52
Youth Sports and Culture				29,373.0	29,373.0	32,125.0	9.37
Youth Development				29,373.0	29,373.0	32,125.0	9.37
Labour				243,166.00	243,166.00	275,262.00	13.20
Technical and Vocational Training		567.5	113,502.1	243,166.00	243,166.00	275,262.00	13.20
Pillar 3: Improving the Quality of Life for the most Vulnerable							
Targeted Inputs Programme		885.5	2,500,000.0				
Safety-Nets - MASAF		433.6					
Extended TIP							
Pillar 4: Good Governance		3,952.8					
Police			677,060.0	653,093.0	653,093.0		
Community Policing			347,982.0	152,367.0	152,367.0	169,909.0	11.51
Crime Prevention and Investigation			80,670.0	282,832.0	282,832.0	850,786.0	200.81
Police Officers Training			248,408.0	217,894.0	217,894.0	407,297.0	86.92
Anti-Corruption Bureau						114,334.00	
Ombudsman						18,431.00	
TOTAL				14,864,875.00	14,864,875.00	18,543,929.00	

Sources: Ministry of Finance, Budget Documents

3.5 OVERDRAWN VOTES AND THOSE THAT WERE UNDER-FUNDED.

One positive development that has occurred during the 2004/05 financial year is the apparent improvement in fiscal discipline among controlling officers. The number of overdrawn accounts is much less than usual. The annex tables

analyse the over-expenditure as well as under-expenditure for individual votes. The following list highlights those accounts that have been out of the way in over-expenditure.

Table 2: OVERDRAWN ACCOUNTS IN 2004/05

Vote No.	Name of Vote	Approved (K'Million)	Revised (K' Million)	% Over-expenditure
271	Accountant General Dept.	K 2,732.0	K 4,548.4	66.5
330	Ministry of Information and Tourism	K 441.4	K 605.5	37.2
341	POLICE	K 1,778.0	K 2,066.8	16.2
400	Ministry of Transport	K 722.2	K 806.5	11.7
97	Public Service Commission	K 26.6	K 33.5	25.9

The most serious over-expenditure is by the Accountant General's Department, which spent K1.816 billion more than the allocated amount. The over-expenditure is in ORT. This needs to be explained by the Ministry of Finance.

The Ministry of Information and Tourism spent K164 million more than allocated. Part of the explanation is that vote No. 91 named "Department of Information Systems and Technology Management Services", under OPC was relinquished and was merged with the Ministry of Information. It is said that presidential portraits were not budgeted for in the 2004/05 budget. The first lot of portraits cost K94 million and the decision to have the portraits redone must have cost even more. The Ministry of Finance needs to explain the over-expenditure.

RECOMMENDATION 10

The Ministry of Finance needs to explain the over-expenditures in all the accounts that over-spent. Where the over-expenditure was deliberate or can not be properly accounted for, the provisions of the Public Finance Management Act must apply to punish the Controlling Officers involved.

3.6 UNDER-FUNDED VOTES

Some votes spent less than the approved amounts because they were either under-funded or their allocations were revised downwards. Table 3 shows the accounts that spent less than the approved amounts. A thorough analysis of the reasons for their under-performance should be investigated and analysed. The reasons could range from simple under-funding of the accounts by the Treasury to lack of absorptive capacity within the institutions. Where the problems of absorptive capacity are preponderant, it would give an indication of the maximum amount of funds that such votes can be allocated.

Table 3: VOTES THAT SPENT LESS THAN THE APPROVED ALLOCATIONS

Vote No.	Name of Vote	Approved (K'Million)	Revised (K' Million)	% Over-expenditure
99	Public Procurement Office	K 61.2	K 30.94	-49.4
570	Ministry of Industry, Science & Technology	K 136.0	K 74.36	-45.3
240	Office of the First Vice-President	K 110.75	K 79.91	-27.8
100	Ministry of Defence	K 124.8	K 93.4	-25.2

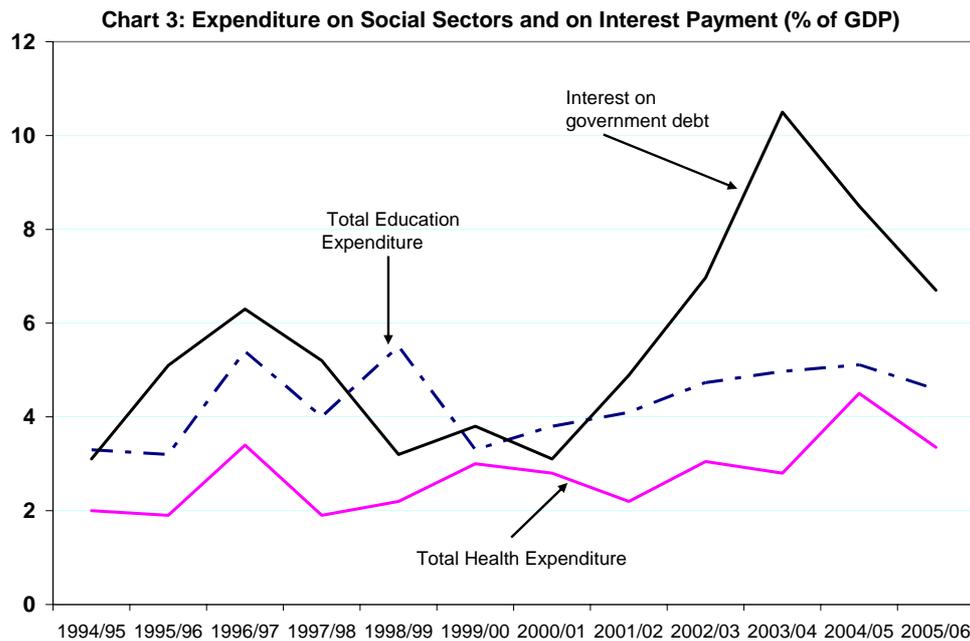
190	Ministry of Agriculture	K 7,096.0	K 6,050.5	-14.7
130	Lands, Housing, Physical Planning and Survey	K 2,091.5	K1, 834.8	-12.3
260	Foreign Affairs	K2, 102.0	K1, 947.4	-7.4
60	National Audit Office	K 64.0	K 56.7	-11.4
200	Ministry responsible for People with Disabilities	K 52.0	K 41.9	-19.4

RECOMMENDATION 11

Reasons for the under-performance of the votes that spent less than the approved amounts should be explained and proper analysis of their absorptive capacity should be studied. The results would enable the next budget not to allocate more funds than the votes can absorb.

3.7

The levels of Government debt are still unsustainable for Malawi. Domestic debt stock still stands at a high of K61 billion after government repaid K2.0 billion during the 2004/05 financial year. External debt stands at 151.4 percent of GDP and domestic debt at 27.6 percent of GDP. In 2004/05, the budget spent K18.75 billion on servicing the debt. Debt service alone consumed 8.5 % of GDP; way beyond the expenditure incurred in the social sectors put together. Chart 3 plots the expenditure on interest on government debt as compared to total expenditure on education and on health, as a percentage of GDP.



It is very disheartening to hear that Malawi is not among the first countries to benefit from the initiative of the G8 to cancel debt of HIPC countries. The Government has to take the blame for failing to reach the completion point in the HIPC initiative. Malawi will therefore be paying external debt when other countries have already been forgiven including out immediate neighbours, Zambia and Tanzania.

3.8 MISCELLANEOUS EXPENDITURE

The press is rife with stories of expenditure that is not well accounted for. The ordering of presidential limousines and the purchase of a very expensive car by the Minister of Agriculture are examples of such expenditures that make the civil society, donors and everybody else very uncomfortable. Parliament has to be commended for instructing that the plans to purchase the top of the range Mercedes-Benz Maybach 62 and two other vehicles be shelved for the time being. **This report recommends that there should be standing orders as to how ordering of presidential cars should be done in order to avoid extravagance.**

RECOMMENDATION 12

The purchase of presidential limousines and the purchase of the BMW for the Minister of Agriculture should be investigated and reported to the House during the budget session.

3.9 AFTERMATH OF SPECIAL ACTIVITIES

- The mini-budget that was presented in the House to cover the first quarter of the financial year 2004/05 had a provision of K864.8 million under the defunct vote 277 called Special Activities. Information obtained from the Ministry of Finance indicated that at the time the vote was abolished, actual expenditure under the vote was only K317,384,222.00.
- The Minister should explain how he handled the balance from the provision. There are *bona fide* payments that used to fall under the Special Activities vote. These are expenditures such as subscriptions to international organisations like the UN, SADC and the African Union to which Malawi is a member country. There were other expenditures such as the payment of arrears and transfers to ADMARC for salaries of the members of staff. **How were all these payments handled after the abolition of vote 277.**

RECOMMENDATION 13

The Ministry of Finance should explain what happened to the balances of the provisions from the defunct vote 277 Special Activities.

- How were the *bona fide* payments made under the vote handled after the dissolution of the vote.
- Were such payments not simply transferred to the Accountant General thereby explaining the over-expenditure in that vote?

3.10 ARREARS

The accumulation of arrears amounting to K10.3 billion is a clear indication of lack of fiscal discipline on the part of the previous government.

- Malawians should just make sure that such a nightmare never happens again because the accumulation of such arrears stifles the very private sector, which is said to be the engine of growth.
- The stock of arrears has to be verified. The verification of these arrears should be done without delay.

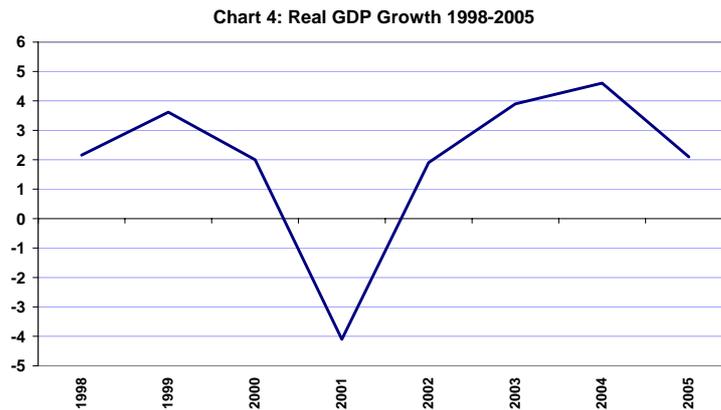
4. ANALYSIS OF 2005/06 DRAFT BUDGET ESTIMATES

4.1 BUDGET FRAMEWORK

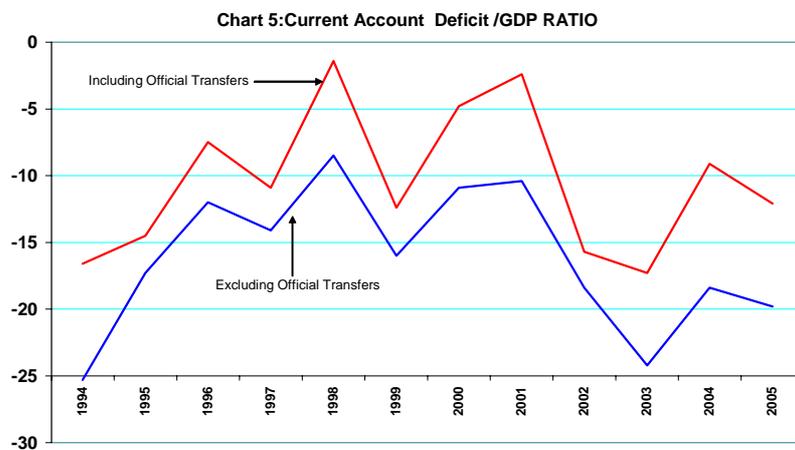
The proposed 2005/06 Budget is going to be the highest in the history of the country. Total expenditure of K118.8 billion is proposed against total revenue and grants of K116.2 billion. Before analysing the draft estimates, this study takes time to describe the macro-economic assumptions and setup that surrounds the budgetary estimates. The macroeconomic assumptions and environment will determine whether the goals set in the budget will be achieved or not.

4.1.1 Major Macroeconomic Indicators for 2005.

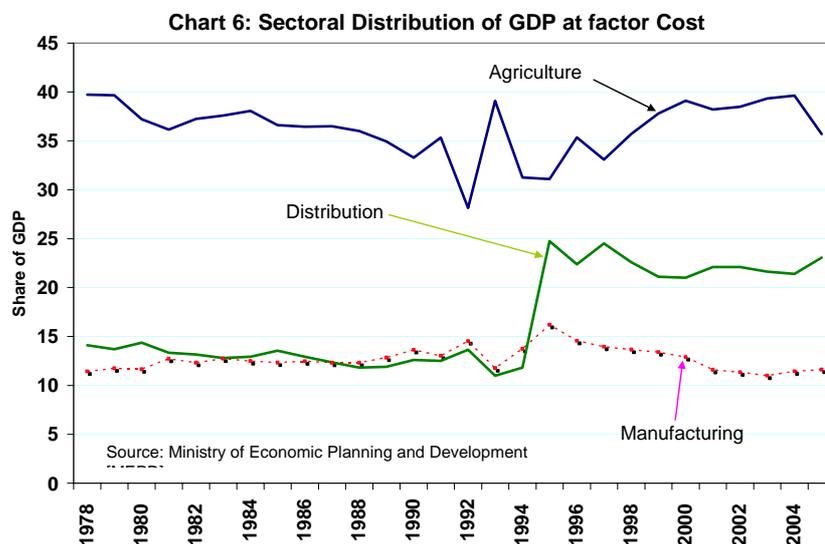
In 2005, the economy is expected to grow by a mere 2.1 percent as opposed to the 4.6 percent achieved in 2004. The GDP growth will be lower than in 2003 and 2004 but comparable to the rate achieved in 2002. Given that the threshold growth in GDP to start having a dent on poverty levels is 6 percent over a sustainable number of years, it can only be feared that present poverty levels in Malawi would either remain at their present levels or even get worse.



Projected at 14.5 percent, the inflation rate in 2005 is expected to be higher than the rate of 11.5 percent achieved in 2004. The Balance of Payment situation is expected to be marginally worse than in 2004 with a current account deficit (including official transfers) of -12.1 % of GDP as opposed to -9.1 % of GDP obtained in 2004. Chart 5 plots the performance of the current account deficit for the period 1994-2005. A deteriorating current account deficit means that Malawi is expected to pay more money abroad for imports, interest payment and other services than it will receive from exports. The importation of 300,000 metric tonnes of maize and pulses planned for the 2005/06 financial year because of the projected shortage in food is ample evidence of the hard times to come. It can be said that the dream of transforming Malawi into a predominantly producing and exporting economy is not for 2005.



The sectoral distribution of GDP shows that agriculture's share to GDP will decline from the level of 39.6 percent in 2004 to 35.7 percent in 2005. The sector that gains most in 2005 is that of distribution whose share in GDP grows from 21.4 percent in 2004 to 23.1 percent in 2005. This is more evidence that in 2005, Malawi will grow more and more into a vending economy than a producing economy. The hope for the transforming of the economy should therefore be a medium-term objective.



One of the basic assumptions surrounding the whole budget process is that Malawi will soon be able to sign a new PRGF with the IMF and that full budgetary support will start to flow thereafter. The possibility of benefiting from the debt relief initiative of the G8 seems not to have been factored into the budget estimates. The possibility of a new PRGF will be heightened if Malawi gets to the HIPC completion point before long. The type of relief being discussed in the G8 would save Malawi not less than K12 billion annually in forgone principal and interest on external loans. Should the debt relief work out successfully for Malawi, then the proceeds

from the debt relief could be used to repay government arrears of K10.3 billion.

4.1.2 POLICY REFORMS ANNOUNCED IN THE BUDGET SPEECH

There are several reforms that have been announced together with the budget. These are policies that will have far-reaching consequences on how the budget is run in Malawi.

4.1.2.1 Appointment of District Commissioners and Chief Executives of Local Authorities as Controlling Officers of their districts, towns and cities.

Each district, town or city will have its own vote to be approved by the National Assembly, and the Ministry of Finance will fund accounts of assemblies.

The implementation of this reform will require strengthening of local capacities. In 2004/05 one of the planned activities for the National Local Government Financing Committee (NLGFC) was to replicate Integrated Financial Management Information System (IFMIS) to all local assemblies. The target was to set IFMIS in 34 Local Assemblies but the system is replicated only in one assembly. Most of the District Commissioners and Chief Executives will be doing this for the first time and will therefore need a lot of training for them to be conversant with the system. Linking The Accounting package (CODA) and NLGFC and Local Authorities has been done in only a few assemblies.

RECOMMENDATION 14

Fiscal decentralisation needs to be implemented cautiously or else public funds will not be properly accounted for.

- ❑ Replication of IFMIS and the installation of an accounting package should be hastened to avoid lack of accountability.
- ❑ The Budget should allocate funds for the training of officers in accounting, monitoring and valuation.

4.1.2.2 Government is to close four embassies in a bid to rationalise employment in foreign missions. Staffing of Malawi's foreign missions will be done according to qualifications and experience of the staff in disciplines that will enable them to promote effectively Malawi's trade, tourism, private sector investment and in attracting development assistance to Malawi. The cost for the closure of the four embassies will be met by the World Bank to the tune of K400 million.

RECOMMENDATION 16

Government needs to spell out exactly how it intends to assist SFFFRM and ADMARC in equipping them to be ready to handle the importation of fertilisers. Any budgetary allocations to these two institutions should be indicated in the budget documents.

4.1.2.3 Importation of 70,000 tons of fertilisers will be entrusted to one company SFFFRM which will be supported by ADMARC

in the distribution. Government says that it will assist the two institutions in order for them to be ready to meet the challenge. **However, it is not said how the companies will be assisted.**

4.1.2.4 Government will start a contributory pension scheme.

4.1.2.5 The external consultant who did the exercise of salary reviews did not do a thorough job as he did not consider some local conditions particular to Malawi. Government is hiring another consultant with some knowledge of our local circumstances.

4.1.2.6 Government will open branch offices for the Department of Legal Aid and the Administrator General in Mzuzu.

RECOMMENDATION 17

The Budgetary allocations to the Department of Legal Aid and the Administrator General should be increased substantially so as to cater for the opening of their branches in Mzuzu. The draft budget estimates proposes K29.4 million for Legal Aid Department, up from K23 million in 2004/05. As for the Administrator General the proposed amount for 2005/04 is K21.8 million; up from K17.3 million in 2004/05. In both cases, the increases are too modest to cater for the opening of branch offices in Mzuzu.

4.1.2.7 Government is to establish Commercial courts with the help of the European Investment Bank. The courts will be handling all corruption cases; especially the “so-called high profile cases, which, will be handled expeditiously.

RECOMMENDATION 18

The existing “high profile” corruption cases should not wait until the establishment of commercial courts is finalised. The European Investment Bank has agreed in principal to assist Malawi with the establishment of such courts. It is not certain when the project will start and finish.

4.1.2.8 Government says it has learnt lessons that the provision of fertilizers as hand-outs does not necessarily lead to increases in agricultural production. Instead such an approach easily increases a dependency syndrome, lack of responsibility and certain inefficiencies in the distribution of hand-outs. Government and Malawi’s development partners have therefore decided to discontinue the practice of providing free farm inputs to farmers. Instead farmers will buy fertilisers at highly subsidised prices.

4.1.2.9 Government has acquired 60,000 treadle pumps to distribute freely to Members of Parliament. Each constituency in the country will receive at least 400 treadle pumps for free distribution to the people.

RECOMMENDATION 19

It sounds contradictory that the same government, which has discontinued free distribution of farm inputs because of the dependence syndrome the practice creates, is also promoting the free distribution of treadle pumps. **The same arguments may apply that the pumps will not be used effectively and efficiently because they are freely acquired**

RECOMMENDATION 20

The origin of the 60,000 treadle pumps that government has acquired and is distributing freely should be explained. The 2004/05 budget did not have any provision for the purchase of such large numbers of treadle pumps. **If the pumps were carried over from 2003/04 then government can be taken to task for the delay in getting the pumps to the ultimate beneficiaries.**

4.1.2.10 TAX MEASURES

The raising of the income threshold for PAYE to K60, 000 is a very welcome move. This means that people who earn less than \$1.0 a day will not be subjected to PAYE, as was the case in the past. The threshold of K60, 000 translates to \$1.31/day (using a rate of K125/\$).

The reduction in the other types of taxes is equally applauded. However, the increase in the excise duty on woven fabrics and textile fabrics from 20% to 50% percent seems to contradict the promotion of the production of textiles destined for the US market under AGOA.

Tax returns have been declared statutory expenditure, which means that the refunds will receive the priority they deserve when effecting payments.

4.1.3 THE 2005/06 RESOURCE ENVELOPE

Central Government Operations, 2004/05-2005/06

	Estimate 2003/04	Supplemen tary 03/04	Revised Estimates 2003/004	Approved 2004/05	Revised 2004/05	Draft Estimates 2005/06	04/05 Rev	05/06 Draft	05/06 Draft
							04/5 Appr % growth	04/5 Revis % growth	04/5 Approv % growth
			2003/04		2004/05		2005/06		
(In millions of Kwacha)									
Total Revenue and Grants	59,973	67,462	65,365	81,083	84,028	116,188	3.6	38.3	43.3
Revenue	36,014	42,075	42,754	51,771	53,676	65,385	3.7	21.8	26.3
Tax Revenue	31,139	35,370	36,902	44,636	47,723	57,258	6.9	20.0	28.3
Non-tax Revenue	4,874	6,705	5,852	7,135	5,953	8,127	-16.6	36.5	13.9
Grants	23,959	25,387	22,611	29,312	30,352	50,803	3.5	67.4	73.3
BOP support	10,835	6,824	6,573	5,418	5,418	13,238	0.0	144.3	144.3
Project	4,925	10,295	9,635	17,899	15,404	15,241	-13.9	-1.1	-14.8
HIPC	5,300	7,298	5,261	5,995	5,995	7,445	0.0	24.2	24.2
Others					2,495				
Japanese Debt Relief	2,419	490	490						
General Elections	480	480	653						

The 2005/06 draft budget estimates have total revenue and grants of 116.2 billion. The total budget revenue and grand. This is the highest budget ever in the history of Malawi. The amount represents a 43.3 percentage growth over 2004/05 approved budget and 38 percent over the 2004/05 revised budget.

Revenue for 2005/06 is expected to grow from K53.7 billion realised in 2004/05 to K65.4 billion. Tax revenue is up by K10 billion to K57.3 billion. The increase in tax revenue comes amidst the illusion that the taxation burden is lighter following the tax cuts announced by the Minister of Finance. As a percentage of GDP, tax revenue has improved from 21.6 to 22.0 percent of GDP. The budget makes strong assumptions about the possibility of MRA to capture more new taxpayers thereby widening the tax base. In fact, the bonus scheme within the MRA has been reoriented so that it is rewarded for increasing the tax base as opposed to how much they collect for Government.

Grants are expected to be K50.8 billion under the assumption that all donors will resume disbursements of aid to Malawi. Again, this assumes that Malawi will sign a new PRGF with the IMF. The donors have put all their weight behind Malawi's effort to revamp its economy. It will be up to the nation to prove that we are serious enough as a country to deserve the assistance. The increase in total grants is phenomenal as the increase is more than 20 billion. In 2004/05, total grants of K 30.0 were 56 percent of GDP whereas the K50.8 billion in 2005/06 will represents 78 percent of domestic revenue.

Within the category of grants, project financing is the highest with K15.2 billion and followed by BOP support which is expected to be K13.3 billion. HIPC inflows are capped at K7.4 billion on the assumption that Malawi still receives interim debt relief, as it has not yet reached the HIPC completion point. With the hope of getting to the completion point within the course of the financial year, it can be expected that more resources would flow. The complete debt relief as initiated by the G8 countries is what Malawi should be praying to get.

4.1.4 PROPOSED TOTAL EXPENDITURE IN THE 2005/06 BUDGET

Total expenditure is estimated at **K118.8 billion** or **45.7** percent of GDP. This is the highest expenditure ever in the history of the country. Chart 2

above traces the trend of total expenditure as a percentage of GDP for the period 1979/80 – 2005/06. Current expenditure has moved from K68.4 billion in 2004/05 to K84.1 billion; an increase of more than 32 percent whereas development expenditure has increased by a wider margin of 47.5 percent. This is why the budget is said to be development –oriented one. Table 6 gives the main categories of expenditure and their percentage growth from 2004/05 to 2005/06.

As total expenditure has grown by 32 percent, it would have been expected that the PPEs, which are by definition the most important expenditure in the fight against poverty, be increased by the same margin. It is only then that it can be said that the increase in the budget is pro-poor. It is disheartening to note that with the huge increase in the total expenditure budget, some PPEs have even received less than what they were allocated last year. For example, all the PPEs under “Gender, Youth and Community Services” have been allocated less than last year. ‘Children Services’ as a PPE has seen its budgetary allocation reduced by 92 percent (see table 1.3). This is not acceptable and the allocation to PPEs needs to be revised.

RECOMMENDATION 21

For the increase in the budget to be seen to be pro-poor, the allocation to each of the PPEs has got to increase by at least the same increase in the total expenditure. No PPE should suffer a cut in its budget when the overall budget is growing by 32 percent. The reduction in the PPEs under the Ministry of gender shows that the budget is not engendered.

Table 6 : Central Government Expenditure, 2004/05-2005/06

	Estimate 2003/04	Supplemen tary 03/04	Revised Estimates 2003/004	Approved 2004/05	Revised 2004/05	Draft Estimates	04/05 Rev 04/5 Appr % growth	05/06 Draft 04/5 Revis % growth	05/06 Draft 04/5 Approv % growth
	2003/04			2004/05		2005/06			
(In millions of Kwacha)									
Total expenditure	56,546	68,212	79,638	89,888	91,887	118,801	2.2	29.3	32.2
Total expenditure	56,546	68,212	78,059	89,888	91,887	118,801	2.2	29.3	32.2
Current expenditure	41,108	49,882	59,126	66,025	68,379	84,138	3.6	23.0	27.4
Wages and salaries	13,134	11,965	12,302	15,300	17,100	20,730	11.8	21.2	35.5
Interest payments	10,469	18,737	20,024	19,280	18,752	17,328	-2.7	-7.6	-10.1
Domestic	8,039	16,104	17,253	16,715	15,978	13,968	-4.4	-12.6	-16.4
Foreign	2,430	2,633	2,771	2,565	2,774	3,360	8.1	21.1	31.0
Other Statutory									
Other recurrent transactions	17,515	10,229	25,222	18,097	16,927	28,789	-6.5	70.1	59.1
- of which: measures									
Additional pro-poor expenditure	600	600							
Expenditure in arrears	933	933	1,349	500	1,000	2,000	100.0	100.0	300.0
Of which:									
Maize				2,190	1,515	5,603	-30.8	269.8	155.8
Fertiliser Subsidy				2,500	3,300	2,200	32.0	-33.3	-12.0
Transfr to ADMARC				1,200	440	540	-63.3	22.7	-55.0
PPE	4,758	5,436		14,865	14,865	18,544	0.0	24.7	24.7
Special Activities	4,789	4,789		-					
Subventions	1,779	1,860		3,422	3,592	4,411	5.0	22.8	28.9
Development Expenditure	15,438	18,273	20,512	23,863	23,508	34,663	-1.5	47.5	45.3
Part I (foreign financed)	12,322	15,883	17,231	20,346	20,346	30,836	0.0	51.6	51.6
Part II (domestically financed)	3,116	2,350	3,281	3,517	3,162	3,827	-10.1	21.0	8.8
Deficit (Excluding Grants)	- 20,532	- 26,137	- 12,695	- 38,117	- 38,211	- 53,416	0.2	39.8	40.1
Overall balance (including grants)	3,426.6	659.2		-8,805	-7,859	-2,613	-10.7	-66.8	-70.3
<u>Memorandum Items</u>									
GDP (fiscal year)			188,279.0	221,073	221,073	260,000			
Deficit (excluding Grants)/GDP ratio			-25.2	-17.2	-17.3	-20.5			
Deficit (including grants)/ GDP ratio			-12.9	-4.0	-3.5	-1.0			

Source: Ministry of Finance, Budget Documents

4.1.5 STATUTORY EXPENDITURE

According to the definition given in the Public Finance Management Act,

“Statutory expenditure” means –

(a) Expenditure which is not subject to the vote of the National Assembly;
and

(b) Expenditure charged on the Consolidated Fund under the provisions of the Constitution or charged on the Consolidated Fund or any other public fund or account by any other written law in which it is expressly stated to be statutory expenditure.

Examples of statutory expenditure are salaries of the President (s), public debt charges, Pensions and gratuities.

- The very first vote number 10 of the budget is statutory expenditure and is called The Presidency. It provides for the salary

of the President and Vice President. Budget Document 4 says this year the vote includes former President and his vice. The vote does not give a breakdown. It is difficult to understand that for the 2005/06 budget, the salary of the President and colleagues is proposed to be K20 million from K4.4 million.

- This represents a hike of 353.5 percent in salary increase. This is unheard of and should not be allowed to go ahead. The snag is that it is statutory expenditure and therefore not subject to the vote of the National Assembly. Does this mean that the Presidency can get away with anything as a salary increase of 383.0 percent?

RECOMMENDATION 22

The proposal to increase the allocation of the Presidency to K20 million does not make much sense - Especially that there is no breakdown of the same. After all the definition of the presidency in the constitution does not include FORMER president and former vice presidents. Otherwise one would conclude that these allocations to the Presidency should be seen to be leading by example. Such a salary hike would represent a 353.5 percent increase. **Whereas it is statutory expenditure, the National Assembly should devise a way of making sure that the proposal should not go through until after a detailed account of the breakdown is made available**

4.1.6 INDIVIDUAL VOTES THAT WILL BENEFIT THE MOST FROM THE PROPOSED BUDGET

It has been demonstrated above that the big increase in the total expenditure has not benefited the PPEs. Which accounts stand to gain from the big increase in the expenditure? We have singled out some of the Ministries whose accounts will visibly benefit.

Table 7: Proposed Allocation for Selected Votes in the 2005/06 Budget

2005/2006 MAIN BENEFICIARIES

Code No.	Description	2004/05 Revised ESTIMATES	2005/06 DRAFT ESTIMATES	2005/06 VS. 2004/05 Revised
10	The presidency	4,410,000.0	20,000,000.0	353.5
20	Compensation and Refunds	1,109,752,812	1,600,000,000	44.2
30	Pensions and Gratuity	2,106,220,000	3,500,000,000	66.2
50	State Residences	621,417,805	721,773,764	16.1
60	National Audit Office	56,676,314	248,369,000	338.2
70	Judiciary	521,202,626	1,147,687,415	120.2
80	National Assembly	836,344,035	1,053,686,879	26.0
90	Office of the President and Cabinet	1,862,338,721	2,581,443,935	38.6
93	Dept. of Human Res. Man. & Development	81,638,977	1,065,822,093	1,205.5
94	Nutrition, HIV/AIDS		5,314,977,000	
100	Ministry of Defence	93,397,840	322,413,449	245.2
110	Ministry of Economic Planning & Development	524,129,469	2,744,124,941	423.6
111	National Statistical Office	71,862,940	524,423,306	629.8
121	Local Authorities	459,717,543	5,339,412,702	1,061.5
180	Ministry of Youth, & Culture	96,813,329	253,169,060	161.5
190	Agriculture & Irrigation	6,050,467,243	12,559,309,041	107.6
200	Responsible for People with Disabilities	41,953,414	63,014,374	50.2
250	Education Science & Technology	11,300,982,618	11,934,601,435	5.6
260	Ministry of Foreign Affairs	1,947,365,669	2,362,000,000	21.3

2005/2006 MAIN BENEFICIARIES (continued)

Code No.	Description	2004/05 REVISED	2005/06 DRAFT ESTIMATES	2005/06 VS 04/05 Revised
275	Subventions	3,582,000,000	4,411,000,000	23.1
280	Unforeseen Expenditures	90,000,000	220,000,000	144.4
300	Ministry Responsible for Poverty Alleviation	104,550,675	131,371,249	25.7
320	Gender Youth & Community services	387,928,056	623,174,206	60.6
330	Ministry of Information & Tourism	605,495,035	906,873,276	49.8
340	Ministry of Home Affairs	73,420,553	1,293,130,179	1,661.3
343	Immigration Department	161,696,352	196,282,951	21.4
350	Ministry of Justice	78,070,402	127,424,101	63.2
351	DPP & State Advocate	22,327,240	69,291,860	210.3
354	Legal Aid	22,743,263	29,381,000	29.2
390	Trade & Pvt. Sector Devp.	326,052,305	739,685,070	126.9
400	Ministry of Transport	806,510,481	1,172,576,528	45.4
420	National Roads Authority	4,123,500,000	10,082,376,000	144.5
460	Electoral Commission	190,328,766	1,371,920,930	620.8
470	Natural Resources & Environmental Affairs	1,592,264,065	3,118,582,808	95.9
510	Anti-Corruption Bureau	232,445,916	319,421,860	37.4
560	Law Commission	37,404,085	88,968,070	137.9
570	Industry, Science & Technology	74,362,075	154,192,984	107.4

ANNEXE 1: 2005/2006 DRAFT ESTIMATES

Code No.	Description	2004/05 APPROVED	2004/05 Revised ESTIMATES	2005/06 DRAFT ESTIMATES	2004/05 revised vs Approved	2005/06 VS. 2004/05 Revised
10	The presidency	9,000,000	4,410,000.0	20,000,000.0	-51.0	353.5
20	Compensation and Refunds	608,000,000	1,109,752,812	1,600,000,000	82.5	44.2
30	Pensions and Gratuity	2,106,220,000	2,106,220,000	3,500,000,000	0.0	66.2
40	Public Debt Charges	19,280,000,000	18,752,000,000	17,328,000,000	-2.7	-7.6
TOTAL STATUTORY EXPENDITURE		22,003,220,000	21,972,382,812	22,448,000,000		2.2
50	State Residences	620,000,000	621,417,805	721,773,764	0.2	16.1
60	National Audit Office	64,000,000	56,676,314	248,369,000	-11.4	338.2
70	Judiciary	476,761,965	521,202,626	1,147,687,415	9.3	120.2
80	National Assembly	782,500,000	836,344,035	1,053,686,879	6.9	26.0
90	Office of the President and Cabinet	2,001,750,000	1,862,338,721	2,581,443,935	-7.0	38.6
91	Dept of Information	123,000,000		2,581,443,935		
92	Ministry of Statutory Corporations	27,800,000	26,738,947		-3.8	
93	Dept. of Human Res. Man. & Development	80,000,000	81,638,977	1,065,822,093	2.0	1,205.5
94	Nutrition, HIV/AIDS			5,314,977,000		
95	NIB	125,250,000	123,133,112		-1.7	
97	Public Service Commission	26,650,000	33,553,973	43,000,000	25.9	28.2
98	National Aids Commission	1,543,300,000				
99	Public Procurement Office	61,200,000	30,943,440	46,825,218	-49.4	51.3
100	Ministry of Defence	124,800,000	93,397,840	322,413,449	-25.2	245.2
101	Malawi Defence Force	2,375,000,000	2,529,154,754	2,779,544,000	6.5	9.9
110	Ministry of Economic Planning & Development	568,300,000	524,129,469	2,744,124,941	-7.8	423.6
111	National Statistical Office	70,500,000	71,862,940	524,423,306	1.9	629.8
120	Ministry of Local Government & Rural Devp	814,200,000	805,444,250	914,113,596	-1.1	13.5
121	Local Authorities	526,500,000	459,717,543	5,339,412,702	-12.7	1,061.5
130	Lands, Housing Physical Planning & Survey	2,091,500,000	1,834,789,858	1,839,314,400	-12.3	0.2
180	Ministry of Youth, & Culture	91,400,000	96,813,329	253,169,060	5.9	161.5
190	Agriculture & Irrigation	7,096,500,000	6,050,467,243	12,559,309,041	-14.7	107.6
200	Responsible for People with Disabilities	52,050,000	41,953,414	63,014,374	-19.4	50.2
210	Ministry of Water Development	863,000,000	895,834,574	861,176,651	3.8	-3.9
240	Office of the First Vice President	110,750,000	79,907,619	96,800,000	-27.8	21.1
250	Education Science & Technology	10,638,611,965	11,300,982,618	11,934,601,435	6.2	5.6
260	Ministry of Foreign Affairs	2,102,000,000	1,947,365,669	2,362,000,000	-7.4	21.3

Source: Ministry of Finance, Budget Documents

ANNEXE 1: 2005/2006 DRAFT ESTIMATES (continued)

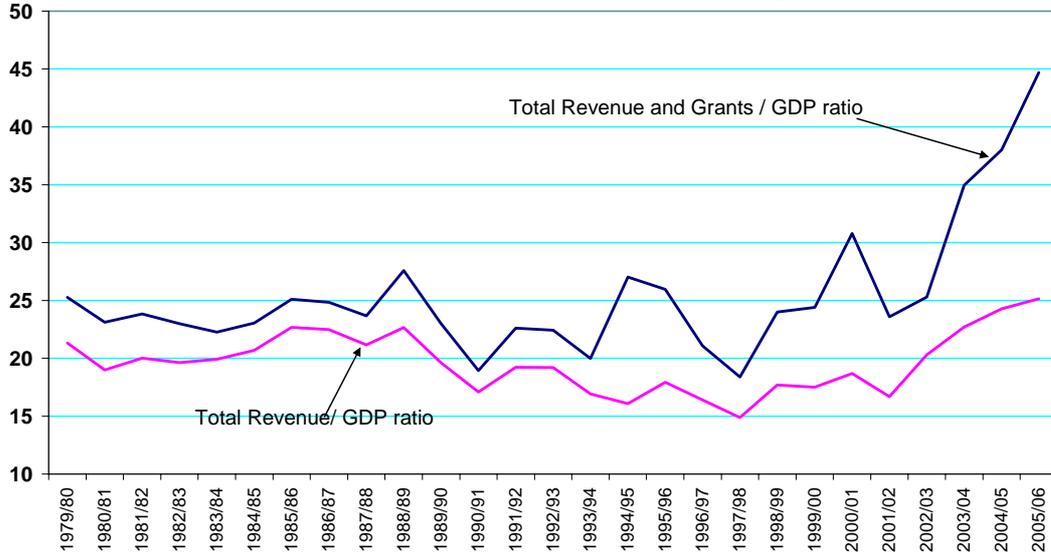
Code No.	Description	2004/05 APPROVED	2004/05 REVISED	2005/06 DRAFT ESTIMATES	2004/05 Revised vs APPROVED	2005/06 VS 04/05 Revised
270	Ministry of Finance	678,000,000	663,608,857	342,806,654	-2.1	-48.3
271	Accountant General	2,732,000,000	4,548,442,152	2,851,573,100	66.5	-37.3
273	Malawi Revenue Authority	2,610,000,000	2,610,000,000	1,435,500,000	0.0	-45.0
275	Subventions	3,412,000,000	3,582,000,000	4,411,000,000	5.0	23.1
280	Unforeseen Expenditures	110,000,000	90,000,000	220,000,000	-18.2	144.4
300	Ministry Responsible for Poverty Alleviation	103,000,000	104,550,675	131,371,249	1.5	25.7
310	Ministry of Health & Population	9,138,600,000	9,507,186,785	8,703,752,857	4.0	-8.5
320	Gender Youth & Community services	394,000,000	387,928,056	623,174,206	-1.5	60.6
330	Ministry of Information & Tourism	441,400,000	605,495,035	906,873,276	37.2	49.8
340	Ministry of Home Affairs	73,500,000	73,420,553	1,293,130,179	-0.1	1,661.3
341	POLICE	1,778,000,000	2,066,855,022	2,048,559,074	16.2	-0.9
342	Prisons Department	519,050,000	539,117,102	389,029,483	3.9	-27.8
343	Immigration Department	175,500,000	161,696,352	196,282,951	-7.9	21.4
350	Ministry of Justice	84,600,000	78,070,402	127,424,101	-7.7	63.2
351	DPP & State Advocate	24,550,000	22,327,240	69,291,860	-9.1	210.3
352	Registrar General's Department	28,950,000	28,932,533	33,302,000	-0.1	15.1
353	Administrator General's Department	17,950,000	17,271,808	21,830,904	-3.8	26.4
354	Legal Aid	23,050,000	22,743,263	29,381,000	-1.3	29.2
370	Ministry of Labour & Vocational Training	376,500,000	384,464,980	421,886,128	2.1	9.7
390	Trade & Pvt.Sector Devp.	349,500,000	326,052,305	739,685,070	-6.7	126.9
400	Ministry of Transport	722,250,000	806,510,481	1,172,576,528	11.7	45.4
420	National Roads Authority	4,171,500,000	4,123,500,000	10,082,376,000	-1.2	144.5
430	Human Rights Commission	210,900,000	227,671,667	76,571,550	8.0	-66.4
460	Electoral Commission	178,400,000	190,328,766	1,371,920,930	6.7	620.8
470	Natural Resources & Environmental Affairs	1,526,500,000	1,592,264,065	3,118,582,808	4.3	95.9
471	Department of Geological survey	45,000,000	45,230,129	52,235,433	0.5	15.5
472	Mines Department	60,000,000	60,000,000	81,409,762	0.0	35.7
510	Anti-Corruption Bureau	220,000,000	232,445,916	319,421,860	5.7	37.4
550	Ombudsman	60,450,000	60,127,814	54,047,374	-0.5	-10.1
560	Law Commission	36,600,000	37,404,085	88,968,070	2.2	137.9
570	Industry, Science & Technology	136,000,000	74,362,075	154,192,984	-45.3	107.4
	Total Personal Emoluments		17,098,247,188	20,710,165,246		21.1
	Total O.R.T		29,305,870,000	63,408,482,845		116.4
	Total Voted Expenditure	67,998,573,930	46,404,117,188	96,353,548,091	-31.8	107.6
	Statutory Expenditure	22,003,222,000	21,972,382,812	22,428,000,000	-0.1	2.1
	Total Recurrent Expenditure	90,001,795,930	68,376,500,000	84,138,548,091	-24.0	23.1
	Total Capital Budget	19,663,000,000	23,508,500,000	34,663,000,000	19.6	47.4

Annexe 2: Central Government Operations, 2004/05-2005/06

	Estimate	Supplemen	Revised	Approved	Revised	Draft	04/05 Rev	05/06 Draft	05/06 Draft
	2003/04	tary 03/04	Estimates	2004/05	2004/05	Estimates	04/5 Appr	04/5 Revis	04/5 Approv
	2003/04			2004/05		2005/06			
	(In millions of Kwacha)								
Total Revenue and Grants	59,973	67,462	65,365	81,083	84,028	116,188	3.6	38.3	43.3
Revenue	36,014	42,075	42,754	51,771	53,676	65,385	3.7	21.8	26.3
Tax Revenue	31,139	35,370	36,902	44,636	47,723	57,258	6.9	20.0	28.3
Non-tax Revenue	4,874	6,705	5,852	7,135	5,953	8,127	-16.6	36.5	13.9
Grants	23,959	25,387	22,611	29,312	30,352	50,803	3.5	67.4	73.3
BOP support	10,835	6,824	6,573	5,418	5,418	13,238	0.0	144.3	144.3
Project	4,925	10,295	9,635	17,899	15,404	15,241	-13.9	-1.1	-14.8
HIPC	5,300	7,298	5,261	5,995	5,995	7,445	0.0	24.2	24.2
Others					2,495				
Japanese Debt Relief	2,419	490	490						
General Elections	480	480	653						
Total expenditure	56,546	68,212	79,638	89,888	91,887	118,801	2.2	29.3	32.2
Total expenditure	56,546	68,212	78,059	89,888	91,887	118,801	2.2	29.3	32.2
Current expenditure	41,108	49,882	59,126	66,025	68,379	84,138	3.6	23.0	27.4
Wages and salaries	13,134	11,965	12,302	15,300	17,100	20,730	11.8	21.2	35.5
Interest payments	10,469	18,737	20,024	19,280	18,752	17,328	-2.7	-7.6	-10.1
Domestic	8,039	16,104	17,253	16,715	15,978	13,968	-4.4	-12.6	-16.4
Foreign	2,430	2,633	2,771	2,565	2,774	3,360	8.1	21.1	31.0
Other Statutory									
Other recurrent transactions	17,515	10,229	25,222	18,097	16,927	28,789	-6.5	70.1	59.1
- of which: measures									
Additional pro-poor expenditure	600	600							
Expenditure in arrears	933	933	1,349	500	1,000	2,000	100.0	100.0	300.0
Of which:									
Maize				2,190	1,515	5,603	-30.8	269.8	155.8
Fertiliser Subsidy				2,500	3,300	2,200	32.0	-33.3	-12.0
Transfr to ADMARC				1,200	440	540	-63.3	22.7	-55.0
PPE	4,758	5,436		14,865	14,865	18,544	0.0	24.7	24.7
Special Activities	4,789	4,789		-					
Subventions	1,779	1,860		3,422	3,592	4,411	5.0	22.8	28.9
Development Expenditure	15,438	18,273	20,512	23,863	23,508	34,663	-1.5	47.5	45.3
Part I (foreign financed)	12,322	15,883	17,231	20,346	20,346	30,836	0.0	51.6	51.6
Part II (domestically financed)	3,116	2,350	3,281	3,517	3,162	3,827	-10.1	21.0	8.8
Deficit (Excluding Grants)	- 20,532	- 26,137	- 12,695	- 38,117	- 38,211	- 53,416	0.2	39.8	40.1
Overall balance (including grants)	3,426.6	659.2		-8,805	-7,859	-2,613	-10.7	-66.8	-70.3
<u>Memorandum Items</u>									
GDP (fiscal year)			188,279.0	221,073	221,073	260,000			
Deficit (excluding Grants)/GDP ratio			-25.2	-17.2	-17.3	-20.5			
Deficit (including grants)/ GDP ratio			-12.9	-4.0	-3.5	-1.0			

Source: Ministry of Finance, Budget Documents

Annexe 3: Total Revenue and Grants to GDP Ratio (percent)



Annexe 4: 2005/05 LOCAL ASSEMBLIES BUDGET

DISTRICT, MUNICIPAL AND TOWN ASSEMBLIES	POPULATION	TOTAL BUDGET
BALAKA DISTRIC ASSEMBLY	238,800	149,929,498
BALAKA TOWN ASSEMBLY	14,298	2,615,560
BLANTYRE CITY ASSEMBLY	502,053	32,347,593
BLANTYRE DISTRICT ASSEMBLY	307,344	309,758,621
CHIKWAWA DISTRICT ASSEMBLY	356,682	188,171,127
CHIRADZULU DISTRICT ASSEMBLY	235,050	148,004,988
CHITIPA DISTRICT ASSEMBLY	126,799	115,764,534
DEDZA DISTRICT ASSEMBLY	471,274	225,611,496
DEDZA TOWN ASSEMBLY	15,408	2,823,700
DOWA DISTRICT ASSEMBLY	411,387	207,846,983
KARONGA DISTRICT ASSEMBLY	166,761	132,034,871
KARONGA TOWN ASSEMBLY	27,811	2,312,506
KASUNGU DISTRICT ASSEMBLY	452,905	224,993,500
KASUNGU TOWN ASSEMBLY	27,754	2,956,468
LIKOMA DISTRICT ASSEMBLY	8,074	33,270,216
LILONGWE CITY ASSEMBLY	440,471	39,680,931
LILONGWE DISTRICT ASSEMBLY	905,889	478,121,336
LIWONDE TOWN ASSEMBLY	15,701	2,638,658
LUCHENZA TOWN ASSEMBLY	8,842	2,510,020
MACHINGA DISTRICT ASSEMBLY	353,913	180,247,805
MANGOCHI DISTRICT ASSEMBLY	583,669	259,360,440
MANGOCHI TOWN ASSEMBLY	26,570	3,059,778
MCHINJI DISTRICT ASSEMBLY	324,941	174,346,764
M'MBELWA DISTRICT ASSEMBLY	524,014	274,327,156
MULANJE DISTRICT ASSEMBLY	428,322	212,820,106
MWANZA DISTRICT ASSEMBLY	63,337	135,515,326
MZUZU CITY ASSEMBLY	86,980	14,481,916
NENO DISTRICT ASSEMBLY	74,678	18,010,589
NKHATA BAY DISTRICT ASSEMBLY	164,761	129,203,961
NKHOTAKOTA DISTRICT ASSEMBLY	229,460	148,969,311
NSANJE DISTRICT ASSEMBLY	194,924	143,698,741
NTCHEU DISTRICT ASSEMBLY	370,757	198,779,426
NTCHISI DISTRICT ASSEMBLY	167,880	132,008,669
PHALOMBE DISTRICT ASSEMBLY	231,990	141,327,156
RUMPHI DISTRICT ASSEMBLY	128,360	117,396,148
SALIMA DISTRICT ASSEMBLY	227,859	178,329,369
SALIMA TOWN ASSEMBLY	20,355	2,808,538
THYOLO DISTRICT ASSEMBLY	450,134	216,740,377
ZOMBA DISTRICT ASSEMBLY	480,746	234,575,146
ZOMBA MUNICIPAL ASSEMBLY	65,915	13,810,000