

INSIDE THE PROPOSED 2006/2007 NATIONAL BUDGET

A PRE-BUDGET ANALYSIS
BY

-LOGO-

MALAWI ECONOMIC JUSTICE
NETWORK (MEJN)

JUNE 2006

Promoting Participatory Economic Governance in Malawi

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THE 2006/2007 BUDGET ANALYSIS

1.0 INTRODUCTION

The 2006/2007 Budget Analysis report is prepared by the Malawi Economic Justice Network (MEJN) to help Civil Society, Parliamentary Committees and other stakeholders to understand the National Budget for 2006/07 as tabled in the National Assembly on 16th June, 2006. It reviews the implementation of and brings out the salient issues from the 2005/2006 Budget and offers a quick synopsis of the 2006/07 Budget. Recommendations from this report will be submitted to the Budget and Finance Committee of Parliament for inclusion into its submission to the National Assembly and to other Members of Parliament. This approach assures us that the contributions from 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.

2.0 BACKGROUND

The Government of Malawi is still in the process of developing the Malawi Growth and Development Strategy (MGDS). The MGDS will be the Government's overall development strategy for the next five-years from 2006/07-2010/11. Its main objective is to promote high economic growth, wealth and employment creation as a sustainable basis for poverty reduction.

The 2006/07 Budget has been formulated within the framework of the MGDS. **The stated main objective of this budget is domestic debt reduction through further reduction in the fiscal deficit.** The Budget also continues to place emphasis on the implementation of the fertilizer and maize seed subsidy programmes, partial retirement of domestic arrears, the purchase of maize locally, implementation of the ADMARC Restructuring Programme, and tax reforms. Furthermore, the Budget has been designed on the assumption that Malawi will reach the HIPC Completion Point during the middle of this calendar year. This will make Malawi qualify for the HIPC and Multilateral Debt Relief Initiatives (MDRI) which will provide additional resources for poverty spending and domestic debt reduction.

This report reviews the implementation of the 2005/2006 Budget and analyses the implications of tax measures announced by the Minister of Finance in his 2006/2007 Budget Statement. Based on these

analyses, the report gives recommendations on various issues arising from them.

3.0 REVIEW OF THE 2005/06 NATIONAL BUDGET

3.1 THE OBJECTIVES AND CONTENT OF THE 2005/06 BUDGET

The budget framework for the 2005/06 is shown in Table 1 below. The main objective of the 2005/06 Budget was the reduction of domestic debt by K2.2 billion through the further decrease in the overall fiscal deficit including grants to K2.7 billion. Total revenue and grants were estimated at K116.8 billion of which domestic revenue would amount to K65.4 billion and grants K51.4 billion. As regards total expenditure, the approved amount for the 2005/06 Budget was K119.5 billion. Of this total figure, K84.4 billion was allocated for recurrent expenditure and K35.1 billion for development expenditure. The overall deficit of K2.7 billion was to be financed from net foreign borrowing amounting to K4.9 billion.

3.2 THE PERFORMANCE OF REVENUE AND GRANTS IN 2005/06

Chart 1 below shows the trends for revenues, expenditure and the overall budget deficit excluding and including grants from 1980/81 to 2005/06 fiscal years and Table 1 gives the budget framework and outturn for 2005/06 financial year. Domestic revenue rose by 3.5 percent over its approved estimate to K67.7 billion because of strong performance of income and profit taxes. Income and profit tax revenue improved significantly because of the strong performance of Pay As You Earn (PAYE) and company tax revenues as a result of increased wages and salaries in both the public and private sectors and increased enforcement of tax compliance by the Malawi Revenue Authority (MRA).

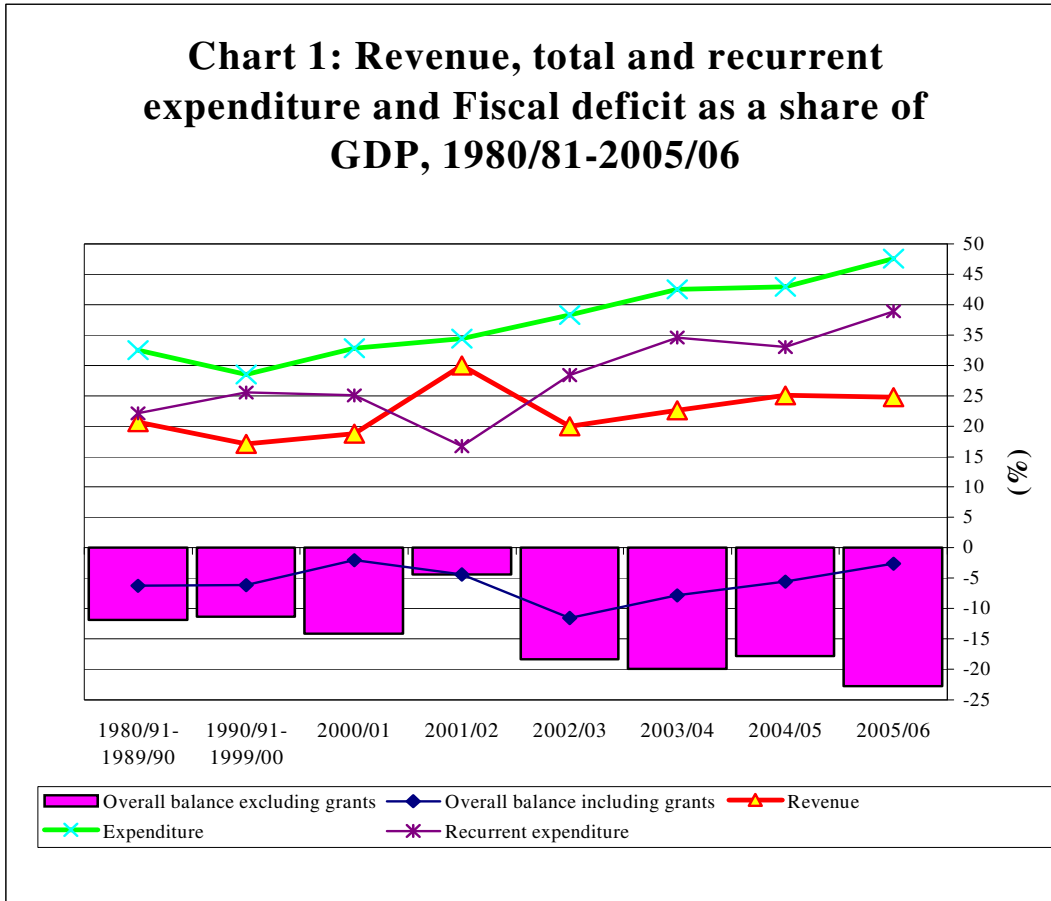
The non-tax revenue also registered an increase of 7.8 percent to K8.8 billion over its approved budget estimate of K8.1 billion (Table 1). The increase reflected more collection of receipts from the Petroleum Importers Limited (PIL) for National Roads Authority's work programme and high maize sales revenues. *However, departmental receipts and Safety nets levy fell short of their approved estimates. For departmental fees, it is reported that the low revenue collection is due to the fact that most Ministries and Departments did not raise their fees as expected and others used the money collected for their operations, without authorization from Treasury, instead of returning it to Treasury while some public servants are alleged to have stolen the revenue raised.*

Table 1: Budget Framework, 2005/06 Financial Year

	2005/06 Approved	2005/06 Revised	% change
Total revenue and grants	116,796	121,620	4.1
Domestic revenue	65,385	67,682	3.5
Tax	57,258	58,924	2.9
Nontax	8,127	8,758	7.8
<i>of which: maize sales revenue</i>		1,582	
Grants	51,411	53,938	4.9
Program	13,238	15,245	15.2
Project	15,849	12,726	-19.7
Dedicated	14,879	17,815	19.7
HIPC debt relief	7,445	7,922	6.4
Elections	0	230	
Total expenditure and net lending	119,499	128,360	7.4
Total expenditure	119,499	128,360	7.4
Current expenditure	84,394	95,626	13.3
Wages and salaries	20,722	20,448	-1.3
Interest payment	16,628	18,218	9.6
Other current expenditures	47,044	56,960	21.1
Other purchases of goods and services	21,907	35,687	62.9
Generic goods and services	17,256	17,869	3.6
Health SWAP	4,200	5,584	33.0
Local Government Elections	251	480	91.2
Other statutory expenditures	200	200	0.0
Maize purchases	5,603	11,554	106.2
Pulses and oils	0	1,260	
Subsidies and transfers	17,534	19,273	9.9
Pension and gratuities	3,208	3,208	0.0
Fertiliser subsidy	4,757	6,920	45.5
Subvention	4,689	5,182	10.5
Arrears expenditure	2,000	2,000	0.0
Total development expenditure	35,105	32,734	-6.8
Domestically-financed (Part II)	3,819	3,992	4.5
Foreign-financed (Part I)	31,286	28,742	-8.1
Net lending	0	0	0.0
Overall balance including grants	-2,703	-6,740	149.4
Spending directly related to privatisation	0	2,606	
Augmented balance	-2,703	-9,346	245.8
Financing (net)	2,703	9,346	245.8
Foreign (net)	4,908	6,277	27.9
Domestic (net)	-2,205	-840	-61.9
Privatisation proceeds	0	3,909	
Statistical discrepancy	0	0	
Memorandum:			
Domestic debt	51,718	53,083	2.6
Fiscal GDP	263,994	272,291	

Source: Ministry of Finance

Chart 1: Revenue, total and recurrent expenditure and Fiscal deficit as a share of GDP, 1980/81-2005/06



RECOMMENDATION 1

Government should investigate the reasons why departmental receipts are performing poorly and should strengthen its monitoring and control mechanisms so that all Ministries which collect departmental receipts are compelled to pass on the revenue raised to Treasury.

On the continued collection of the Safety Nets Levy, we urge the Ministry of Finance to remove this tax on fuel since its proceeds are not used for the intended purpose. This would also help in cushioning the increase in petroleum prices during this time when the country is experiencing high and rising petroleum prices.

As regards grants, there was a substantial improvement in inflows of grants following the resumption of the Poverty Reduction and Growth Facility (PRGF) Programme supported by the International Monetary Fund (IMF) in August 2005. Total amount of grants received came to K53.9 billion which represented an increase of 4.9 percent over its approved estimate (Table 1). The improvement reflected increased inflows of budgetary support by 15.2 percent, dedicated grants by

19.7 percent and HIPC debt inflows by 6.4 percent. The dedicated grants were earmarked for the purchase of maize and for implementing Health Swap programmes.

Projects grants are very important to the country because they constitute the bulk of funding for development projects. However, these inflows declined by 19.7 percent from an approved estimate of K15.8 billion in 2004 to K12.7 billion in 2005 (Table 1). The low receipt of project grants reflects inadequate absorption capacity in the country. Government needs to strengthen its capacity to implement projects to boost public investment, savings and growth.

RECOMMENDATION 2

Given that project grants and loans form the bulk of financing for development projects in the country, the *Ministry of Finance* should seriously investigate the reasons behind the poor performance of project grants and correct the situation.

3.3 TOTAL EXPENDITURE IN 2005/06

Total expenditure rose to K128.4 billion, which was 7.4 percent more than the approved budget estimate of K119.5 billion (see Table 1). In GDP terms, total expenditure accounted for 47.1 percent of GDP in 2005/06 (see Chart 1 above). This increased expenditure was attributed not only to imported maize and fertilizer subsidy programmes but also high expenditure on interest payments, Health Swap and subvention. Expenditure on maize purchases rose by a phenomenal 83.7 percent above the approved estimate to K10.3 billion while that on the fertilizer subsidy programme grew by 45.5 percent above its approved estimate.

The substantial increase in expenditure on maize purchases and fertilizer subsidy reflected the higher maize quantities bought, the doubling of maize import prices and high local and international transport costs. The total amount of maize purchases in the 2005/06 were 209,000 tonnes, 40.3 percent higher than the budgeted figure of 149,000 tonnes while that for fertilizer was 140,327 tonnes which was 4.5 percent lower than the budgeted 147,000 tonnes.

While these programmes have benefited the country very much, some smallholder farmers and people in rural areas did not benefit from them. The factors limiting their benefits ranged from inadequate supplies of maize at ADMARC markets partly because vendors were buying the maize and reselling it to consumers at higher prices than

that charged by ADMARC, and also the malpractices by some ADMARC market officials who were reported to have been selling the maize to vendors at night. The other factors included inadequate incomes to buy the subsidized fertilizers due to limited availability of Public Works Programmes and failure to obtain coupons from some local leaders who sold them to rich people.

The involvement of the Ministry of Finance in the planning and implementation of the maize purchases and fertilizer subsidy programmes leads to confusion amongst the public and duplication of efforts with Ministry of Agriculture and Food Security. This creates inefficiencies in the management of these services. The Ministry of Finance should, therefore, surrender this responsibility back to its proper Ministry, the Ministry of Agriculture and Food Security which appears to have adequate expertise and experience in managing these programmes.

RECOMMENDATION 3

The Ministry of Finance and Ministry of Agriculture and Food Security should improve the distribution systems for maize and fertilizers to ensure equal access by smallholders to the subsidized fertilizers and maize. All corrupt transactions should be investigated promptly and all culprits taken to book.

The Ministry of Finance and Ministry of Agriculture and Food Security should institute an audit to reconcile the maize and fertilizer purchases and payments and the report should be submitted to Parliament. The Ministry of Finance should also explain why maize purchased through the budget found its way in the hands of donors and Non-Governmental Organizations (NGOs);

The Ministry of Finance should stop its involvement in the planning and management of maize procurement and the fertilizer subsidy programmes and hand over this responsibility to the Ministry of Agriculture and Food Security which has the mandate to do it.

The other expenditures that contributed to the increase of total expenditure were interest payments, Health Swap and subvention as mentioned above. These expenditures increased as follows:

- Interest payment by 9.6 percent to K18.2 billion on account of high interest payments on domestic debt;
- Health Swap ORT by 33 percent to K5.6 billion; and
- Subvention by 10.5 percent to K5.2 billion.

However, expenditures on wages and salaries and on the Development Budget were less than their approved estimates by 1.3 percent at K20.4 billion and by 6.8 percent at K32.7 billion, respectively, while expenditure on Other Recurrent Transactions (ORT) increased beyond the approved estimate by 24.1 percent to K52.5 billion (Table 2 in the Annex). Notwithstanding this substantial increase in ORT spending, the following negative developments should be noted:

- (i) **There was no expenditure on teaching and learning materials for our primary schools.** The Ministry of Education explains that it utilized the budget provision for teaching and learning materials to clear arrears which its Procurement Division mysteriously generated.
- (ii) **Primary schools continue to be in a dilapidated state** as there was no provision for the maintenance of schools in the 2005/06 Budget
- (iii) **District Education Offices continue to be burdened by both high vacancy rates and lack of vehicles and office equipment to deliver educational services effectively to rural communities.** Overall, the budget allocation to the Ministry of Education remains relatively low signifying that human development/capacity building is not a priority for the Government
- (iv) **Virtually, all District Social Welfare and Community Development Offices did not receive any ORT funding during the entire 2005/06 fiscal year.** Surprisingly, however, the then Minister of Gender, Child Welfare and Community Services and her Principal Secretary visited selected districts, dishing out millions of Kwacha to selected communities. For some peculiar reasons, this was made possible by the Ministry of Finance which departed from its approved practice of disbursing ORT funds directly to district offices of Ministries. Instead, the Ministry of Finance disbursed ORT funding for District Social Welfare and Community Development Offices to the Ministry of Gender, Child Welfare and Community Services which never passed on the money to its district offices.
- (v) **Eight districts (including Ntcheu), whose umbrella NGO was World Vision International, did not receive any funding from the National Aids Commission for their HIV/AIDS work programmes**

throughout 2005/06 due to purported internal differences between World Vision International and the National Aids Commission. For its part, Action Aid failed to deliver as an umbrella NGO in three districts and has since handed over these districts to World Vision International. There are similar stories of NGOs failing to deliver as umbrella organizations for HIV/Aids Interventions in many districts (including Plan in Mzuzu City). Capacity inadequacy and general lack of focus and effectiveness are the main reasons for the failure of many NGOs to function as umbrella organizations for HIV/Aids interventions in the districts.

- (vi) **It is equally surprising to note that the Department of Nutrition, HIV and AIDS and the Department of Mines spent nothing on personal emoluments for 2005/06.** This needs to be investigated because these departments have people who received salaries every month.
- (vi) **Out of the very large ORT outlay, only K2.0 billion or so was spent on reducing domestic debt arrears owing to the private sector,** which were in excess of K10.0 billion at the beginning of 2005/06.

The continued substantial under-spending on the Development Budget is worrying given that the country needs a lot of investment to stimulate a high level of economic growth which is a pre-requisite for sustainable poverty reduction. This low expenditure on the Development Budget largely reflects limited capacity to implement and monitor projects, an associated high vacancy rate in all Government Ministries/Departments and in all local assemblies, as well as inadequate Government counterpart funding.

The question is: Why is counterpart funding low when we are able to over-spend on ORT by a whopping 24.1 percent? Where is the much touted expenditure discipline? Of what use is the Public Finance Management Act? When all is said and done, where is the political will to sustain the IMF Programme?

Are we not witnessing a recurrence of our version of the Dutch disease i.e. the more we get from local revenue sources and from donors, the more we spend on non-priority areas? Do we really have to spend as much as 47.1 percent of our GDP on the Government Budget alone as compared with the conventionally recommended 25 percent of GDP?

There is obviously something fundamentally wrong with the size and structure as well as the management systems of the Government. The Government is effectively squeezing out the private sector raising strong doubts about its claim of being a promoter of the interests of the private sector as the engine of growth for Malawi. There are evidently clear inconsistencies between the magnitude of the Government Budget and the internal logic and objectives of the Malawi Growth and Development Strategy. The social sectors are equally compromised as evidenced by the cases of Education, HIV/Aids, and the Ministry of Gender, Child Welfare and Community services.

RECOMMENDATION 4

The National Assembly, through the Budget and Finance Committee, should determine why the Department of Nutrition, HIV and AIDS and the Department of Mines do not have allocations for personal emoluments and also why most Ministries failed to spend their allocations on approved budget estimates for locally-funded development expenditure. If the source of the problem is limited capacity, Government should urgently address the situation comprehensively.

The Budget and Finance Committee should also investigate the virtual non-funding of all District Social Welfare and Community Development Offices against the background of the millions of Kwacha which the responsible Minister dished out to selected communities of her choice.

Government: If the economy is to grow and poverty is to be reduced sustainably, it is high time that Government adopted Human Capital Development / Capacity Building as one of the fiscal policy priorities especially in the face of the high vacancy rates prevalent in both Central Government and local assemblies, the adverse impact of HIV/AIDS, and the massive brain drain affecting the country associated with globalization. Government is encouraged to embrace a comprehensive Public Sector Reform Initiative which will include a National Capacity Building Programme and a review of the Human Resource Management Systems in the Public Sector. In this context, the National Budget can ill-afford to under-rate the critical role of the Ministry of Education in the sustainable development of the country.

National AIDS Commission: Again in the interest of Human Capital Development, the National Aids Commission's approach to the delivery of HIV/AIDS services in the local assemblies should be reviewed as a matter of urgency.

3.4 ARREARS

In 2005/06 budget, Government should be commended for fulfilling its promise to retire K2.0 billion of the K10.3 billion stock of arrears

that built in the system because of lack of fiscal discipline in the past years. However, looking at the pace of repayment, it would take Government about five years to completely repay all the arrears assuming that new ones do not arise. *This is too long a time for the suppliers to wait to get their money. Some of these suppliers are already suffering because of the non-payment of these arrears. The Ministry of Finance should explore other alternatives that can enable it to speed up the repayment of all arrears in a shortest possible time, such as, securitization.*

RECOMMENDATION 5

The Ministry of Finance should consider increasing the allocation for repayment of arrears to over K3.0 billion in every financial year to speed up the retirement of all arrears in three years from 2005/06 financial year as stated in the 2006 Economic and Fiscal Policy Statement. The Ministry should also explore other alternatives, such as, securitization of the remaining stock of arrears to clear them all.

As pointed out earlier, there was no expenditure on teaching and learning materials for primary schools in the 2005/06 and this was attributed to the fact that the Ministry of Education utilized the budget provision for teaching and learning materials to clear arrears which its Procurement Division mysteriously generated. This issue needs to be investigated because it greatly affected the provision and quality of primary education in the country in a negative sense.

RECOMMENDATION 6

The Budget and Finance Committee should investigate how arrears were generated by the Procurement Division of the Ministry of Education as well as similar arrears in Ministries of Health, Transport and Public Works, and Agriculture and Food Security. The arrears for the Ministries of Health, Transport and Public Works, and Agriculture and Food Security should be audited.

The Ministry of Finance should also strengthen its control system for monitoring the accumulation of new arrears by Ministries/Departments. In this regard, the Ministry should enforce its policy to Ministries that they should pay for goods and services before actual receipt of them. In addition, the virement of funds in the case of the Ministry of Education from teaching and learning materials to arrears should no longer be authorized.

3.5 OVERALL FISCAL DEFICIT

The overall fiscal deficit including grants for the 2005/06 more than tripled from the approved estimate of K2.7 billion to K9.3 billion (Table 1). Of this deficit, K2.6 billion represented the cost of retrenchment from the privatization of the Malawi Telecommunications Limited (MTL). If this is excluded, the actual overall deficit for the Central Government is K6.7 billion. Compared to the 2004/05 budget deficit of K12.6 billion, however, both these levels of the deficit are lower.

In terms of GDP, the deficit level of K6.7 billion was 2.6 percent and that of K9.3 billion accounted for 3.4 percent which were below the 2004/05 deficit to GDP ratio of 5.6 percent (Chart 1). The deficit for the 2005/06 was financed by net foreign borrowing amounting to K6.3 billion which was 2.3 percent of GDP (Table 1).

3.6 DOMESTIC DEBT

While the 2005/06 Budget planned to repay K2.2 billion to reduce the domestic debt to K51.7 billion, the Budget managed to retire only K840 million of debt which was much lower than the approved estimate by 61.8 percent. This implied that the domestic debt stock decreased from K53.9 billion as at 30th June 2005 to K53.1 billion by the end of the 2005/06 financial year (Table 1). The Government failed to repay the K2.2 billion as earlier planned because it diverted more resources to maize purchases and the fertilizer subsidy programme.

*The domestic debt stock has, therefore, declined by a smaller margin from last financial year's level. At this rate of repayment, Government will not be able to reduce the debt stock to sustainable levels on its own very quickly. **Government, therefore, needs to make a special case to the donors to provide it with more assistance to completely retire all the domestic debt and arrears to relieve the pressure on the budget.** This strategy worked successfully in Zambia and Tanzania a few years ago and Government should learn from their experiences. If successful, this will release more resources tied in domestic debt service to the Budget and would increase savings, investment and prospects for high economic growth. In addition, this would also enable interest rates to fall substantially and stimulate private investment.*

RECOMMENDATION 7

The Ministry of Finance should make a special case to the donors to provide the country with adequate dedicated grants to fully repay the current

domestic debt stock and arrears to resolve the undue debt burden on the budget. The Ministry should learn from the experience of Zambia and Tanzania who succeeded with this strategy a few years ago.

3.7 OVERDRAWN AND UNDERFUNDED VOTES IN 2005/06

3.7.1 OVERDRAWN ACCOUNTS IN 2005/2006

Table 3 shows the main votes that overspent their approved allocations for the 2005/06 budget. As shown in the Table, the National Assembly, Ministries of Economic Planning and Development; Health, and Agriculture and Food Security, the Electoral Commission, Law Society, Directorate of Public Prosecution and subvention overspent their approved allocations for 2005/06. **The largest over-expenditure is by the Ministry of Economic Planning and Development (MEPD).** The Ministry of Finance should explain why the MEPD overspent substantially like this?

The explanation for the overexpenditure for some institutions is as follows:

- *SUBVENTION:* The University of Malawi overspent by K493 million due to salary adjustment so as to prevent the loss of academic staff and to bring the non-academic staff up to the level of new Civil Service salaries. The amount would be halved during 2006/07 when the University is expected to contribute 50 per cent to this increase.
- *NATIONAL ASSEMBLY:* Parliament overspent by K130 million on account of Parliament sitting and various committee sessions; and
- *MINISTRY OF AGRICULTURE AND FOOD SECURITY:* The Ministry overspent by K7.4 billion on account of the increased fertilizer subsidy and maize purchases.

RECOMMENDATION 8

The Budget and Finance Committee of Parliament should examine the gross over-expenditure on ORT and on other expenditure lines. Maize and fertilizer imports cannot and should not be used as a blanket explanation for all over-expenditures.

As a *Special case*, the Budget and Finance Committee of Parliament should investigate why the Ministry of Economic Planning and Development incurred such a huge over-expenditure.

On *Subvention* to the University of Malawi, the Ministry of Finance and the University of Malawi should carefully consider the impact of halving the subvention to the University during the next financial year on the poor students. To prevent students' dropouts, a good Student Loan Scheme that covers the whole tuition should be established before implementing the new policy change.

THE MINISTRY OF FINANCE should begin to apply disciplinary measures and penalties stipulated in the Public Finance Management (PFM) Act on all Controlling Officers who overspend their budget allocations during the financial year to strictly enforce fiscal discipline and respect for the budget.

TABLE 3: OVERDRAWN VOTES, 2005/06 BUDGET (K' million)

VOTE	MINISTRY/DEPARTMENT	2005/2006 APPROVED	2005/2006 REVISED	% change (2005/06 REV/APPR)
TOTAL STATUTORY EXPENDITURE				
040	PUBLIC DEBT CHARGES	16,628,000,000	18,460,000,000	11.0
VOTED EXPENDITURE				
080	NATIONAL ASSEMBLY	1,330,686,879	1,503,488,709	13.0
090	OPC	2,299,932,122	2,380,315,694	3.5
094	NUTRITION, HIV AIDS AND NAC	5,308,977,000	5,407,081,000	1.8
099	DIRECTOR OF PUBLIC PROCUREMENT	44,325,218	49,998,208	12.8
100	DEFENCE	322,413,449	388,855,139	20.6
110	ECONOMIC PLANNING & DEVELOPMENT	32,150,469	2,734,224,118	8,404.5
121	LOCAL GOVERNMENT FINANCE COMMITTEE	147,818,451	159,881,167	8.2
190	AGRICULTURE AND IRRIGATION	15,171,716,156	22,514,660,360	48.4
250	EDUCATION	12,145,726,385	12,575,472,967	3.5
271	ACCOUNTANT GENERAL	2,793,787,606	2,855,758,327	2.2
273	MALAWI REVENUE AUTHORITY	1,435,000,000	1,514,000,000	5.5
275	SUBVENTIONS	4,688,945,650	5,181,945,650	10.5
310	HEALTH	8,703,752,857	#####	42.0
320	COMMUNITY SERVICES	898,746,953	953,935,402	6.1
330	INFORMATION ,COMM.& TOURISM	586,976,013	604,023,362	2.9
341	POLICE	2,174,248,074	2,340,141,051	7.6
343	IMMIGRATION	181,282,951	183,360,271	1.1
350	JUSTICE	117,619,906	122,057,309	3.8
352	REGISTRAR GENERAL	30,802,000	32,696,053	6.1
353	ADMINISTRATOR GENERAL	21,830,904	22,886,567	4.8
370	LABOUR & VOCATIONAL TRAINING	393,026,128	394,045,629	0.3
390	TRADE & PRIVATE SECTOR DEVELOPMENT	733,855,291	773,934,671	5.5
430	HUMAN RIGHTS COMMISSION	76,571,550	83,656,844	9.3
460	ELECTORAL COMMISSION	462,070,930	696,729,092	50.8
470	MINES, NATURAL RESOURCES AND ENV. AFFAI	3,080,582,808	3,124,499,620	1.4
471	GEOLOGICAL SURVEYS	49,035,433	50,014,911	2.0
560	LAW COMMISSION	88,968,070	106,809,963	20.1

SOURCE: MINISTRY OF FINANCE

3.7.2 UNDER-FUNDED VOTES

Table 4 summarizes under-funded votes. The institutions that under-spent most were District Assemblies, Ministries of Home Affairs and Internal Security, and Water Development, and Departments of Human Resource Management and Development, and of Mines. This could reflect absorption capacity or underfunding in case of District Assemblies.

TABLE 4: UNDERDRAWN VOTES, 2005/06 BUDGET

VOTE	MINISTRY/DEPARTMENT	2005/2006 APPROVED	2005/2006 REVISED	% change (2005/06 REV/APPR)
060	NATIONAL AUDIT OFFICE	242,369,000	232,720,455	-4.0
070	JUDICIARY	1,142,687,415	1,049,832,854	-8.1
093	HUMAN RESOURCE	1,065,822,093	99,391,821	-90.7
111	NATIONAL STATISTICAL OFFICE	518,523,306	515,163,038	-0.6
120	LOCAL GOVT & RURAL DEVELOPMENT	900,645,582	892,137,184	-0.9
121	LOCAL GOVERNMENT FINANCE COMMITTEE	147,818,451	159,881,167	8.2
130	LANDS, HOUSING, PHY.PLANNING	1,839,314,400	1,832,715,920	-0.4
180	SPORTS AND CULTURE	273,966,616	253,905,955	-7.3
210	WATER DEVELOPMENT	897,559,624	794,193,725	-11.5
240	OFFICE OF THE VICE PRESIDENT	89,820,000	87,210,256	-2.9
260	FOREIGN AFFAIRS	2,254,300,000	2,180,500,514	-3.3
270	FINANCE	367,459,697	344,117,187	-6.4
278	UNFORESEEN EXPENDITURES	100,000,000	98,000,000	-2.0
300	POVERTY & DISASTER MANAGEMENT	114,371,279	114,007,507	-0.3
340	HOME AFFAIRS & INTERNAL SECURITY	1,291,181,886	91,877,838	-92.9
342	PRISONS	389,029,483	385,118,940	-1.0
351	DPP & STATE ADVOCATE	69,291,860	68,312,070	-1.4
354	LEGAL AID	29,381,000	26,825,213	-8.7
400	TRANSPORT & PUBLIC WOKS	1,167,925,453	1,060,469,364	-9.2
420	NATIONAL ROADS AUTHORITY	10,040,376,000	9,171,882,435	-8.7
472	MINES DEPARTMENT	75,209,762	55,800,000	-25.8
510	ANTI CORRUPTION BUREAU	309,421,860	285,110,772	-7.9
550	OMBUDSMAN	52,547,374	51,796,767	-1.4
570	INDUSTRY,SCIENCE & TECHNOLOGY	179,336,726	171,064,151	-4.6
900	DISTRICT ASSEMBLY	5,139,421,484	2,703,013,611	-1,324.0
Summary				
	Total Personal Emoluments	20,708,164,781	20,448,000,000	-1.3
	Total Development Part I	31,286,000,000	28,864,000,000	-7.7

SOURCE: MINISTRY OF FINANCE

RECOMMENDATION 9

The Ministry of Finance should investigate the factors that prevented the above institutions from spending much of their approved allocations. This will enable the Ministry to allocate public funds prudently.

If the under-spending is due to under-funding by the Treasury, measures of redress should be sought so that the Ministry of Finance should fund these institutions adequately according to their approved budget allocations.

3.8 PERFORMANCE OF PROTECTED PRO-POOR EXPENDITURES (PPES) IN 2005/06

Government spent K37.8 billion on pro-poor activities in 2005/06 which represented an increase of 36.1 percent over the approved budget estimate of K27.7 billion. The increase was on account of high expenditures on HIV/AIDS and food security initiatives, education, health and Labour and Social Development (see Table 5). In real terms, pro-poor expenditures have increased at an annual rate of 29.0 percent from 2001/02 to 2005/06. **Government should be commended for funding the PPE activities adequately.**

However, there are major problems facing pro-poor expenditures (PPEs). The first one is that the definition of PPEs has been changing from time to time since they were developed in the Malawi Poverty Reduction Strategy (MPRS). In addition, the expenditure on the PPE activities is very inconsistent and that on health and education sectors below the social sector targets agreed between Government and donors. These problems make it difficult to track these expenditures. **The expenditures for individual activities are not protected from budget cuts as is the case with the aggregate funding. This would likely affect their implementation and effectiveness in terms of the impact on the poor people.**

RECOMMENDATION 10

The Ministry of Finance should explain why the composition of pro-poor expenditures has kept on changing and should clearly define the criteria for that giving an exact list of PPEs to be funded. The Ministry should also ensure that the expenditures on individual activities within the sectors are also **Protected From Budget cuts and increase consistently over time.**

As noted last year, the Safety Nets (MASAF) programme is not still funded even though Government collected the Safety Nets levy. This needs to be explained as to as to where the proceeds of the levy go to.

RECOMMENDATION 11

The Ministry of Finance should explain why it does not fund the Safety Nets (MASAF) programme using proceeds from the Safety Nets Levy which is collected from fuel every month. How does it use this money then?

Table 5: Protected Pro-poor Expenditures (PPEs) Allocations and Expenditure (K' million)

Hillar/Sector/Activity	2004/05	2005/06		2006/07
	Revised	Approved	Revised	Draft Est
Agriculture and Food Security	1,398.7	12,132.7	19,440.7	6,562.0
Food security initiatives	278.9	11,131.8	18,439.8	-
Agricultural extensions	738.8	686.0	686.0	587.0
Technology generation and technical services	381.0	314.9	314.9	-
Smallholder Farm Inputs subsidy	-	-	-	5,975.0
Water Development	49.3	235.2	235.2	304.0
Rural water supply	34.8	86.2	86.2	145.6
Borehole and dam construction/Rehabilitation	14.6	149.0	149.0	15.9
Smallscale irrigation	-	-	-	142.5
Youth, Sports and Culture	29.4	17.8	17.8	-
Youth development services	29.4	17.8	17.8	-
Education	8,562.5	7,795.5	8,474.6	9,030.8
Primary education	6,174.3	5,842.2	6,400.6	7,098.5
Teaching and learning materials	372.0	372.0	372.0	498.5
Teachers' salary	-	5,470.2	6,028.6	6,560.4
Inspectorate	-	-	-	39.7
Secondary education	1,996.5	1,425.1	1,545.7	1,640.4
Teaching and learning materials	243.1	243.0	243.0	103.8
Teachers' salary	-	1,182.1	1,302.7	1,536.5
Teacher education	389.6	528.2	528.2	291.9
Health	3,522.5	6,150.9	7,571.7	10,287.4
Health workers' training	256.0	737.0	773.8	779.2
Curative health services	905.7	1,574.4	1,874.4	2,751.8
Infrastructure development	125.7	750.1	1,750.1	-
Preventive health care	122.7	424.6	508.6	642.7
Health technical services	612.4	314.8	314.8	-
Drugs	1,500.0	2,350.1	2,350.1	-
CHAM salaries	-	-	-	900.0
District Hospital Expenditure	-	-	-	5,213.7
Women and Child Development	91.0	37.9	37.9	13.1
Gender mainstreaming	-	-	-	-
Adult literacy	60.1	9.1	9.1	9.7
Family Welfare and Gender services	22.6	25.5	25.5	2.7
Child care services	8.3	3.3	3.3	0.7

CONTINUED

Table 5: Protected Pro-poor Expenditures (PPEs) Allocations and Expenditure (K' million)

Hillar/Sector/Activity	2004/05		2005/06		2006/07
	Revised	Approved	Revised	Draft Est	
Police	653.1	978.4	978.4	388.0	
Crime prevention and investigation	282.8	401.2	401.2	160.1	
Community policing	152.4	169.9	169.9	154.6	
Police officer training	217.9	407.3	407.3	73.4	
Anticorruption Bureau	-	-	-	97.5	
Ombudsman	-	-	-	14.9	
Justice	-	117.6	117.6	147.1	
Legal Aid	-	29.4	29.4	28.7	
Law Commission	-	89.0	89.0	55.5	
Director of Public Prosecution	-	69.3	69.3	75.0	
Judiciary	-	-	-	183.0	
Human Rights Commission	-	-	-	14.3	
Labor and Social Development	243.2	58.9	110.0	165.6	
Technical and vocational training	243.2	58.9	110.0	165.6	
Commerce and Industry	70.8	52.3	52.3	24.0	
Industrial development	16.0	34.8	34.8	-	
Enterprise development promotion	29.1	15.2	15.2	24.0	
Cooperatives development	25.6	2.2	2.2	-	
National Roads Authority	-	-	262.7	300.0	
Rural feeder roads	-	-	262.7	300.0	
Mines and Natural Resources	110.4	107.0	107.0	60.3	
Small-scale fishing	66.0	18.2	18.2	40.4	
small-scale mining	44.3	88.8	88.8	19.8	
Tourism	130.7	177.8	177.8	137.7	
Tourism services	46.4	67.5	67.5	-	
Conservation and protection of wildlife	84.3	110.3	110.3	137.7	
HIV/AIDS Initiatives	-	-	-	5,800.0	
National AIDS Commission	-	-	-	5,800.0	
TOTAL	14,861.5	27,744.3	37,771.4	27,672.5	

Source: Ministry of Finance

It is also surprising to note that Ministry of Justice, Legal Aid, Law Commission and the Directorate of Public Prosecution (DPP) are PPE activities. These were not in the original list of PPEs. There are also some PPE activities, such as, research, extension and farmer linkages and supervision of rural roads which have never been funded. If these were identified as core pro-poor activities, why have they not been implemented? Lastly, the future of PPEs within the Malawi Growth and Development Strategy (MGDS) is not clear because the document does not include them. Does this mean that PPE activities will be abandoned when Government begins to implement the new strategy?

RECOMMENDATION 12

The Ministry of Finance should explain why the Ministry of Justice and other governance institutions are PPE activities and why they were introduced at a later stage. The Ministry should also explain why some PPEs have not been funded at all ever since they were developed in the MPRS.

The Ministry should also clarify the future of the PPEs within the framework of the upcoming Malawi Growth and Development Strategy (MGDS).

3.9 LOCAL ASSEMBLIES

The Government allocated a total amount of K5.2 billion for Local Assemblies in the 2005/06 Budget. Out of this amount, the Assemblies spent K2.7 billion which was 47.2 percent less than the approved estimate. The under-expenditure arose mainly from district and city assemblies which underspent their allocations by an average 44 percent (Table 6).

The under-expenditure affects the provision of services in the urban areas which are highly demanded and is defeating the main objective of decentralisation. The under-expenditure could be accounted for by capacity constraints in the Local Assemblies, but mainly it is due to the under-funding of the Assemblies by the Treasury.

RECOMMENDATION 13

To promote the implementation of the decentralization policy, the **Ministry of Finance** should fund District Assemblies adequately according to their approved budget allocations.

**TABLE 6: APPROVED AND REVISED BUDGET ESTIMATES FOR LOCAL ASSEMBLIES
FOR THE 2005/07- 2006/07**

VOTE	MINISTRY/DEPARTMENT	2005/2006 APPROVED	2005/2006 REVISED	% change (2005/06 REV./APP)	2006/2007 DRAFT	% change	
						2006/07 DRAFT/ 2005/06 REVISED	2005/06 APP
900	DISTRICT ASSEMBLY	5,160,041,817	2,723,633,944	-47.2	6,671,678,098	145.0	29.3
	Blantyre City Assembly	32,150,469	25,150,469	-21.8	34,436,488	36.9	7.1
	Lilongwe City Assembly	39,465,146	27,465,146	-30.4	41,043,752	49.4	4.0
	Mzuzu City Assembly	11,570,345	9,570,345	-17.3	13,033,159	36.2	12.6
	Zomba Municipality Assembly	13,690,423	9,690,423	-29.2	13,238,040	36.6	-3.3
	Balaka Town Assembly	2,484,963	2,484,963	0.0	2,584,362	4.0	4.0
	Dedza Town Assembly	2,670,939	2,670,939	0.0	2,777,777	4.0	4.0
	Karonga Town Assembly	2,215,602	2,215,602	0.0	2,304,226	4.0	4.0
	Kasungu Town Assembly	2,774,296	2,774,296	0.0	2,885,268	4.0	4.0
	Liwonde Town Assembly	2,515,074	2,515,074	0.0	2,615,677	4.0	4.0
	Luchenza Town Assembly	2,395,195	2,395,195	0.0	2,491,003	4.0	4.0
	Mangochi Town Assembly	2,933,897	2,933,897	0.0	3,051,253	4.0	4.0
	Salima Town Assembly	2,630,367	2,630,367	0.0	2,735,582	4.0	4.0
	Balaka District Assembly	148,216,117	75,427,471	-49.1	192,388,431	155.1	29.8
	Blantyre District Assembly	337,232,934	128,130,112	-62.0	399,384,582	211.7	18.4
	Chikwawa District Assembly	185,793,410	94,254,402	-49.3	239,367,128	154.0	28.8
	Chiradzulu District Assembly	146,222,625	82,916,464	-43.3	188,577,859	127.4	29.0
	Chitipa District Assembly	113,579,425	68,768,733	-39.5	148,973,473	116.6	31.2
	Dedza District Assembly	223,069,779	113,476,024	-49.1	290,015,644	155.6	30.0
	Dowa District Assembly	205,475,298	112,118,476	-45.4	268,943,144	139.9	30.9
	Karonga District Assembly	130,284,323	74,354,336	-42.9	170,633,134	129.5	31.0
	Kasungu District Assembly	220,257,211	110,881,071	-49.7	290,363,642	161.9	31.8
	Likoma District Assembly	31,649,752	20,351,324	-35.7	41,937,692	106.1	32.5
	Lilongwe District Assembly	504,058,661	192,546,526	-61.8	625,037,261	224.6	24.0
	Machinga District Assembly	177,763,489	93,436,802	-47.4	233,809,111	150.2	31.5
	Mangochi District Assembly	254,107,135	124,896,325	-50.8	330,788,258	164.9	30.2
	Mchinji District Assembly	169,498,990	87,088,634	-48.6	219,695,510	152.3	29.6
	Mmbelwa District Assembly	271,400,661	143,143,169	-47.3	354,817,748	147.9	30.7
	Mulanje District Assembly	207,900,478	109,804,852	-47.2	267,949,761	144.0	28.9
	Mwanza District Assembly	133,973,604	87,910,332	-34.4	174,312,275	98.3	30.1
	Neno District Assembly	16,704,103	16,704,103	0.0	18,648,278	11.6	11.6
	Nkhata Bay District Assembly	127,212,334	76,799,058	-39.6	165,139,121	115.0	29.8
	Nkhota kota District Assembly	144,115,056	80,940,145	-43.8	188,982,070	133.5	31.1
	Nsanje District Assembly	139,162,529	83,611,654	-39.9	179,801,119	115.0	29.2
	Ntcheu District Assembly	193,910,003	104,809,101	-45.9	256,912,531	145.1	32.5
	Ntchisi District Assembly	126,961,955	76,482,529	-39.8	165,217,950	116.0	30.1
	Phalombe District Assembly	139,781,276	76,482,529	-45.3	178,820,962	133.8	27.9
	Rumphi District Assembly	112,990,805	69,518,659	-38.5	150,373,173	116.3	33.1
	Salima District Assembly	176,057,382	106,793,812	-39.3	230,763,590	116.1	31.1
	Thyolo District Assembly	176,057,382	110,653,192	-37.1	279,157,455	152.3	58.6
	Zomba District Assembly	229,108,384	108,837,393	-52.5	297,670,609	173.5	29.9

Source: Ministry of Finance

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GOVERNMENT should also review the implementation of the Decentralization Policy, including capacity constraints. The new organizational structure of Local

ASSEMBLIES should only be implemented after Local Government Elections are held;

Starting with the 2007/08 Budget, the **MINISTRY OF FINANCE** should produce a detailed budget document on Assemblies given that budget devolution is gathering momentum;

3.10 PRIVATISATION PROCEEDS FROM MALAWI TELECOMMUNICATIONS LIMITED (MTL)

The Government privatized the Malawi Telecommunications Limited (MTL) amid protests from the public. The price for the transaction, which was the main bond of contention, was about US\$30 million. From Table 1 on the Budget Framework for the 2005/06 financial year, it is noted that MTL privatization proceeds amounting to K3.9 billion were automatically earmarked for the repayment of domestic debt.

This is contrary to the Privatization Act which requires that the proceeds be kept in the special account in the Reserve Bank of Malawi until such a time that Government designs a project of national importance which is then approved by Parliament. It is only there and then that Government should use the proceeds. It is understood that the money was earlier on earmarked to fund the construction of the Parliament building but this changed after pressure from the International Monetary Fund. The Ministry of Finance needs to explain why the practice here is contrary to the Privatization Act on this matter. The portrayed lack of adherence to the laws of this country is a very serious matter and the Ministry should reconsider such moves. This 'behaviour' is sending the wrong message to the public.

RECOMMENDATION 14

The **Ministry of Finance** should explain why it has unilaterally and automatically decided to use the MTL privatization proceeds, amounting to K3.9 billion, to repay domestic debt instead of using the money to fund a project of national importance approved by Parliament as demanded by the Privatization Act.

3.11 MISMANAGEMENT OF PUBLIC FUNDS AND THEFT OF GOVERNMENT PROPERTY

During the financial year, there continued to be reports of **mismanagement of public funds by public servants**. Recently, there were reports involving mismanagement of funds in our foreign missions. Domestically, there is a case for the theft of drugs, the transactions of treadle pumps remained unresolved and there were increasing reports of Government institutions not following existing procedures to procure goods and services. The loss of public funds

and goods and property in this scrupulous manner is not welcome by the public. These matters should be followed-up with appropriate institutions until the people involved are prosecuted.

RECOMMENDATION 15

The **Ministry of Finance** should follow-up these matters with appropriate institutions and report to Parliament on progress made on them. The Ministry of Finance should also start applying the disciplinary actions and penalties stipulated in the Public Finance and Management (PFM) Act on all Controlling Officers involved in such malpractices to curb it.

4.0 ANALYSIS OF 2006/2007 DRAFT BUDGET ESTIMATES

4.1 MAJOR ASSUMPTIONS UNDERLYING THE BUDGET

The 2006/07 budget has been formulated to further consolidate the gains in macroeconomic stability. The budget has been designed on the basis of an expected strong economic growth of 8.4 percent in 2006 on account of a very good agricultural season, the slowdown in inflation to 10.9 percent and the improvement in the external sector. To achieve these objectives, the overall fiscal deficit will be reduced further to 1.2 percent of GDP in the 2006/07 financial year from 3.4 percent in the 2005/06 financial year (Table 7).

The budget has also been formulated on understanding that Malawi will reach the HIPC Completion Point in the middle of this year. This is more likely to happen because the country has already fulfilled most of the HIPC Completion Point triggers that were part of the conditions to reach the Completion Point and what remains is that Malawi should achieve a successful implementation of the Poverty Reduction and Growth Facility (PRGF) for one year during this financial year.

Reaching the HIPC Completion Point will imply that Malawi will start getting substantial external debt relief under from HIPC and the Multilateral Debt Relief (MDRI) initiatives from the 2006/07 financial year. This will provide more resources for poverty reduction programmes and domestic debt repayment and our external debt service will be reduced significantly from the 2006/07 financial year.

4.2 MAJOR FEATURES OF THE 2006/07 BUDGET

Table 7 shows the budget framework for 2005/06 and 2006/07 financial years. **THE OVERALL OBJECTIVE OF THE BUDGET IS DOMESTIC DEBT REDUCTION.** The Budget plans to repay K1.7 billion of the domestic debt

which is expected to reduce the debt stock to K51.4 billion by the end of the 2006/07 financial year. This objective will be attained through the further reduction of the overall fiscal deficit from K9.3 billion during the 2005/06 financial year to K4.0 billion in the 2006/07 financial year by enhancing the mobilization of more revenue and slowing down the increase in total Government expenditure compared to last financial year.

Total revenue and grants for the 2006/07 is projected to rise by 10.8 percent to K134.7 billion compared to K121.6 billion in 2005/06. Of this amount, K78.1 billion will be domestic revenue and K56.6 billion grants. Out of the domestic revenue, K68.9 billion will come from taxes and the remaining K9.2 billion from non-tax sources (Table 7).

On the other hand, total expenditure is estimated to rise by 8.1 percent from K128.4 billion in 2005/06 financial year to K138.7 billion in the 2006/07 financial year. Of this amount, current expenditure will total K90.0 billion and development expenditure amount to K48.1 billion. The development expenditure represents an increase of 46.8 percent over the 2005/06.

The main programmes that the 2006/07 Budget plans to implement are as follows:

- the holding of Local Government elections (K1.0 billion) with an additional K2.0 billion expected from donors;
- the continued implementation of fertilizer and maize seed subsidy programmes (K5.85 billion);

Table 7: Budget Framework, 2005/06 -2006/07 Financial Years (K' million)

	2005/06 Approved	2005/06 Revised	2006/07 Estimate	% change
Total revenue and grants	116,796	121,620	134,704	10.8
Domestic revenue	65,385	67,682	78,055	15.3
Tax	57,258	58,924	68,852	16.8
Nontax	8,127	8,758	9,203	5.1
<i>of which: maize sales revenue</i>		1,582	800	-49.4
Grants	51,411	53,938	56,649	5.0
Program	13,238	15,245	9,542	-37.4
Project	15,849	12,726	23,852	87.4
Dedicated	14,879	17,815	14,492	-18.7
HIPC debt relief	7,445	7,922	5,078	-35.9
MDRI Debt Relief (IMF)	0	0	3,685	
Total expenditure and net lending	119,499	128,360	138,705	8.1
Total expenditure	119,499	128,360	138,015	7.5
Current expenditure	84,394	95,626	89,962	-5.9
Wages and salaries	20,722	20,448	23,392	14.4
Interest payment	16,628	18,218	15,645	-14.1
Other current expenditures	47,044	56,960	50,925	-10.6
Other purchases of goods and services	21,907	35,687	29,390	-17.6
Generic goods and services	17,256	17,869	20,130	12.7
Health SWAP	4,200	5,584	6,123	9.7
Local Government Elections	251	480	1,000	108.3
Other statutory expenditures	200	200	0	
Maize purchases	5,603	11,554	2,030	-82.4
Pulses and oils	0	1,260	0	
Subsidies and transfers	17,534	19,273	18,535	-3.8
Pension and gratuities	3,208	3,208	4,763	48.5
Fertiliser subsidy	4,757	6,920	5,500	-20.5
Subvention	4,689	5,182	5,816	12.2
Arrears expenditure	2,000	2,000	3,000	50.0
Total development expenditure	35,105	32,734	48,053	46.8
Domestically-financed (Part II)	3,819	3,992	7,770	94.6
Foreign-financed (Part I)	31,286	28,742	40,283	40.2
Net lending	0	0	690	
Overall balance including grants	-2,703	-6,740	-4,001	-40.6
Spending directly related to privatisation	0	2,606	0	-100.0
Augmented balance	-2,703	-9,346	-4,001	-57.2
Financing (net)	2,703	9,346	4,001	-57.2
Foreign (net)	4,908	6,277	5,738	-8.6
Domestic (net)	-2,205	-840	-1,737	106.7
Privatisation proceeds	0	3,909	0	
Statistical discrepancy	0	0	0	
Memorandum:				
Domestic debt	51,718	53,083	51,346	-3.3
Fiscal GDP	263,994	272,291	320,224	17.6

Source: Ministry of Finance

- Maize purchases: Government will purchase a total amount of 100,000 tonnes during the 2006/07 financial year. Of this, Government will buy 63,000 metric tonnes while donors (EU/DFID) will purchase 37,000 metric tonnes;
- implementation of ADMARC Restructuring Programme to streamline the organization and focus it on social activities at a total cost of K437.3 million;
- Pension reforms (K4.8 billion); and retirement of domestic arrears amounting to K3.0 billion;
- ORT will be increased from K17.9 billion in the FY2005/06 to K20.1 billion in the 2006/07; and
- On the development expenditure, the Government intends to construct and rehabilitate dams in various parts of the country and roads and embark on an integrated rural development programme.

The fertilizer subsidy programme for the 2006/07 financial year will be the same as last financial year's at 150,000 tonnes at the cost of K5.5 billion. Government will also implement the maize seed subsidy during the 2006/07 financial year. On the other hand, Government will scale down maize purchases to 100,000 tonnes due to the bumper harvest this year. The maize purchases will cost K2.0 billion. Of the 100,000 tonnes, 60,000 tonnes of maize will be used to replenish the Strategic Grain Reserves (SGR) and the remaining 40,000 tonnes will be for commercial sale through ADMARC. Of the SGR maize, 37,000 tonnes will be financed by the European Union and DFID to the tune of K1.2 billion.

In terms of budget allocation to various sectors of the economy, the largest allocations have gone to Ministries of Agriculture & Food Security and Water and Irrigation. The Ministry of Agriculture and Food Security sectoral allocation now accounts for 12.2 percent of total expenditure and that of the Ministry of Water and Irrigation 1.9 percent. The large allocation to these institutions is to rebuild extension services and irrigation works as ways to strengthen food security in the country.

RECOMMENDATION 16

Given the widespread public views to preserve ADMARC, the Government should not commercialize ADMARC but transform it to its pre-1972 mandate.

4.3 OBSERVATIONS ON THE 2006/07 BUDGET

There are a number of observations made on the proposed 2006/07 Budget. These are as follows:

- **The provision of *Subvention* has an allocation for development expenditure.** Could the Ministry explain this?
- **The *State Residences* overspent slightly in the 2005/06 Budget. However, the *State Residences* allocation has been increased substantially by 50 percent.** Why is the allocation increased by such a high margin? One explanation could be that the *State Residences* overspent in 2005/06 but the Ministry of Finance deliberately allegedly underreported its true expenditure in fear of public scrutiny. Could this be the case?
- **As mentioned earlier, *District Assemblies, Department of Human Resource Management and Development, Ministry of Home Affairs* underspent their allocation by substantial margins in the 2005/06 Budget.** However, surprisingly, these institutions are also amongst the Ministries/Departments whose allocations have been increased substantially in the proposed 2006/07 Budget. Could the Ministry of Finance explain this inconsistency? (see Table 3) How sure is the Ministry of Finance now that these institutions will spend their higher allocations given their poor past record?
- **On PPEs, the proposed allocation for the 2006/07 Budget has been cut by 26.7 percent, down to K27.7 billion.** Can the Ministry explain why this budget cut when these expenditures are not supposed to be reduced?
- **Ministry of HIV/AIDS and Department of Mines still do not have the provisions for personal emoluments in 2006/07**
- **Regarding consistency of budget figure, there is a big discrepancy between total expenditure figure in the 2006/07 Budget Framework and the grand total expenditure figures in Table 4 of the Output-based budget document.** Which are the true total expenditure figures to take?

RECOMMENDATION 17

On the proposed PPEs allocation for 2006/07, the *Ministry of Finance* should either maintain proposed allocation for 2006/07 at to the 2005/06 level of K37.7 billion or increase it instead cutting the allocation to K27.7 billion for 2006/07 Budget as proposed. As the Ministry is aware, these PPEs are protected from any budget cuts.

5.0 POLICY MEASURES AND REFORMS ANNOUNCED IN THE 2006/07 BUDGET STATEMENT

5.1 TAX MEASURES

The 2006/07 Budget has only included tax measures. These tax measures involve *the reduction in income tax, minimum turnover tax, and capital gains tax, introduction of taxation of mining activities, and roll-over relief, improving VAT measures, customs and Excise, updating custom procedure codes and increasing the fuel levy by K1 per litre to raise funds for road maintenance through the public works programme.*

These measures are welcome because **they will reduce the tax burden on the low- and high income people in the country.** It will also enable more physically-challenged persons to access the wheel chairs. The tax measures will also improve investment and the business environment and, therefore, foster private sector growth and development and economic growth in the country. If business activity is stimulated, it will create more wealth and employment to the people in the country, thus contributing to Government overall goal of sustainable poverty reduction through enhancing economic growth, wealth and employment creation.

However, there are concerns on these measures. While the measures are good, the problems relate to the delays and poor administration of these and the whole tax policy by the Malawi Revenue Authority (MRA) in the country. Delays in processing tax refunds, duty drawbacks are infringing a lot of costs on the business community. Secondly, the arrogant behaviour by the MRA in administering these measures and other tax policies creates a disincentive to investment in the country.

RECOMMENDATION 18

The *Ministry of Finance* should discuss with MRA to improve the way it administers and enforces tax policies' collection. The delays in processing tax refunds should be eliminated as soon as possible.

As regards the customs and excise measures, the Ministry should be careful that it does not move fast to open the trade system very quickly in the country under the SADC Trade Agreement. This could result in more imports of consumer goods which will harm the local companies in this country.

RECOMMENDATION 19

Government should be cautious about over-liberalizing trade too quickly under the SADC Trade Agreement because this might hurt Malawian businesses resulting in massive job losses and poverty which is contrary to Government objective of poverty reduction through economic growth, wealth and employment creation.

6.0 INDIVIDUAL VOTES THAT WILL BENEFIT THE MOST FROM THE PROPOSED 2006/07 BUDGET

Table 8 shows the main votes that will benefit most from the 2006/07 Budget allocations are:

- Department of Human Resources Development and Management;
- Ministries of Water Development, Justice, Local Government and Rural Development including its affiliate, the Local Government Finance Committee, Transport and Public Works and Finance;
- The Directorate of Public Prosecution, Legal Aid and the Electoral Commission; State Residences, District Assemblies and National Assembly; and unforeseen expenditures.

The increase in budget allocations for Ministry of Local Government and Rural Development could be explained by the Government objective to implement the integrated rural development programme; planned local Government elections in the case of the Electoral Commission and to build and rehabilitate irrigation facilities and dams in case of the Ministry of Water Development.

TABLE 8: MAIN VOTES THAT WILL BENEFIT MORE FROM THE 2006/07 BUDGET

VOTE	MINISTRY/DEPARTMENT	2005/2006	2005/2006	2006/2007	% change
		APPROVED	REVISED	DRAFT	(2006/07 DRAFT/ 2005/06 REV)
TOTAL STATUTORY EXPENDITURE					
030	PENSIONS AND GRATUITIES	3,208,000,000	3,208,000,000	4,763,000,000	48.5
VOTED EXPENDITURE					
050	STATE RESIDENCES	634,549,258	635,830,942	953,865,092	50.0
080	NATIONAL ASSEMBLY	1,330,686,879	1,503,488,709	2,188,293,648	45.5
090	OPC	2,299,932,122	2,380,315,694	2,588,874,356	8.8
093	HUMAN RESOURCE	1,065,822,093	99,391,821	737,825,639	642.3
097	PUBLIC SERVICE COMMISSION	43,000,000	43,194,652	53,094,236	22.9
099	DIRECTOR OF PUBLIC PROCUREMENT	44,325,218	49,998,208	161,406,400	222.8
101	MALAWI DEFENCE FORCE	2,779,544,000	2,799,680,576	3,357,310,000	19.9
120	LOCAL GOVT & RURAL DEVELOPMENT	900,645,582	892,137,184	1,949,840,793	118.6
121	LOCAL GOVERNMENT FINANCE COMMITTEE	147,818,451	159,881,167	343,830,930	115.1
130	LANDS, HOUSING, PHY.PLANNING	1,839,314,400	1,832,715,920	2,826,060,920	54.2
180	SPORTS AND CULTURE	273,966,616	253,905,955	451,761,788	77.9
210	WATER DEVELOPMENT	897,559,624	794,193,725	2,594,622,812	226.7
250	EDUCATION	12,145,726,385	12,575,472,967	15,608,643,264	24.1
270	FINANCE	367,459,697	344,117,187	741,948,716	115.6
271	ACCOUNTANT GENERAL	2,793,787,606	2,855,758,327	3,959,580,189	38.7
273	MALAWI REVENUE AUTHORITY	1,435,000,000	1,514,000,000	1,721,300,000	13.7
275	SUBVENTIONS	4,688,945,650	5,181,945,650	7,308,486,580	41.0
278	UNFORESEEN EXPENDITURES	100,000,000	98,000,000	280,000,000	185.7
340	HOME AFFAIRS & INTERNAL SECURITY	1,291,181,886	91,877,838	796,159,804	766.5
343	IMMIGRATION	181,282,951	183,360,271	222,485,000	21.3
350	JUSTICE	117,619,906	122,057,309	1,118,522,005	816.4
351	DPP & STATE ADVOCATE	69,291,860	68,312,070	95,312,070	39.5
352	REGISTRAR GENERAL	30,802,000	32,696,053	49,203,129	50.5
353	ADMINISTRATOR GENERAL	21,830,904	22,886,567	30,086,567	31.5
354	LEGAL AID	29,381,000	26,825,213	53,700,000	100.2
370	LABOUR & VOCATIONAL TRAINING	393,026,128	394,045,629	465,470,056	18.1
400	TRANSPORT & PUBLIC WOKS	1,167,925,453	1,060,469,364	2,433,593,047	129.5
460	ELECTORAL COMMISSION	462,070,930	696,729,092	1,528,798,392	119.4
550	OMBUDSMAN	52,547,374	51,796,767	61,942,190	19.6
900	DISTRICT ASSEMBLY	5,160,041,817	2,723,633,944	6,671,678,098	145.0
	GRAND TOTAL EXPENDITURE	#####	#####	#####	9.8

SOURCE: MINISTRY OF FINANCE

However, it is surprising why unforeseen expenditures have gone up sharply. In addition, why is the allocation to District Assemblies and Department of Human Resources and Management being raised when they underspent in the 2005/06?

RECOMMENDATION 20

The *Ministry of Finance* should explain the increase in unforeseen expenditures, District Assemblies and the Department of Human Resource Management and Development because these increases are not justifiable.

ANNEXURE: TABLE 2**TABLE 2: SUMMARY OF APPROVED AND REVISED BUDGET ESTIMATES, 2005/06-2006/07**

VOIE MINSIRY/DEPARTMENT	2005/2006	2005/2006	%change	2006/2007	%change
	APPROVED	REVISED	(REV/APP)	DRAFT	Draft/ REV
STATUTORY EXPENDITURE					
010 THE PRESIDENCY	12,000,000	12,000,000	0.0	12,000,000	0.0
020 COMPENSATION & REFUNDS	1,500,000,000	1,500,000,000	0.0	1,600,000,000	6.7
030 PENSIONS AND GRATUITIES	3,208,000,000	3,208,000,000	0.0	4,763,000,000	48.5
040 PUBLIC DEBT CHARGES	16,628,000,000	18,460,000,000	11.0	15,645,000,000	-15.2
TOTAL STATUTORY EXPENDITURE	21,348,000,000	23,180,000,000	8.6	22,020,000,000	-5.0
VOIE EXPENDITURE					
050 STATE RESIDENCES	634,549,258	635,830,942	0.2	953,865,092	50.0
060 NATIONAL AUDIT OFFICE	242,369,000	232,720,455	-4.0	214,566,604	-7.8
070 JUDICIARY	1,142,687,415	1,049,832,854	-8.1	767,221,368	-26.9
080 NATIONAL ASSEMBLY	1,330,686,879	1,503,488,709	13.0	2,188,293,648	45.5
090 CRC	2,299,932,122	2,380,315,694	3.5	2,588,874,356	8.8
095 HUMAN RESOURCE	1,065,822,093	99,391,821	-90.7	737,825,639	642.3
094 NUTRITION, HIV/AIDS AND NAC	5,308,977,000	5,407,081,000	1.8	5,974,000,000	10.5
097 PUBLIC SERVICE COMMISSION	43,000,000	43,194,652	0.5	53,094,236	22.9
099 DIRECTOR OF PUBLIC PROCUREMENT	44,325,218	49,998,208	12.8	161,406,400	222.8
100 DEFENCE	322,413,449	388,855,139	20.6	396,612,992	2.0
101 MALAWI DEFENCE FORCE	2,779,544,000	2,799,680,576	0.7	3,357,310,000	19.9
110 ECONOMIC PLANNING & DEVELOPMENT	32,150,469	2,734,224,118	8,404.5	2,819,398,833	3.1
111 NATIONAL STATISTICAL OFFICE	518,523,306	515,163,088	-0.6	346,756,884	-32.7
120 LOCAL GOVT & RURAL DEVELOPMENT	900,645,582	892,137,184	-0.9	1,949,840,793	118.6
121 LOCAL GOVERNMENT FINANCE COMMITTEE	147,818,451	159,881,167	8.2	343,830,930	115.1
130 LANDS, HOUSING, PHYS. PLANNING	1,839,314,400	1,832,715,920	-0.4	2,826,060,920	54.2
180 SPORTS AND CULTURE	273,966,616	253,906,955	-7.3	451,761,788	77.9
190 AGRICULTURE AND IRRIGATION	15,171,716,156	22,514,660,360	48.4	16,837,262,468	-25.2
200 SOCIAL DEVELOPMENT & DISABILITY	61,014,374	61,082,549	0.0	67,077,504	9.9
210 WATER DEVELOPMENT	897,559,624	794,193,725	-11.5	2,594,622,812	226.7
240 OFFICE OF THE VICE PRESIDENT	89,820,000	87,210,256	-2.9	94,688,592	8.6
250 EDUCATION	12,145,726,385	12,575,472,967	3.5	15,608,643,264	24.1
260 FOREIGN AFFAIRS	2,254,300,000	2,180,500,514	-3.3	2,345,811,200	7.6
270 FINANCE	367,459,697	344,117,187	-6.4	741,948,716	115.6
271 ACCOUNTANT GENERAL	2,793,787,606	2,855,758,327	2.2	3,959,580,189	38.7
273 MALAWI REVENUE AUTHORITY	1,435,000,000	1,514,000,000	5.5	1,721,300,000	13.7
275 SUBVENTIONS	4,688,945,650	5,181,945,650	10.5	7,308,486,580	41.0
278 UNFORESEEN EXPENDITURES	100,000,000	98,000,000	-2.0	280,000,000	185.7
300 POVERTY & DISASTER MANAGEMENT	114,371,279	114,007,507	-0.3	91,925,512	-19.4
310 HEALTH	8,703,752,857	12,359,707,317	42.0	10,592,466,752	-14.3
320 COMMUNITY SERVICES	88,746,953	953,935,402	6.1	804,459,000	-15.7
330 INFORMATION, COMM. & TOURISM	586,976,013	604,023,362	2.9	606,601,736	0.4
340 HOME AFFAIRS & INTERNAL SECURITY	1,291,181,886	91,877,838	-92.9	796,159,804	766.5
341 POLICE	2,174,248,074	2,340,141,051	7.6	2,598,988,036	11.1
342 PRISONS	389,029,483	385,118,940	-1.0	390,318,940	1.4
343 IMMIGRATION	181,282,951	183,360,271	1.1	222,485,000	21.3
350 JUSTICE	117,619,906	122,057,309	3.8	1,118,522,005	816.4

TABLE 2: SUMMARY OF APPROVED AND REVISED BUDGET ESTIMATES, 2005/06-2006/07 (CONT'D)

VOIE	MINISTRY/DEPARTMENT	2005/2006	2005/2006	% change	2006/2007	% change
		APPROVED	REVISED	(REV/APP)	DRAFT	Draft/ REV
351	DPP & STATE ADVOCATE	69,291,860	68,312,070	-1.4	95,312,070	39.5
352	REGISTRAR GENERAL	30,802,000	32,696,053	6.1	49,203,129	50.5
353	ADMINISTRATOR GENERAL	21,830,904	22,886,567	4.8	30,086,567	31.5
354	LEGAL AID	29,381,000	26,825,213	-8.7	53,700,000	100.2
370	LABOUR & VOCATIONAL TRAINING	393,026,128	394,045,629	0.3	465,470,056	18.1
390	TRADE & PRIVATE SECTOR DEVELOPMENT	733,855,291	773,934,671	5.5	774,105,231	0.0
400	TRANSPORT & PUBLIC WORKS	1,167,925,453	1,060,469,364	-9.2	2,433,593,047	129.5
420	NATIONAL ROADS AUTHORITY	10,040,376,000	9,171,882,435	-8.7	8,068,742,000	-12.0
430	HUMAN RIGHTS COMMISSION	76,571,550	83,666,844	9.3	89,932,068	7.5
460	ELECTORAL COMMISSION	462,070,930	696,729,092	50.8	1,528,798,392	119.4
470	MINES, NATURAL RESOURCES AND ENV. AFFAIRS	3,080,582,808	3,124,499,620	1.4	1,694,144,496	-45.8
471	GEOLOGICAL SURVEYS	49,035,433	50,014,911	2.0	54,901,344	9.8
472	MINES DEPARTMENT	75,209,762	55,800,000	-25.8	61,380,000	10.0
510	ANTI CORRUPTION BUREAU	309,421,860	285,110,772	-7.9	215,649,233	-24.4
550	OMBUDSMAN	52,547,374	51,796,767	-1.4	61,942,190	19.6
560	LAW COMMISSION	88,968,070	106,809,963	20.1	116,750,000	9.3
570	INDUSTRY, SCIENCE & TECHNOLOGY	179,336,726	171,064,151	-4.6	-	-
900	DISTRICT ASSEMBLY	5,160,041,817	2,723,633,944	-47.2	6,671,678,098	4,089.3
	Blantyre City Assembly	32,150,469	25,150,469	-21.8	34,436,488	36.9
	Lilongwe City Assembly	39,465,146	27,465,146	-30.4	41,043,752	49.4
	Muzu City Assembly	11,570,345	9,570,345	-17.3	13,033,159	36.2
	Zomba Municipality Assembly	13,690,423	9,690,423	-29.2	13,238,040	36.6
	Balaka Town Assembly	2,484,963	2,484,963	0.0	2,584,362	4.0
	Dedza Town Assembly	2,670,939	2,670,939	0.0	2,777,777	4.0
	Karonga Town Assembly	2,215,602	2,215,602	0.0	2,304,226	4.0
	Kasungu Town Assembly	2,774,296	2,774,296	0.0	2,885,268	4.0
	Liwonde Town Assembly	2,515,074	2,515,074	0.0	2,615,677	4.0
	Luchenza Town Assembly	2,395,195	2,395,195	0.0	2,491,003	4.0
	Mingochi Town Assembly	2,933,897	2,933,897	0.0	3,051,253	4.0
	Salima Town Assembly	2,630,367	2,630,367	0.0	2,735,582	4.0
	Balaka District Assembly	148,216,117	75,427,471	-49.1	192,388,431	155.1
	Blantyre District Assembly	337,232,934	128,130,112	-62.0	399,384,582	211.7
	Chikwava District Assembly	185,793,410	94,254,402	-49.3	239,367,128	154.0
	Chiradzulu District Assembly	146,222,625	82,916,464	-43.3	188,577,859	127.4
	Chitipa District Assembly	113,579,425	68,768,733	-39.5	148,973,473	116.6
	Dedza District Assembly	223,069,779	113,476,024	-49.1	290,015,644	155.6
	Dowa District Assembly	205,475,298	112,118,476	-45.4	268,943,144	139.9
	Karonga District Assembly	130,284,323	74,354,336	-42.9	170,633,134	129.5
	Kasungu District Assembly	220,257,211	110,881,071	-49.7	290,363,642	161.9
	Likoma District Assembly	31,649,752	20,351,324	-35.7	41,937,692	106.1
	Lilongwe District Assembly	504,058,661	192,546,526	-61.8	625,037,261	224.6
	Michinga District Assembly	177,763,489	93,436,802	-47.4	233,809,111	150.2
	Mingochi District Assembly	254,107,135	124,896,325	-50.8	330,788,258	164.9
	Mthnji District Assembly	169,488,990	87,088,634	-48.6	219,695,510	152.3
	Mtshelva District Assembly	271,400,661	143,143,169	-47.3	354,817,748	147.9

TABLE 2: SUMMARY OF APPROVED AND REVISED BUDGET ESTIMATES, 2005/06-2006/07 (CONTD)

VOIE MINSIRY/DEPARTMENT	2005/2006	2005/2006	%change	2006/2007	%change
	APPROVED	REVISED	(REV/APP)	DRAFT	Draft/ REV
Mlanje District Assenthy	207,900,478	109,804,852	-47.2	257,949,761	144.0
Mwanza District Assenthy	133,973,604	87,910,332	-34.4	174,312,275	98.3
Neno District Assenthy	16,704,103	16,704,103	0.0	18,648,278	11.6
Nkhata Bay District Assenthy	127,212,334	76,799,088	-39.6	165,139,121	115.0
Nkhatakota District Assenthy	144,115,066	80,940,145	-43.8	188,982,070	133.5
Nsanje District Assenthy	139,162,529	83,611,654	-39.9	179,801,119	115.0
Ntchou District Assenthy	193,910,003	104,809,101	-45.9	256,912,531	145.1
Ntchisi District Assenthy	126,961,955	76,482,529	-39.8	165,217,950	116.0
Phalombe District Assenthy	139,781,276	76,482,529	-45.3	178,820,962	133.8
Rumphi District Assenthy	112,990,805	69,518,669	-38.5	150,373,173	116.3
Salima District Assenthy	176,057,382	106,793,812	-39.3	230,763,590	116.1
Thyolo District Assenthy	176,057,382	110,653,192	-37.1	279,157,455	152.3
Zomba District Assenthy	229,108,384	108,837,393	-52.5	297,670,609	173.5
STATUTORY EXPENDITURE					
Personal Emoluments	12,000,000	12,000,000	0.0	12,000,000	0.0
Other Recurrent Transactions	21,336,000,000	23,168,000,000	8.6	22,008,000,000	-5.0
Total Recurrent	21,348,000,000	23,180,000,000	8.6	22,020,000,000	-5.0
Pension and Gratuities	3,208,000,000	3,208,000,000	0.0	4,763,000,000	48.5
Public Debt Service	16,628,000,000	18,460,000,000	11.0	15,645,000,000	-15.2
TOTAL STATUTORY EXPENDITURE	21,348,000,000	23,180,000,000	8.6	22,020,000,000	-5.0
VOIE EXPENDITURE					
Total Personal Emoluments	20,708,164,781	20,448,000,000	-1.3	23,359,000,000	14.2
Total Other Recurrent Transaction	42,338,041,644	52,540,399,374	24.1	46,057,727,573	-12.3
TOTAL VOIE EXPENDITURE	63,046,206,425	72,988,399,374	15.8	69,426,727,573	1.9
CAPITAL EXPENDITURE					
Total Development Part I	31,286,000,000	28,864,000,000	-7.7	40,283,799,000	39.6
Total Development Part II	3,819,000,000	3,991,600,626	4.5	7,770,940,000	94.7
TOTAL DEVELOPMENT	35,105,000,000	32,855,600,626	-6.4	48,054,739,000	46.3
TOTAL VOIED+NON-VOIED					
Personal Emoluments	20,708,164,781	20,448,000,000	-1.3	23,371,000,000	14.2
Other Recurrent Transaction	63,674,041,644	75,708,399,374	18.9	68,075,727,573	-10.1
Total Development Part I	31,286,000,000	28,864,000,000	-7.7	40,283,799,000	39.6
Total Development Part II	3,819,000,000	3,991,600,626	4.5	7,770,940,000	94.7
GRAND TOTAL	119,499,206,425	125,696,072,080	5.2	138,015,000,000	9.8

Source: Ministry of Finance