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**Investigating Public Financial Accounts and  
Coding System in Malawi and Measuring Agricultural  
Expenditures within the System**

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## ABSTRACT

The Comprehensive Africa Agriculture Development Program encourages African governments to allocate a significant portion of public expenditures to agriculture sector. This is premised on the assumption that agriculture is an important driver of growth, poverty reduction and food security and hence agriculture spending also has potential to significantly impact on these areas. Considering many and complex public expenditure statistics systems, it is important to understand how the expenditure statistics are captured for the efficient allocation of resources going to this sector. This paper is one of the four diagnostic studies initiated to better understand the *black box* of public expenditure statistics and how it varies across countries. Particularly, this paper analyzes how government expenditures in agriculture are captured in Malawi's public financial accounts. It is anticipated that by providing a clear exposition of the manner in which public agriculture expenditures are identified and aggregated using the existing coding structure, this paper would facilitate easy understanding of the levels and composition of the public agricultural expenditures. Such an understanding would ultimately be necessary for determining the link between such allocations and their impact on agricultural growth and hence economic growth. The report starts with a brief background on reforms in the public financial accounts starting with the adoption of the structural adjustment in the 1980s. This is followed by an analysis of the budget and expenditure classification and coding system and a description of the public agriculture expenditure in Malawi. The consolidation and aggregation of data are based on the administrative, program, economic, and functional classification. One of the main findings show that overtime reforms to classification and coding system ensured compliance to international standards as provided in the 2001 Government Finance Statistics of International Monetary Fund and better linkages of expenditure items to the Malawi Growth and Development Strategy. It is noted that the presentation of budget and expenditure information has changed from a narrative style to an Integrated Financial Management Information System using codes. In addition, agriculture data are scattered across many government administrative structures from the central to the local government. The agriculture budget and expenditures have remained above the Maputo Commitment of allocating at least 10 percent of the national budget to the agriculture sector. However, more than 50 percent of allocations have gone to farm input subsidies. There is a need to improve on the classification and coding system of the development projects in agriculture to ensure transparency and accountability of allocating capital investment in the sector.

**Keywords:** classification, public agriculture expenditure, coding system, Malawi

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This paper has not gone through IFPRI's standard peer-review procedure. The opinions expressed here belong to the authors, and do not necessarily reflect those of PIM, IFPRI, or CGIAR. Any errors are the sole responsibility of the author.

## ABBREVIATIONS AND ACRONYMS

ADD	Agriculture Development Division
ASWAp	Agriculture Sector Wide Approach
CAAA	Consolidated Annual Appropriation Accounts
CoA	Chart of Accounts
COFOG	UN Classification of Functions of Government
FISP	Farm Input Subsidy Program
GFS	Government Finance Statistics
GOM	Government of Malawi
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
MGDS	Malawi Growth and Development Strategy
MoAIWD	Ministry of Agriculture, Irrigation and Water Development
MoFEPD	Ministry of Finance, Economic Planning and Development
MTEF	Medium Term Expenditure Framework
OPC	Office of the President and Cabinet
RBM	Reserve Bank of Malawi
WB	World Bank



# 1. INTRODUCTION

## Focus of the Report

This paper is one of the four diagnostic studies initiated to better understand the *black box* of public expenditure statistics and how it varies across countries. Particularly, the paper analyzes how government expenditures in agriculture are captured in Malawi's public financial accounts. Particularly, the focus is on how agriculture expenditures are identified and aggregated using the existing coding structure. By focusing on the agricultural sector, the paper attempts to demonstrate whether the available systems are capable of providing these data to various stakeholders that may require only a subset of the budget and expenditure data from the system. In addition, it is anticipated that this paper will facilitate easy understanding of the levels and composition of the public agricultural expenditures. Such an understanding would ultimately be necessary for determining the link between allocations to the agriculture sector and their impact on agricultural growth or other indicators.

After understanding the capture of agriculture expenditures in Malawi's public financial accounts, this paper continues to consolidate and analyze the agriculture expenditures data based on the administrative arrangements of the Ministry of Agriculture from headquarters to the district levels. Important to note, the paper attempts to provide the agriculture budget and expenditure data based on the cost center, the functional and economic classification for various stakeholders who might be interested in the data for further expenditure management research and public policymaking.

## Historical Context of the Malawi Public Financial Management and Budget Structure

Malawi's Public Financial Management reforms started in the mid-1980s under the auspices of the World Bank structural adjustment program. At the fore of the reform agenda was the desire for the budget preparation process to embody forward budgeting, a feature that came to be known as the Medium Term Expenditure Framework (MTEF) in the mid-1990s, and the introduction of the Public Sector Investment Program. In the period that ensued, MTEF and the Public Sector Investment Program became central attributes of the budget framework and corresponding expenditure data structure. One of the main components of the reforms was reallocation of expenditures to priority activities, the preparation of activity-based budgets, and making a clear distinction between the recurrent and development budgets (Malawi, MoFEP 2000). Besides, under MTEF, it was required that formulation of the budget not only address short-term needs but also consider the needs of the country in the medium term. As such, every year budget planning was to incorporate revenue and expenditure forecasts for two more years subsequent to the planning year. Further than MTEF, GOM introduced other initiatives in a bid to strengthen its Public Financial Management systems including the cash budgeting system in 1996, cash management improvements in 2000 in the form of the Credit Ceiling Allocation System, and the initiation of the first phase of the Integrated Financial Management Information System (IFMIS) in 1996 (Fölscher, Mkandawire, and Faragher 2012).

Many studies have noted that progress in implementing MTEF in Malawi was quite dismal during the first five years of its rollout. A review by the government as reported by the Malawi, Ministry of Finance and Economic Planning (2000) points out that while some reallocation of resources toward priority areas had taken place, it was not necessarily due to MTEF. Second, the integration of the recurrent and development budgets had not taken place, and substantial off-budget expenditures were still the order of the day. However, the review also identified some crucial success factors that it recommended be implemented in subsequent years to ensure that progress be attained. In addition, the observed weaknesses of the previous legal frameworks influenced the formulation and enactment of a new Public Finance Management Act, Public Audit Act, and Public Procurement Act in 2003.

In 2005, the government adopted IFMIS to strengthen internal controls and provide reliable accounting information for financial reporting and accurate performance measurement (Fölscher, Mkandawire, and Faragher 2012). Although the system has made strides, accessibility of data by the public from the system remains limited, and transactions under the development budget, especially foreign-financed projects, are still being manually processed using cash controls. Recently, the system faced yet another significant financial scandal with the discovery that some people were processing fraudulent transactions through the IFMIS system during the first quarter of the 2013–2014 fiscal year. An external forensic audit revealed that about MWK (Malawian kwacha) 13 billion of public coffers got lost through these malpractices. As reported in the *Annual Economic Report* of 2014 (Malawi, MoFEPD 2014c), the government formulated and started implementing a comprehensive action plan as a measure to strengthen public finance management. One key action involved the upgrading of the IFMIS system internal controls. Simultaneously, to curb such malpractices, the government arrested many unscrupulous individuals who manipulated the payment system and are now answering court charges. However, there have been negative repercussions, which have led to donors' withdrawing budget support for the 2014–2015 national budget (Malawi, MoFEPD 2014a).

In the 2007–2008 fiscal year, the government started piloting implementation of a local government IFMIS system using Serenic Navigator Software with five local authorities. This system comprises the general ledger, accounts payable, bank administration, stores management, and revenue management modules. This system has been rolled out to all local authorities such that computation of the 2012–2013 actual expenditure figures employed this system. Although progress has been noted in the timeliness of the closure of the accounts and the production of the financial statements for audit, control systems are still a concern as the system continues to use nonelectronic fund transfers, nonelectronic bank reconciliation with the Reserve Bank of Malawi (RBM), and noninterface with payroll (World Bank 2013).

The reforms continued in 2011 by formulating a comprehensive Public Financial and Economic Management reform program (Malawi, MoFEPD 2011) informed by the 2011 Public Expenditure and Financial Accountability report with the summary of findings and scores provided in Table 1.1.<sup>1</sup> The reforms aimed at bringing together the different aspects of financial and economic management that cover the planning, financial, and reporting cycle of the government budget. Particularly, the reforms continued addressing challenges faced in the execution of the national budget whereby the government continued to incur high revenue collection and overexpenditures against approved targets. The reforms also focused on improvement of the budget classification system in compliance with 2001 government finance statistics (GFS) and linkages of expenditures to the Malawi Growth and Development Strategy (MGDS) activities. The latter part aimed at strengthening policy-based budgeting by improving proper alignment between expenditure planning and resource prioritization on the one hand and priorities identified in MGDS on the other. Other important reform aspects include strengthening predictability and control in budget execution; accounting, recording, and reporting; and audit and external scrutiny.

Although not much significant, the average performance indicator score in Table 1.1 shows a positive trend between PEFA 2008 and PEFA 2011 in the dimension of budget credibility and policy based budgeting. However, dimensions on accounting and reporting, external scrutiny and audits performed poorly despite Malawi implementing many reforms over the period under the review.

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<sup>1</sup> Government of Malawi (GOM)/European Union (EU) report on Public Finance Management Assessment for Malawi based on the Public Expenditure and Financial Accountability framework. An EU-funded project report prepared by Pohl Consulting and Associates GMBH, March 2011.

**Table 1.1 PEFA 2011 and 2008 average scores for each PFM dimension**

Dimension of PFM	PEFA 2011			PEFA 2008		
	Numeric total of indicators score	Numeric average	Average performance indicator score	Numeric total of indicators score	Numeric average	Average performance indicator score
Budget credibility	11	2.75	C	15	3.75	C <sup>+</sup>
Comprehensiveness and transparency	27	4.50	B/C <sup>3</sup>	23	4.00	C <sup>+</sup>
Policy-based budgeting	9	4.50	B/C <sup>3</sup>	9	4.50	B/C <sup>+</sup>
Predictability and control in budget execution	33	3.70	C <sup>+</sup>	35	3.90	C <sup>+</sup>
Accounting, recording, and reporting	10	2.50	D <sup>+</sup> /C <sup>3</sup>	15	3.75	C <sup>+</sup>
External scrutiny and audit	6	2.00	D <sup>+</sup>	11	3.70	C <sup>+</sup>

Source: Adapted from GOM/European Union (2011).

Note: PEFA = Public Expenditure and Financial Accountability; PFM = Public Finance Management The table highlights the summary of PFM performance indicators under five dimensions (categories). Each dimension of PFM has several indicators, and numeric average scores and performance indicators average scores using letters are compared between the 2008 and 2011 PEFA assessments.

Furthermore, the reforms continued with an emphasis on strengthening the IFMIS system by introducing more modules including control systems. Particularly, some of the key areas that the reform efforts emphasize include the improvement of the interface of IFMIS with the procurement and payroll system, which are operated outside the system. Another specific task is improving and integrating the Chart of Accounts (CoA) in the IFMIS system. In 2013–2014, the government commenced piloting the program-based budgeting process, and the Ministry of Agriculture, Irrigation and Water Development (MoAIWD) is one of the piloted ministries. Specifically, the program-based budgeting process implies that budgets are formulated and appropriated by votes programs, which are aligned to the strategic objectives of the votes. The purpose of introducing this budget process is to improve the clarity and transparency of resource allocation and performance and making it easier for users of budget documents.

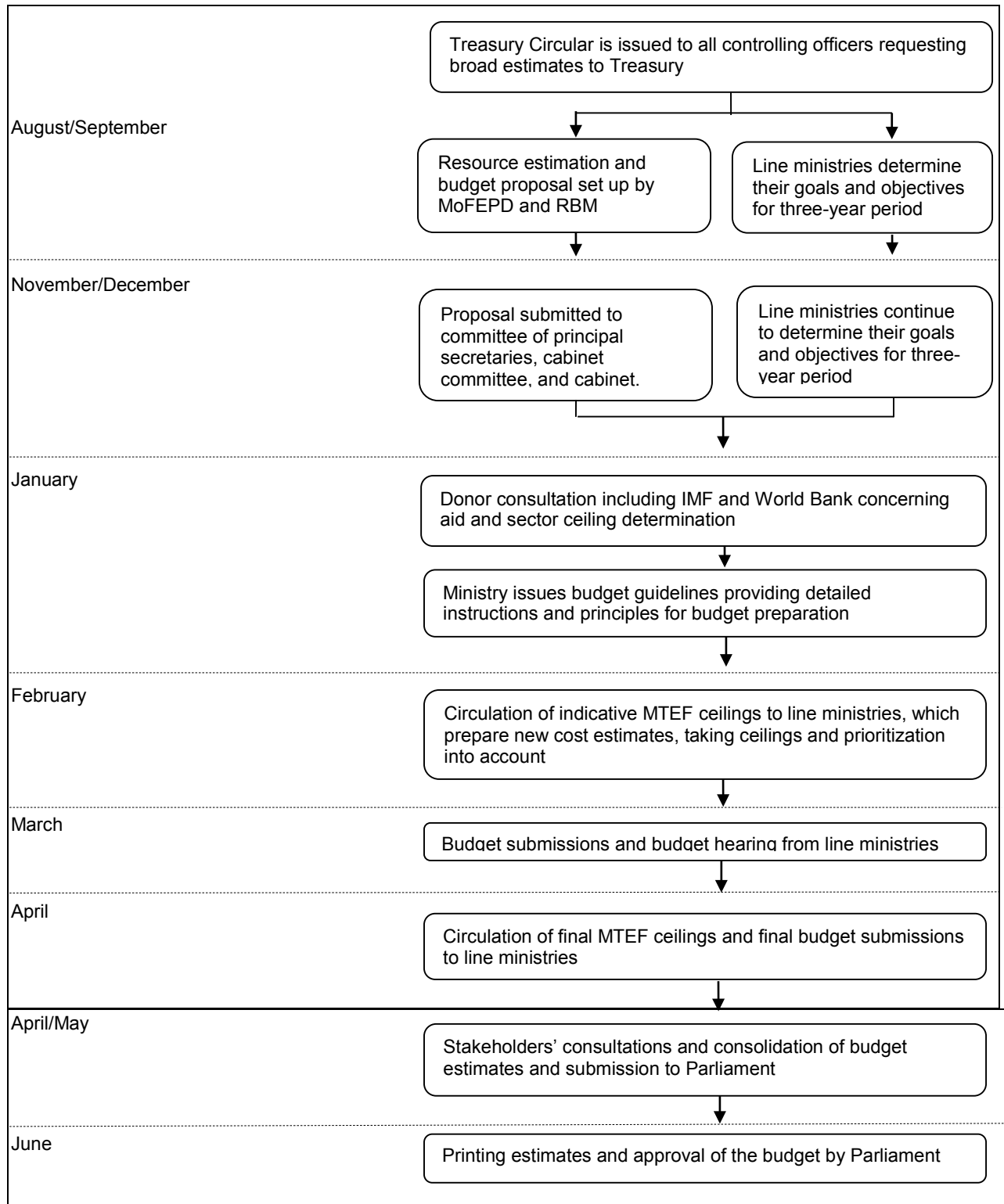
## **2. BUDGET AND EXPENDITURE CLASSIFICATION AND CODING SYSTEM IN MALAWI**

### **The Budgeting Process and Expenditure Reporting in Malawi**

The whole process of budgeting can be prescribed through the budget cycle with a definite set of procedures and a precise timetable as indicated in Figure 2.1. Generally, the process begins with the Ministry of Finance, Economic Planning and Development (MoFEPD) issuing a Treasury Circular to ministries instructing them to begin preparing estimates of their needs based on the MTEF framework. Particularly, the budgeting figures are projected on a rolling basis for both the budget year and the following two years. However, the Malawi MTEF approach is not fully embraced as the actual budget discussions and implementation of the budget concentrate on the single-year analysis. Simultaneously, MoFEPD, together with RBM in close consultation with the International Monetary Fund (IMF) and the World Bank, prepares the macroeconomic framework agreeing on the resource envelope, level of gross domestic product, price levels, and intended government expenditures. In parallel, line ministries determine their goals, objectives, and costed activities for the three-year period guided by MGDS, Vision 2020 and individual sector strategies and submit the estimates to MoFEPD.

Internal consultations are held with the committee of principal secretaries, a cabinet committee on the economy, and the cabinet as a whole on the macroeconomic framework by November/December. While respective ministries and departments continue to prepare their estimates, further consultations with donors are held, and budget guidelines to line ministries are issued in January. Indicative MTEF ceilings are circulated to line ministries in January/February and are used to prepare new cost estimates, taking ceiling and prioritization of activities into account. By March, budget submissions and budget hearings are conducted, and final MTEF ceilings are provided in April. Based on the Public Finance Management Act, further consultations are held with the general public including the Budget and Finance Committees of Parliament throughout the country, which are organized in the three regions. After these consultations, MoFEPD consolidates the budget estimates to be presented to Parliament for deliberation and approval in June.

**Figure 2.1 Budget cycle**

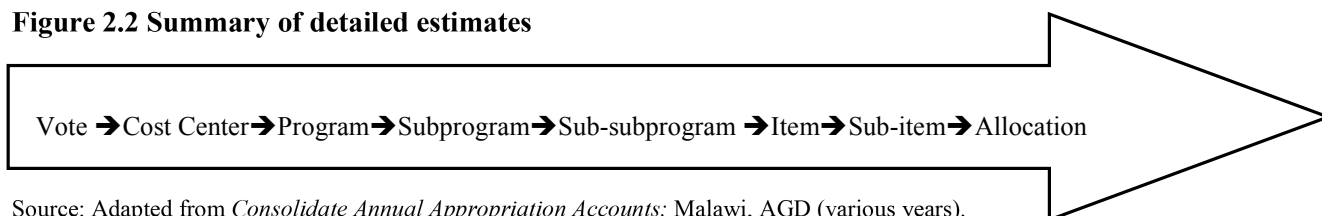


Source: Compiled by the author based on Malawi, MoFEPD (2014b). However, a full detailed budget calendar explaining all the budget processes from budget preparation to budget execution and monitoring is provided in Malawi, MoFEPD (2009).

Note: IMF = International Monetary Fund; MoFEPD = Ministry of Finance, Economic Planning and Development; MTEF = Medium Term Expenditure Framework; RBM = Reserve Bank of Malawi.

The Malawi budget is presented in five documents. The first document is the budget statement presented by the minister of finance on the broad policy framework underpinning the budget for that particular year. The second is an annual economic report, which outlines the economic context and corresponding assumptions within which the budget may have been formulated. The third document is the financial statement, which broadly outlines the revenue sources and intended expenditure outlets of the budgeted sources. The fourth document contains detailed estimates, which outline line items of expenditures. The detailed estimates are provided at the sub-item level and build onto the item level before building further to the sub-subprogram then the subprogram level, which consolidates into the program level. The program is further consolidated into the vote, and votes make up the national budget (see Figure 2.2 for a summary). The fifth document is the output-based budget, which links allocations and expenditures to their corresponding outputs and output target levels. This document offers valuable information for budget monitoring and analysis.

**Figure 2.2 Summary of detailed estimates**



Source: Adapted from *Consolidate Annual Appropriation Accounts*; Malawi, AGD (various years).

The execution of the budget estimates is left in the hands of the accounting system, which does the procurement, payment procedures, and reconciliation. This process involves RBM and commercial banks through which ministries and departments transact. MoFEPD produces quarterly and midyear financial monitoring reports, which are posted on the web. As provided in the Public Finance Management Act, MoFEPD produces the Consolidated Annual Appropriation Accounts (CAAA), which are published six months after the end of the fiscal year. The process also involves the National Audit Office that audits all Malawian institutions based on the CAAA reports produced by MoFEPD. As prescribed in the constitution of Malawi, the Annual Audit Report is produced by the auditor general but tabled in Parliament by the minister of finance and handed over to the Public Accounts Committee, which arranges a separate hearing. This is in contrast to what is prescribed in the current Public Audit Act, which allows the auditor general to produce the audit report and report directly to Parliament. This is one of the anomalies observed between the constitution and what is provided in the Public Audit Act, which will require amendment.

### **Description of Budget and Expenditure Classification**

The term *budget classification* may be defined as the consolidated framework of budget narratives, codes, or both that are used to define specific revenue and/or expenditure transactions during the budget programming, approval, and execution stages. As such, it tends to be the same scheme that is employed in any ex post analyses of the budget just like reporting of the budget execution process. A sound budget classification system is critical for ensuring that budget information is comprehensively and correctly recorded because this allows proper management of the budget during execution but also enables easy performance measurement (Jacobs, Héris, and Bouley 2009). The Malawi budget framework employs a fusion of several budget classification systems including administrative and economic functions as well as program classification systems. Such an approach is common in many countries because each classification system serves its own purpose.

The introduction of IFMIS in 2005 made it necessary that the presentation of budget and expenditure information be changed from the narrative style to a succinct and IFMIS-compatible way that employs a numerical coding system. This would enable the government to input the approved budget information into the IFMIS system to facilitate smooth budget execution by spending through the system

electronically, thereby restraining any expenditure beyond the budget. Second, it was envisaged that the IFMIS system would eventually link the planning stage of the budget through its execution and reporting. This would be attained by making the requisite inbuilt modules operational, including the general ledger and/or commitment control and accounts payable, bank administration, stores management, and revenue management modules. Either way, it became necessary to enhance the use of codes that employ numbers to denote the various descriptive narrations of budgetary information to attain such a linkage in the system and all forms of budget and expenditure classifications. Otherwise, these narratives would themselves not be recognized in the IFMIS system.

The migration process from the narrative to the coding system was not very taxing because the budget and expenditure information already had been using a combination of codes and narratives. However, the prevailing CoA needed to be made more robust to ensure not only that it was comprehensive but also that it conformed to international practices as may be required by cooperating partners such as IMF and that it must be able to allow users to prepare legally acceptable financial statements.<sup>2</sup> The government therefore undertook revamping its CoA from September 2009 and came up with a set of accounts that became effective in the 2011–2012 financial year.

The new CoA for Malawi, which provides all the codes being used in budget presentation and financial reporting, has a total of 32 digits divided into four segments. These four segments fall along the four budget classification systems that the country’s budget is using. Table 2.1 provides details of the four budget and expenditure classification systems and corresponding CoA segments and categories, along with their respective attributed length of codes.

**Table 2.1 Budget and expenditure classification and Chart of Accounts**

Budget and expenditure classification	Classification objectives	Chart of Accounts segment	Category description	Attributed length
Administration classification	Identification of the public entity that is responsible for either the collection, in the case of revenue, or managing expenditures of the budget—Malawian scenario identifies the controlling officer as the ultimate overseer of all resources under a vote.	Administration— with 14 digits	Vote	3
			Budget type	1
			Cost center	3
			Division	2
			Donor	2
			Project	3
Program classification	Organizing budget and expenditures within more focused areas of operation that also draws on the focused mandates for the implementing entity.	Program classification— with 5 digits	Programs	2
			Subprogram	2
			Sub-subprogram	1
Functional (MGDS output) classification	Organizing the budget and expenditures along the government’s broad goals and objectives. This framework has been linked to the objectives, outputs, and activities stipulated in the national development blueprint, MGDS, initially MGDS I and currently MGDS II.	MGDS output classification— with 6 digits	Objectives (sub-subtheme)	2
			Outputs	2
			Activities	2
Economic (GFS) classification	Identification of the type of the expenditure incurred, in terms of inputs, as provided through the detailed estimates framework with indication of the items and sub-items under which resources are provided and spent.	Economic (GFS) classification— with 7 digits	Chapter	1
			Subchapter	2
			Item	2
			Sub-item	2

Source: Author’s compilation based on Malawi, AGD (various years) and Malawi, MoFEPD (2009).

Note: GFS = Government Finance Statistics; MGDS = Malawi Growth and Development Strategy.

<sup>2</sup> As prescribed in the Malawi Public Financial Management Act for the Government of Malawi.

Soon after budget approval, the approved provisions are uploaded into the IFMIS system from which payments are electronically generated during execution. As such, the budget expenditure data are also captured along the same framework that is employed at budgeting. Table 2.2 provides an electronic extract of the budget expenditure report for MoAIWD representing all the budget and expenditure classifications in one coding item. For instance, salaries spent on established staff in MoAIWD at headquarters can be represented by the following electronic code: 19010010000000010120000002011001. As in Table 2.2, this code can be broken down into an identified combination of administrative, program, function, and economic classification. This is one of the notable improvements of the budget and expenditure classification and coding system. Although the functional classification is included in the coding structure, the government is still working on improving this classification by linking with the appropriate MGDS priorities, themes, and activities.

**Table 2.2 Example of budget and expenditure classification and codes in the ministry**

Budget and Expenditure Classifications	Category	Description	Length
Administrative classification	Vote	For example, MoAIWD	190
	Budget type	Recurrent budget	1
	Cost center	For example, headquarters	001
	Division	Not in use	00
	Donor	Not in this case	00
	Project	Not in this case	000
Program classification	Program	Agriculture and food security	01
	Subprogram	Irrigation services	01
	Sub-subprogram	Irrigation engineering	2
Functional (MGDS output)	Objective (sub-subtheme)	Not in this case	00
	Outputs	Not in this case	00
	Activities	Not in this case	00
Economic (GFS)	Chapter	General expense	2
	Subchapter	Wages and salaries	01
	Item	Salaries	10
	Sub-item	Established staff	01

Source: Author's compilation based on Malawi, AGD (various years) and Malawi MoFEPD (various years).

Note: GFS = Government Finance Statistics; MGDS = Malawi Growth and Development Strategy; MoAIWD = Ministry of Agriculture, Irrigation and Water Development.

## **Analysis of Data on Budget and Expenditure Classification**

### ***Administrative Classification***

The main purpose of administrative classification is to link the budgets and expenditures with public entities that are responsible for either the revenue collection or managing expenditures of the budget. These entities are then expected to capture all budget and expenditure data as execution takes place. At the fore of this classification system is the vote-level responsibility, which in the Malawian context is assigned to the controlling officer as the ultimate overseer of all resources under the vote.

As indicated in Table 2.2, this classification system is taken care of by the 14-digit administration segment of the CoA, which is itself subdivided into six categories. The first and perhaps the one that assigns unique numeric codes is the vote category. As such, the existing CoA captures vote-level data without any major challenges, only by defining the corresponding vote code. Such data were collected at the ministerial level as well as at the local council level for each fiscal year as indicated in Table A.1 in

the appendix.<sup>3</sup> The central government takes almost 95 percent of the total national expenditure, and the remaining balance of 5 percent goes to the local councils. The vote-level data comprise recurrent expenditures as well as expenditures under the development budget, which is yet another category of this segment of the CoA. The two components were captured separately under each one of the votes. It will be noted that allocations to local authorities do not include development expenditures as they are not yet decentralized.

Analyzing this vote-level expenditure data as provided in Table A.1 shows that a total of 104 votes are employed to implement the budget in the nine-year period herein cited. These include the first four statutory nonvoted expenditures under Presidency, Compensations and Refunds, Pensions and Gratuities, and Public Debt Charges. The other 100 of the voted expenditures constitute 60 votes and subvotes for central ministries, departments, and other public entities and 40 Local Authority votes also known as Councils.

Notwithstanding the unique nature of the vote category in the CoA, there have been frequent changes to the status of some votes over the years under review, which tends to compromise continuity of the budget and expenditure data for such votes (see Table A.1). For instance, Poverty and Disaster Management Affairs used to be head vote number 300 in years preceding 2006–2007 but was changed to fall under Office of the President and Cabinet (OPC)<sup>4</sup> as a subvote only in the 2006–2007 fiscal year before being completely absorbed into the OPC head vote. As such, data under this entity as a head vote were only captured for the 2005–2006 fiscal year and only for the 2006–2007 fiscal year as a subvote. Similarly, Science and Technology was captured as head vote in 2005–2006 and changed to be a subvote under OPC in the subsequent year before being absorbed by the Ministry of Education, Science and Technology in 2007–2008. In 2009–2010, Science and Technology became a stand-alone head vote again before being taken up by the ministry just the following year. As such, data on this were captured in the 2005–2006 and 2009–2010 fiscal years as a head vote entity and in the 2006–2007 fiscal year as a subvote.

It will be appreciated from the foregoing paragraph that changes in government administrative structure have had an impact on the structure of the budget votes and subvotes during the period under review. Notwithstanding these changes in the status of some entities as either votes or subvotes, the vote and subvote codes, which form the first three digits in the first segment of the Malawi CoA, have been consistently used to refer to the same public entities during the entire period under review. For instance, whenever Science and Technology became a stand-alone vote, it was using 300 as its vote code. It may also be worthwhile to point out that all of the head votes employ a 10th number as their codes such as 090 for OPC, 100 for Ministry of Defense, and 120 for the Ministry of Local Government and Rural Development. The subvotes on the other hand add units to the head vote codes such as 092 for the Department of Disaster Management Affairs, which falls under OPC; 101 for the Malawi Defense Force, which falls under the Ministry of Defense; and 121 for the National Local Government Finance Committee, which falls under the Ministry of Local Government and Rural Development.

The major impact of these changes on efficacy of budget planning and accountability in terms of expenditure reporting is that whenever a vote is absorbed into another vote, which tends to happen quite often, the expenditures for that vote will be reported in a vote that does not have its approved budget provisions. This tends to paint an erroneous picture of any budget execution variances that may have been observed. A case in point was in the 2011–2012 financial year when the Ministry of Irrigation and Water Development got absorbed into the Ministry of Agriculture and Food Security. Second, these changes do affect negatively the trend analysis of budget and expenditure data in terms of both level of expenditure and composition of the same.

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<sup>3</sup> These data were physically captured from various volume 1 documents of the *Consolidated Annual Appropriation Accounts* for each one of the corresponding financial years, ending June 30; as prepared by the Accountant General.

<sup>4</sup> The vote has three-digit numbers; the first two digits represent the main vote, and the last digit represents the subvote. For instance, Office of the President and Cabinet is represented by 090, and Poverty and Disaster Management Affairs as a subvote under Office of the President and Cabinet is represented by 092 (Accountant General's Department various years).

The major challenge with respect to cost center codes in the national budget framework is that there are about 1,345 cost centers in the CoA. As such the three-digit codes for this category do not assign unique codes to each one of the cost centers, leading to sharing of similar codes among various cost centers across the CoA, especially for the lower-digit numbers. Since these duplications are for cost centers in different votes, the combination of the vote level codes and the cost center codes tends to alleviate this problem and makes analysis easy.

At the vote level, the cost center codes have remained significantly the same during the period for which data were collected. The only difference is that five new cost centers were created to cater to expenditures under the departments of Extension, Livestock, Crops, Agricultural Research, and Land Resources at their respective headquarters. These departments all fell under the Headquarters cost center previously. It is a relief to note that the cost center codes for these additional cost centers simply continued from where the previous numbers stopped.

### ***Program Classification***

This classification follows the UN Classification of Functions of Government (COFOG) framework and constitutes a number of programs that each ministry and department can choose as relevant to its respective mandates. According to IMF guidelines, the programs may cut across several ministries and departments, but subprograms and sub-subprograms are expected to be restricted within single ministries and departments. At a macro level, the programs may not change much during the review period in terms of description, but code numbers previously used to denote some particular programs have since 2009 been used to refer to different programs after the review of the CoA (Table 2.3). For instance, 01 was the code used to denote the Administration and Support Services program up to 2008–2009 but is now used to denote the Agriculture and Food Security program. The same scenario obtains for code 14, which initially referred to Extension Services but was for 2009–2010 and 2010–2011 used to denote the Economic and Financial Services program.

In addition to the program code changes, the program structure of the agricultural vote has seen several changes during the period under review as many programs have been either added or removed from the structure for many reasons including changes in the government administrative structure that at times entailed moving some functional departments from one ministry to the other. For instance, the Ministry of Agriculture vote has included a program named Fisheries and Aquaculture Development since 2007–2008, when the Department of Fisheries was moved from the Ministry of Environmental Affairs to the Ministry of Agriculture and Food Security. Similarly, allocations for irrigation development were included under the agriculture vote in 2011–2012, when the whole Ministry of Irrigation and Water Development fell under the Ministry of Agriculture.

As Table 2.3 illustrates, the agriculture vote had 5 programs in the first two fiscal years of 2005–2006 and 2006–2007 before increasing to 7 programs in the subsequent two financial years. The most remarkable change occurred in 2009–2010 and 2010–2011, when the ministry had up to 12 and 11 programs under its vote, respectively. A close scrutiny of these programs reveals that most of them, including their corresponding activities as captured in the output-based budget documents, do not have much relevance to the agricultural sector. For instance, programs on health services; education services; industry and investment promotion; and transport, building, and housing were included in the agricultural vote with little bearing on the sector. As such, expenditure data on these nonagricultural activities have been carefully discounted from the figures that make up agricultural expenditures in those particular fiscal years for purposes of this study.

**Table 2.3 Changes in budget programs for the agriculture vote, 2005–2013**

No.	Program code and description	2005– 2006	2006– 2007	2007– 2008	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013
1	01—Administration and Support Services	√	√	√	√				
2	01—Agriculture and Food Security					√	√	√	√
3	02—Natural Resources and Environment					√	√	√	√
4	04—Water Resources Development, Management and Supply						√		
5	05—Industry and Investment Promotion					√	√		
6	07—Health Services					√	√		
7	08—Education					√			
8	09—Community, Youth and Sports Development					√	√		
9	10—Transport, Building and Housing					√	√		
10	11—Information, Communication and Technology					√	√		
11	12—Research and Development					√	√		
12	14—Extension Services	√	√	√	√				
13	14—Economic and Financial Management					√	√		
14	16—Fisheries and Aquaculture Development			√	√				
15	17—Public Administration					√	√	√	√
16	18—Employment and Labor Affairs					√			
17	27—Manpower Development and Institutional Development			√	√				
18	30—Nutrition and Food Security	√	√	√	√				
19	31—Planning Services	√	√	√	√				
20	35—Research, Technology Generation and Development	√	√	√	√				
<b>Year total number of programs</b>		<b>5</b>	<b>5</b>	<b>7</b>	<b>7</b>	<b>12</b>	<b>11</b>	<b>3</b>	<b>3</b>

Source: Author's compilation based on the Malawi, MoFEPD (various years).

The final position is that the agriculture vote retains only three programs since 2011–2012 as shown in Table 2.3. The structure largely has been overshadowed with a system that draws more on organizational structures of the departments than on their distinctive functionality. As such, the Malawi budget has seen most of the programs and subprograms being reflective of the sections under departments. For instance, under the agriculture vote, there have been programs such as Administrative and Support Services, under which typical subprograms would be Minister's Office, Financial Management, Human Resources Management and Development, and Audit Services, among others. However, it has been observed from the scrutiny of the recent budget documents that the authorities have tried to remedy this problem whereby the Ministry of Agriculture vote has ended up retaining only three programs. Notwithstanding this effort, however, the current program structure does not align with the prevailing sectoral investment plan in the agriculture sector known as the Agriculture Sector Wide Approach (ASWAp).

Table 2.4 highlights the observed mismatch between the current budget structure (given by its programs) and ASWAp, which is aligned with MGDS. ASWAp has three areas of focus and two support service areas and a crosscutting issue, while the budget framework of MoAIWD comprises three programs with many subprograms. Heavy mapping between the expenditure allocations across the

ASWAp focus areas and the subprograms recorded under the agriculture budget is required to trace the harmonization of the ASWAp framework with the agriculture budget. In light of these variations, program-level data for this study were collected and organized along the following areas that were deemed relevant: (1) agricultural extension, (2) crops, (3) irrigation, (4) livestock, (5) fisheries, (6) land resources, (7) research and development, and (8) administration and support services.

**Table 2.4 Agriculture Sector Wide Approach (ASWAp) focus areas vis-à-vis Agriculture Ministry budget programs**

<b>ASWAp focus and support areas</b>	<b>Current budget programs</b>	<b>Malawi Growth and Development Strategy agriculture sector</b>
<b>Key focus areas</b>		
1. Food security and risk management	1. Agriculture and Food Security	Agriculture and food security
2. Commercial agriculture and market development	2. Natural Resources and Environment Management	Agroprocessing
3. Sustainable land and water management	3. Public Administration	<ul style="list-style-type: none"> <li>- Green Belt irrigation water development</li> <li>- Land</li> <li>- Climate change, natural resources, and environmental management</li> </ul>
<b>Support Service Areas</b>		
1. Technology generation and dissemination		
2. Institutional strengthening and capacity building		
<b>Crosscutting</b>		
Gender and HIV/AIDS mainstreaming		

Source: Adapted from Malawi, MoFEPD (2014a and other various years).

### **Functional (MGDS) Classification**

This type of classification organizes budget and expenditure data along the government's broad goals and objectives. Particularly this classification is captured in the output-based budget (budget document number 5). The framework links the objectives, outputs, and activities stipulated in the national development blueprint known as MGDS to the corresponding resource envelop. As such, the budget preparation process strives to ensure that activities earmarked for implementation under the budget must be those falling within the dictates of MGDS. For operational purposes, MGDS has had its key objectives (also known as sub-subthemes), outputs, and activities extracted from the main document and presented in an MGDS operational matrix, each one of them with its distinct codes. These are the codes that are captured in the budget to identify particular activities accounted for in the budget.

However, the coding structure for this segment appears to have some unresolved challenges as the six-digit code is combined in one category and the numerical codes for outputs and activities are not unique across subthemes within MGDS. These codes are unique only within each sub-subtheme, implying that if one wants to extract information relating to this segment, he or she would be required to export that information into some other software such as Excel and sort it out before undertaking any analysis. Nevertheless, Malawi, MoFEPD (2014c) prescribes functional classification of the central government based on COFOG as indicated in Table 2.5. The functions are split between recurrent and development expenditures, but the two were aggregated in this paper. Worth noting from the table is that allocations to agriculture and natural resources have been the highest across the economic services category and even across all functions during recent years. In addition, some of the functions have been phased out during the past three years due to changes in the administrative structure.

**Table 2.5 Functional classification of central government (in millions of Malawian kwacha)**

Functions	2011–2012	2012–2013	2013–2014	2014–2015
	Actual	Actual	Revised	Estimates
<b>General Public Services</b>	<b>109,142</b>	<b>152,589</b>	<b>216,209</b>	<b>211,650</b>
General Administration	87,404	105,731	165,165	170,442
Defense Affairs	7,827	16,233	26,726	18,899
Public Order and Safety Affairs	13,911	30,625	24,317	22,3089
<b>Social and Community Services</b>	<b>83,900</b>	<b>188,449</b>	<b>231,766</b>	<b>256,819</b>
Education Affairs and Services	40,848	85,696	107,122	128,812
Health Affairs and Services	29,073	55,518	80,782	87,068
Social Security and Welfare Affairs Services	1,305	32,054	27,994	30,091
Housing and Community Amenity Services	11,397	13,822	14,140	8,912
Recreational, Cultural and Other Social Services	413			
Broadcasting, Publishing Affairs and Services	863	1,360	1,729	1,935
<b>Economic Services</b>	<b>145,053</b>	<b>160,126</b>	<b>200,823</b>	<b>272,286</b>
Energy and Mining Services	2,106	3,391	11,391	6,448
Agriculture and Natural Resources	36,222	91,374	109,065	185,627
Tourism Affairs and Services	2,926	2,286	9,081	3,308
Physical Planning and Development	16,499			
Transport and Communication Services	33,863	27,253	26,936	29,947
Industry and Commerce	508			
Labor Relations and Employment Services	496	2,463	3,672	4,527
Scientific and Technology Services				
Other Economic Services	51,344	33,358	40,679	42,429
<b>Total</b>	<b>338,095</b>	<b>397,201</b>	<b>549,010</b>	<b>740,754</b>

Source: Consolidated from Annual Economic Reports; Malawi, MoFEPD (2013 and 2014c).

### ***Economic (GFS) Classification***

The economic classification links the budget and expenditures to their respective economic categories through its seven-digit coding structure. It has four separate categories including chapter (one digit), subchapter (two digits), item (two digits), and sub-item (two digits). The first and second categories are the major additions to the previous structure to enhance the same and make it more GFS compatible. Most of the codes for the last two categories are drawn from those that were previously in use to capture inputs for activity implementation with some refinements. As such, this segment largely follows the internationally accepted GFS 2001 format of presenting government financial statistics. The difference is that the Malawi 2011–2012 CoA has seven digits as compared to the five-digit presentation of GFS (Table 2.6). The GOM/European Union (2013) report concludes that is the case “because the GFS code adds detail to accounts in single digit increments while the CoA adds detail in 2 digit increments for subchapter, item and sub items (such that) the mapping between the two different systems is not intuitive.”

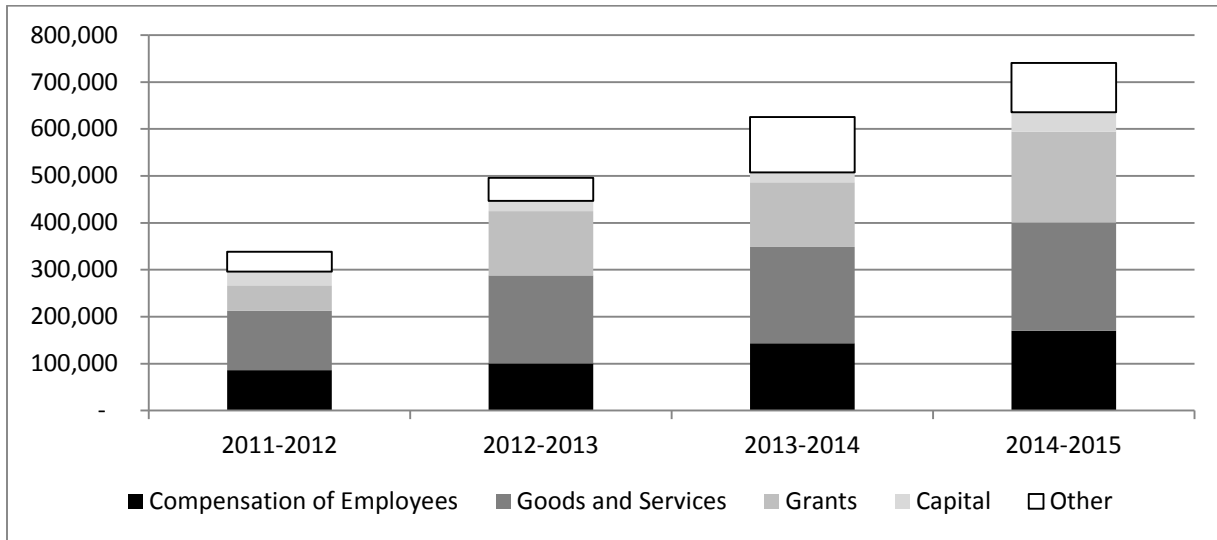
**Table 2.6 Comparison between the International Monetary Fund 2001 Government Finance Statistics (GFS) and Malawi Chart of Accounts (CoA) structure**

GFS economic classification—5 digits		Malawi CoA economic classification—7 digits	
Category title	Digits	Category title	Digits
Account Class	1	Chapter	1
Item	1	Subchapter	2
Sub-item	1	Item	2
Sub-sub-item	1	Sub-item	2
Sub-sub-sub-item	1		
<b>Total</b>	<b>5</b>		<b>7</b>

Source: Adapted from IMF (2001) and Malawi, AGD (various years).

This segment is vital to help extract budget and expenditure data from the corresponding budget and/or CoA framework at a deeper level of detail that would enable one to conduct analysis of the budget in terms of economic lines of expenditure. Substantiated with annual economic reports, expenditure summaries are made for recent years based on the GFS 2001 format. According to Figure 2.3, large allocations have gone to consumption, which comprises compensation of employees and goods and services. However, capital (fixed capital formation) has remained low during the period under review. Slight increases in allocation to capital are expected in the 2014–2015 budget mostly on account of increased resources from domestic revenue collections, particularly tax revenues (Malawi, MoDPC 2014).

**Figure 2.3 Economic classification of the central government (in millions of Malawian kwacha)**



Source: Author compilation from Malawi, MoFEPD (2013 and 2014c).

### 3. PUBLIC AGRICULTURE EXPENDITURE

#### Key Definitions

The first step in an effort to identify public agricultural expenditures is to define what the same constitutes. COFOG defines agriculture to include the following: crops, livestock, fishing, forestry, water-for-production, and agriculture-land-related issues. It is apparent that such a wide-ranging definition spans a number of government ministries and departments at the central, regional, and local government levels, whose budgets, expenditures, or both are captured in different votes. A number of issues arise with respect to this definition for the case of Malawi, as follows:

- Both fishing and water for production have at some point during the period under review been outside of MoAIWD, with the former falling under the Ministry of Natural Resources and the latter being under the Ministry of Irrigation and Water Development. However, since both of these aspects have at some point been under the Ministry of Agriculture vote, it was easy for the study team to extract budget and expenditure data for the entire period.
- Forestry has never been under the agriculture vote, and its expenditure data were particularly difficult to obtain in a comprehensive manner. As such, this aspect was discounted from the data set and will not form part of the analysis. The comfort is that forestry expenditures are of substantially smaller magnitude as compared to those for other agricultural functions such that their removal may not have a significant impact.
- There are a number of core agricultural activities that are being implemented at the local government level (local councils/districts); this study made an effort to capture all these data from the corresponding local council votes and aggregated the same within the functional and/or program-level data that were summarized for all the cost centers.
- There are a number of agriculture-related projects that are being implemented off the budget, some of them using donor financing. Reliable budget and expenditure data on these were not easily obtainable.

It also is crucial to emphasize that public agricultural expenditures are not restricted to those that are used by central MoAIWD but include those expenditures that are transferred to public entities such as the Agricultural Development and Marketing Corporation and the National Food Reserve Agency. These aspects of expenditure data are usually captured within the agriculture vote and have been included in the data sets for this study. The same is the case for expenditure on the Farm Input Subsidy Program (FISP), which constitutes a significant proportion of the agriculture vote and is captured under the crops sub-program within the budget.

#### Key Classification toward Identifying Agricultural Expenditures

The budget and expenditure data relating to agricultural activities can be identified based on the administrative classification. The categorization of the agriculture budget and expenditures in the CoA are linked administratively to the structure of the ministry. For instance, the whole ministry takes a vote of the three-digit number 190 with a number of cost centers also taking three-digit numbers. At the ministry headquarters the cost centers are defined based on the technical and administrative departments. In addition, there are eight Agricultural Development Divisions (ADDs) spread across the country and organized along homogeneous agro-economic zones, each one with a corresponding District Agricultural Development Office (which are 28 in number). All the ADDs and District Agricultural Development Offices (districts) are cost centers under the agriculture vote. Other cost centers include the headquarters, 10 agricultural research stations spread across the country, three livestock farms, and five technical departmental head offices.

The cost center codes are not unique across votes but offer extra help once combined with the corresponding vote code to extract agriculture budget and expenditure data at a specific cost center. Since these data may be for the recurrent, development, and revenue budget, the second category under this segment (one-digit budget type) provides further leeway for distinguishing the budget and expenditure information at this level of classification by codes in the CoA. The same would apply for two-digit donor codes and three-digit project codes within this segment to further differentiate the requisite budget and expenditure data by project and source of financing. However, some agriculture-related expenditures—for instance, allocations under different votes such as the local (district) councils and other central ministries—would not be captured using this classification alone.

Agriculture is vital to economic growth in Malawi and has continued to receive a large share of public resources. As indicated in Table A.1, total government expenditure allocations reached MWK 142.7 billion in fiscal year 2014–2015 to MoAIWD. This allocation is 19 percent of the total budget and also presents an 18 percent increase from MWK 188.6 billion in fiscal year 2013–2014 (Malawi, MoFEPD 2014a). The *Agriculture Joint Sector Review* (Malawi, MoAIWD 2014) indicates that Malawi is one of the few countries that have surpassed the 10 percent target at any time since the adoption of the Comprehensive Africa Agriculture Development Programme framework. However, Table 3.1 consolidated from Table A.2 indicates that actual flow of funds is limited at the district level grouped into headquarters and ADD cost centers. About 90 percent is spent on headquarters, and very little trickles down to districts. Another important observation is that 75 percent of expenditures goes to FISP activities mainly for the purchase of subsidized fertilizer and seed. This demonstrates that devolution of agricultural activities to the district still remains limited.

**Table 3.1 Cost center agricultural expenditure distribution (in percentages)**

Center of expenditure	2010–2011 actual	2011–2012 actual	2012–2013 actual
Headquarters	90.09	86.53	91.53
Karonga ADD	0.67	1.00	0.71
Mzuzu ADD	1.36	1.96	1.27
Kasungu ADD	1.34	1.41	0.94
Lilongwe ADD	2.14	2.09	1.59
Salima ADD	1.05	1.70	0.70
Machinga ADD	1.22	2.00	1.14
Blantyre ADD	1.41	2.27	1.40
Shire Valley ADD	0.73	1.04	0.71
<b>Total agriculture</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Author compilation from Malawi, AGD (various years).

Note: ADD = Agricultural Development Division.

In terms of program classification, as explained before, this system organizes the budget and expenditure information according to the government’s focused areas of operation, strategic areas of concentration, or both through its programs (two-digit category), subprograms (two-digit category), and sub-subprograms (one-digit category). As such, one would be able to extract budget and expenditure information from the CoA by specifying the corresponding CoA codes for the relevant programs. For agriculture, three programs have been decided on from the 2011–2012 financial year including Agriculture and Food Security (whose code is 01), Natural Resources and Environmental Management (code is 02), and Public Administration (code is 17), which cuts across different ministries and departments.<sup>5</sup> These program codes are unique across the entire CoA such that if these program codes are

<sup>5</sup> The International Monetary Fund criteria encourage that each ministry and department have a program to cater to management and administrative aspects of the same.

combined with relevant subprogram and sub-subprogram codes<sup>6</sup> for agriculture-related activities, one would easily extract the corresponding budget and expenditure data from the budget framework as well as the CoA.

Table 3.2 provides an illustration of the functional classification of expenditures across their geographical distribution for the period spanning 2010 through 2013. To allow for a clear exposition of the results, expenditures for each functional budget program at each center of expenditure were aggregated for all three fiscal years and averages derived. The table shows that the highest amount of public agricultural expenditures went toward crops, and much was spent at the headquarters level. This is not surprising as most of these resources were being spent on FISP, which is being captured under the crops subprogram at headquarters. The administration and support services program consumed the second highest level of budgetary resources, and much was also spent at the headquarters level. The level of other functions catering to core functions such as research, extension, and land resources received very limited resources. However, caution must be taken on the period of reference since this stability can be ensured only from the 2011–2012 financial year after the adoption of the new CoA. Before that year, different codes were used for different programs, as explained in the previous section, and such specification may result in a myriad of overlaps.

**Table 3.2 Functional and administrative classification of agricultural expenditures, 2010–2013 (in percentages)**

Center of expenditure	Admini- stration	Exten- sion	Crops	Irriga- tion	Live- stock	Fisheries	Land	Research	Total
Head quarters	8.86	0.08	76.91	2.13	1.15	0.28	0.09	0.27	<b>89.78</b>
Karonga ADD	0.18	0.10	0.12	0.02	0.11	0.00	0.04	0.08	<b>0.64</b>
Mzuzu ADD	0.30	0.24	0.22	0.04	0.15	0.06	0.04	0.31	<b>1.37</b>
Kasungu ADD	0.25	0.37	0.23	0.03	0.13	0.00	0.05	0.00	<b>1.07</b>
Salima ADD	0.18	0.20	0.11	0.03	0.12	0.00	0.02	0.21	<b>0.87</b>
Lilongwe ADD	0.25	0.40	0.30	0.02	0.97	0.28	0.07	0.44	<b>2.74</b>
Machinga ADD	0.26	0.29	0.22	0.04	0.12	0.19	0.03	0.11	<b>1.26</b>
Blantyre ADD	0.30	0.42	0.29	0.02	0.30	0.00	0.04	0.23	<b>1.61</b>
Shire Valley ADD	0.20	0.17	0.08	0.03	0.07	0.00	0.02	0.09	<b>0.66</b>
<b>Total</b>	<b>10.77</b>	<b>2.27</b>	<b>78.50</b>	<b>2.36</b>	<b>3.13</b>	<b>0.81</b>	<b>0.40</b>	<b>1.76</b>	<b>100.00</b>

Source: Author compilation from Malawi, AGD (various years).

Note: ADD = Agricultural Development Division. The research component seems to be the highest under Lilongwe ADD because some allocations to Chitedze Research Station have also been included.

The functional (MGDS outputs) classification, if fully developed, would offer ample assistance to extract budget and expenditure data relating to agriculture. However, the current status is that the codes for outputs and activities (both two-digit codes) are unique only within each subtheme, implying that cross-subtheme outputs and activities share the same numeric codes. This scenario does not lend easy extraction of relevant information without further manipulation. It would be crucial to use this classification system along with the other two specified above if one were to obtain accurate budget and expenditure data from the budget framework as well as the CoA.

<sup>6</sup> Subprograms and sub-subprograms are too many for agriculture-related activities. Table 2.2 provides some of these that are currently being used.

To emphasize the point that agriculture budget and expenditure data may be captured only from the current framework with an array of classifiers, Table 3.3 has been prepared to demonstrate the multiplicity of areas from which agriculture budget and expenditure data are captured at the subsector level.

**Table 3.3 Agriculture subsectors and source of their data**

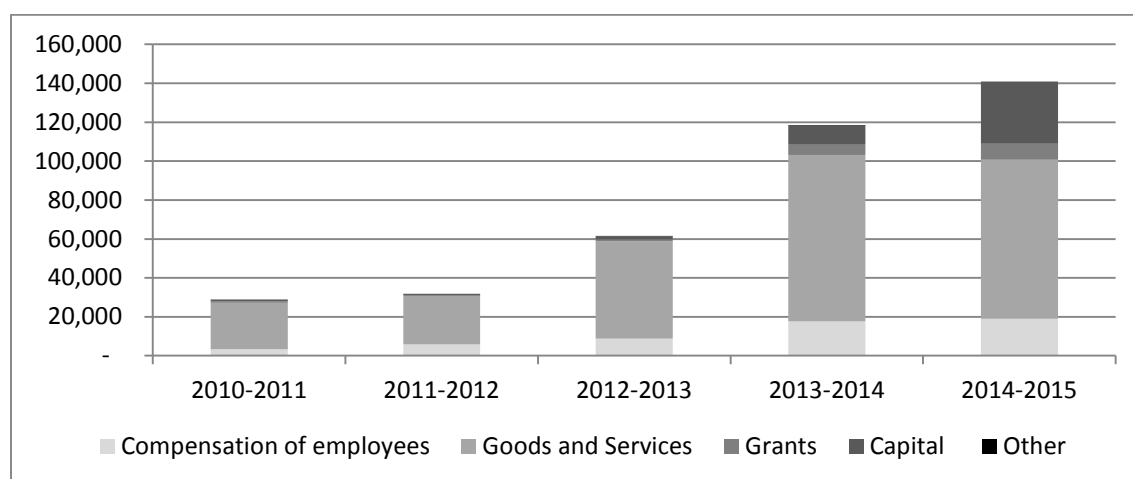
<b>Subsector or subfunction</b>	<b>Vote</b>	<b>How captured</b>	<b>Remarks</b>
Agriculture extension	Ministry of Agriculture and Food Security <i>plus</i> about 28 district councils	Captured under the Agriculture and Food Security program as a separate sub-program	Sub-subprograms include (1) extension services and (2) agriculture business management
Crops	Ministry of Agriculture and Food Security <i>plus</i> about 28 district councils	Captured under the Agriculture and Food Security program as a separate sub-program—includes allocation for subsidies (FISP)	Separate sub-subprograms: (1) field crops, (2) input subsidy; (3) horticulture crops; (4) farm mechanization; (5) crop protection
Livestock	Ministry of Agriculture and Food Security <i>plus</i> about 28 district councils	Captured under the Agriculture and Food Security program with separate sub-subprograms	Sub-subprograms: (1) livestock management; (2) animal regulatory services; (3) animal production
Land resources	Ministry of Agriculture and Food Security <i>plus</i> about 28 district councils	Captured under the Natural Resources and Environment Management program with separate sub-subprograms	Sub-subprograms: (1) land surveying; (2) environmental education and outreach; (3) land information system
Irrigation	Ministry of Irrigation and Water Development but sometimes Ministry of Agriculture and Food Security <i>plus</i> about 28 district councils	Captured under the Agriculture and Food Security program with separate sub-subprograms	Sub-subprogram: (1) irrigation engineering
Fisheries	Ministry of Natural Resources and Environment but sometimes Ministry of Agriculture and Food Security <i>plus</i> about 4 regional fisheries offices	Captured under the Agriculture and Food Security program with separate sub-subprograms	Sub-subprograms: (1) fisheries and aquaculture development; (2) fisheries research
Agricultural research and development	Ministry of Agriculture and Food Security	Captured under Agriculture and Food Security program across research stations	Sub-subprograms: (1) irrigation agronomy; (2) field crops research; (3) horticulture crops research; (4) crop research; (5) crops regulatory services; (6) animal production; (7) livestock management
Agriculture administration	Ministry of Agriculture and Food Security <i>plus</i> about 28 district councils	Captured under Public Administration program	Sub-subprograms: (1) internal audit; (2) internal financial management; (3) stores and procurement; (4) general administration; (5) it support; (6) human resources management; (7) HIV/AIDS intervention; (8) internal monitoring and evaluation

Source: Adapted from Malawi, AGD (various years).

Note: FISP = Farm Input Subsidy Program.

Figure 3.1 has been included to demonstrate how the itemized agriculture expenditures data have been translated into the economic classifications based on the IMF-GFS classification and Govereh et al. (2011). The data for the ministry were captured at the itemized level as indicated in Table A.3 and then converted into the IMF-GFS classification as indicated in Figure 3.1. However, the itemized data exclude the chapter and subchapter codes while also avoiding going too detailed at the sub-item level of the economic classification segment. As the table shows, agricultural spending is mostly allocated to consumption of goods and services and compensation of employees while capital allocations are very limited. However, capital allocations have improved in the recent budget allocations in fiscal year 2014–2015. Consumption has also been significantly dominated by the agricultural subsidies line item of expenditure, the same trend as depicted in other classifications.

**Figure 3.1 Economic classification of central agricultural expenditures (in millions of Malawian kwacha)**



Source: Author compilation from Malawi, MoFEPD (2013 and 2014c).

Note: All capital-related items from both recurrent and development expenditures are included under Capital.

### Issues Relating to Access to Budget and Expenditure Information

In spite of the observed capabilities of the system to offer the benefits of timely access to budget and expenditure data through IFMIS as envisaged, access to this electronic system remains limited. This remains the case even at the time of preparing this report because it was not possible for one to access public expenditure data from the system. Moreover, data have manually been collected from CAAA, prepared by the Department of Accountant General in MoFEPD. In addition, various official documents in the government and outside the government also have been used to fill the gaps in agricultural expenditures and nonagricultural expenditures.

The other challenge relates to transactions under the development budget, especially the foreign-financed projects, which are still being manually processed with records loaded into the system using manual cash controls about nine years after the introduction of the IFMIS system.

As discussed earlier, in the course of implementing the 2013–2014 budget, the IFMIS system has been manipulated by unscrupulous individuals, and the government has lost huge public resources through fraud. Although there are attempts to upgrade the IFMIS internal control payment systems, the government is planning to adopt a new one. However, there are fears that existing expenditure information records under the current IFMIS might be lost in the process of re-engineering the new system.

## 4. CONCLUSION

One of the major Public Financial Management reforms that GOM has implemented is the introduction of IFMIS, which links the planning and execution phases of the budget electronically. It was envisaged that IFMIS would strengthen internal controls and provide reliable accounting information for financial reporting and accurate performance measurement. IFMIS made it necessary for GOM to enhance use of an improved coding structure in its budget and expenditure-reporting processes. As such, GOM undertook to develop a comprehensive set of CoAs that became effective in the 2011–2012 fiscal year. The new CoAs have been very useful to enhance the comprehensiveness and transparency of the budget to the extent that significant improvements in the budget classification system have been made. As such, the Malawi budget not only has been made more GFS compliant but also has allowed for inclusion of more information in the budget that includes linkages of expenditures to the MGDS activities. Notwithstanding this positive stride, there still remain some segments in the CoA that require further improvements to accord the various categories stronger capability for unique identification of budget and expenditure information. Besides, the changing administrative structure of the government that tends to happen as ministries and departments absorb and/or get absorbed into one another has had a negative impact on the stability budget structure as programs tend to be either included in or reduced from the affected votes.

In light of the observed issues, this paper makes the following recommendations for consideration by policymakers:

- That the government must adopt a single and clear definition of agriculture for which its expenditures must be tracked continuously. This would alleviate the challenges that arise with frequent changes in administrative structures of some of the ministries and departments—such as MoAIWD vis-à-vis the Ministry of Irrigation and Water Development as well as the departments of fisheries—which tend to shift the corresponding budgets and expenditures for these entities every time such a change is affected.
- That the government must expedite the process of modernizing its data-capturing and management efforts through the ongoing enhancement of the IFMIS system and its integration to other e-government systems to ensure that public expenditure data are easily accessible for transparency and accountability purposes as well as allowing for easy analytical studies that would inform future policy formulation
- That the government must expedite the process of finalizing improvements in the third segment of the CoA relating to functional (MGDS) output because these are vital in drawing the linkages between budget expenditures and their alignment to national priorities as outlined in MGDS, which is the prevailing overarching national development agenda for the country
- That the budget program and subprogram classification for the agricultural vote must be aligned to the prevailing functional areas of priority as stipulated in the requisite documents such as ASWAp. Otherwise, these programs and subprograms tend to continue drawing on existing organizational structures of the departments other than their distinctive functionality, which compromises objective analysis of spending levels in each functional area due to misallocated expenditures.
- That the government must ensure that expenditure data on off-budget development projects are properly recorded and consolidated for each fiscal year in every sector of the economy. This would allow easy access to such data by analysts and provide a more realistic picture of the total development investment portfolio in those sectors. Otherwise, the current scenario does not allow for such inclusion because the Aid Management Platform records disbursement figures only for such projects that tend to be significantly different from annual expenditure figures for the projects.
- That the changes in the CoA as a result of changes in the administrative structure of the ministry should ensure that the system maintains old records with old codes to enhance continued identification of expenditure and budget information for future analysis of the sector.

## APPENDIX: SUPPLEMENTARY TABLES

**Table A.1a Central government and local council expenditure by administrative classification (in billions of Malawian kwacha)**

<b>Vote name</b>	<b>Vote</b>	<b>2005– 2006</b>	<b>2006– 2007</b>	<b>2007– 2008</b>	<b>2008– 2009</b>	<b>2009– 2010</b>	<b>2010– 2011</b>	<b>2011– 2012</b>	<b>2012– 2013</b>	<b>2013– 2014</b>
Presidency	010	0.01	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03
Compensations and Refunds	020	0.22	2.65	3.88	5.93	13.31	19.94	9.64	14.21	9.60
Pensions and Gratuities	030	3.41	3.81	4.85	5.19	6.49	10.42	10.45	15.67	19.58
Public Debt Charges	040	44.66	17.47	14.17	17.86	22.11	22.11	31.23	21.71	88.14
State Residences	050	0.70	1.06	1.24	1.13	1.46	1.33	2.25	4.12	4.33
National Audit Office	060	0.07	0.19	0.22	0.32	0.46	0.49	0.43	0.49	0.87
The Judiciary	070	0.39	1.04	1.30	1.30	2.01	1.89	2.75	2.84	3.42
National Assembly	080	1.06	2.63	2.48	2.47	2.74	3.12	3.70	5.63	5.33
Office of President and Cabinet	090	1.18	2.11	2.14	2.78	3.50	3.18	3.86	5.15	5.96
Poverty and Disaster Management Affairs	092	—	0.07	—	—	—	—	—	—	—
Department of Public Service and Management	093	0.08	0.16	0.16	0.22	0.36	0.45	0.41	0.47	0.44
Nutrition HIV/AIDS and NAC	094	0.79	7.28	10.34	9.83	8.36	9.63	4.35	4.25	19.99
Science and Technology	095	—	0.14	—	—	—	—	—	—	—
Public Service Commission	097	0.03	0.05	0.07	0.10	0.17	0.16	0.16	0.19	0.17
Director of Public Procurement	099	0.04	0.08	0.10	0.13	0.16	0.20	0.21	0.28	0.31
Ministry of Defense	100	0.36	0.38	0.64	0.40	0.38	0.28	0.21	0.97	0.73
Malawi Defense Force	101	2.52	3.24	3.83	4.37	6.31	8.62	7.56	12.21	25.69
Economic Planning and Development	110	4.34	1.03	0.50	0.86	0.77	0.97	0.36	0.65	0.93
National Statistical Office	111	0.18	0.55	2.08	0.75	0.66	0.76	0.24	0.35	0.44
Local Government and Rural Development	120	0.43	1.54	1.38	2.78	3.09	3.17	2.54	4.34	13.79
National Local Government Finance Committee	121	0.15	0.31	0.51	0.53	0.65	0.70	2.13	3.91	5.30
Lands Housing and Urban Development	130	1.71	2.98	1.68	2.07	4.38	3.64	5.01	5.94	4.53
Youth Development and Sports	180	0.16	0.42	0.32	0.32	0.32	0.41	0.37	0.59	0.41
Agriculture and Food Security	190	12.83	17.37	24.21	53.27	32.32	29.19	32.25	60.92	97.57
Persons with Disability and Elderly	200	0.03	0.10	0.29	0.34	0.26	0.41	0.23	0.28	0.19
Irrigation Water and Development	210	0.41	1.51	2.45	3.28	4.11	5.72	3.65	2.95	23.50
Office of the Vice President	240	0.07	0.10	0.10	0.11	0.29	0.45	0.31	0.66	0.81
Education Science and Technology	250	9.88	12.39	17.12	20.29	26.30	33.02	38.56	54.03	77.44
Foreign Affairs	260	1.99	2.15	3.02	3.54	3.34	3.12	3.54	6.98	11.05
Treasury	270	0.30	1.20	1.14	2.10	6.14	5.90	1.45	2.53	7.13

**Table A.1a Continued**

<b>Vote name</b>	<b>Vote</b>	<b>2005– 2006</b>	<b>2006– 2007</b>	<b>2007– 2008</b>	<b>2008– 2009</b>	<b>2009– 2010</b>	<b>2010– 2011</b>	<b>2011– 2012</b>	<b>2012– 2013</b>	<b>2013– 2014</b>
Accountant General	271	2.88	3.52	2.98	2.21	2.93	2.96	4.41	5.01	7.08
Local Development Fund	272	—	—	—	—	—	—	6.55	—	17.20
Malawi Revenue Authority	273	2.03	—	2.96	3.12	4.26	4.93	5.33	7.11	11.36
Road Fund Administration	274	—	—	—	—	—	—	4.55	5.33	8.75
Subventions	275	4.50	6.14	7.98	10.24	12.71	13.37	15.04	22.21	31.79
Unforeseen Expenditures	278	0.08	0.02	0.09	0.24	0.21	0.27	1.06	1.30	0.51
Financial Intelligence Unit	279	—	—	0.05	0.08	0.12	0.15	0.15	0.18	0.23
Poverty and Disaster Management Affairs	300	0.04	—	—	—	—	—	—	—	—
Ministry of Health	310	7.88	7.57	14.10	20.82	20.40	23.93	23.73	34.90	45.50
Women and Child Development	320	0.49	0.29	0.79	0.89	0.62	0.63	0.85	8.11	7.83
Information and Civic Education	330	0.54	0.59	0.23	0.34	0.44	0.63	0.81	0.89	0.76
Internal Affairs and Public Security	340	0.07	0.10	0.33	0.21	0.45	0.49	0.46	0.67	0.17
Malawi Police Service	341	2.47	2.81	3.28	4.14	6.29	5.41	7.14	15.77	12.18
Prisons Services	342	0.31	0.45	0.63	0.81	1.58	1.77	2.57	2.37	2.60
Immigration	343	0.14	0.20	0.31	0.48	0.59	1.06	2.00	1.39	0.93
Justice and Constitutional Affairs	350	0.12	0.22	0.71	0.62	0.95	0.45	0.38	0.41	0.40
Public Prosecution and State Advocate	351	0.07	0.10	0.17	0.18	0.22	0.22	0.44	0.31	0.24
Registrar General	352	0.01	0.04	0.05	0.05	0.14	0.09	0.09	0.13	0.14
Administrator General	353	0.02	0.03	0.04	0.05	0.09	0.09	0.09	0.13	0.13
Legal Aid	354	0.03	0.05	0.07	0.09	0.10	0.12	0.11	0.13	0.16
Tourism, Wildlife and Culture	360	—	—	0.80	1.07	1.32	1.30	2.05	2.29	1.75
Labor and Vocational Training	370	0.33	0.30	0.32	0.26	0.27	0.39	0.44	0.63	1.02
Industry Trade and Private Sector development	390	0.14	0.23	0.33	0.88	1.13	1.43	1.07	1.04	0.74
Transport and Public Works	400	0.90	1.86	3.13	3.83	2.16	1.91	2.29	2.61	1.74
National Roads Authority	420	4.81	6.33	9.39	14.41	20.06	24.01	16.08	12.15	17.14
Human Rights Commission	430	0.08	0.08	0.09	0.12	0.13	0.18	0.24	0.30	0.33
Malawi Electoral Commission	460	0.13	0.16	0.88	6.36	0.51	1.59	0.43	1.61	18.80
Natural Resources, Energy and Environment	470	1.30	1.15	1.19	1.60	1.67	2.06	1.79	0.49	3.61
Geological Survey	471	0.01	0.05	0.12	0.22	0.34	0.30	0.13	0.21	0.16
Mines Department	472	0.06	0.07	0.08	0.10	0.13	0.15	0.12	0.22	—
Environment and Climate Change	480	—	—	—	—	—	—	—	2.39	3.89
Ombudsman	550	0.08	0.07	0.07	0.11	0.08	0.11	0.17	0.17	0.17
Law Commission	560	0.12	0.12	0.10	0.12	0.15	0.22	0.20	0.28	0.31
Science and Technology	570	0.12	—	—	—	0.13	—	—	—	—
Transfers to councils (40 votes)	Various	2.78	7.22	7.60	9.37	10.71	12.36	16.50	22.45	14.11
<b>Total</b>		<b>120.72</b>	<b>124.04</b>	<b>159.52</b>	<b>225.68</b>	<b>242.13</b>	<b>272.83</b>	<b>286.09</b>	<b>386.43</b>	<b>645.70</b>

Source: Author's own consolidation from Malawi, AGD (various years).

Note: NAC = National Aids Commission. Dashes indicate that data was not captured because these votes were either not introduced or capture under other votes.

**Table A.1b Central government and local council agriculture expenditure in the ADDs and districts (in Malawian kwacha)**

Cost Centres	District	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	
Head quarters	Head quarters	1,690,297,148	247,643,146	3,839,422,798	73,329,274	3,288,381,224	2,299,164,748	4,184,881,811	4,378,696,637	
	Fisheries	—	30,367,242	47,272,206	58,837,705	73,161,774	82,640,240	81,396,760	183,740,547	
	Animal health	68,869,506	70,570,628	109,551,141	97,271,778	128,688,284	206,172,684	28,663,454	1,170,522,173	
	Extension	49,733,655	100,333,792	68,903,820	90,911,693	344,815,985	82,698,720	10,727,056	9,019,732	
	Land resources	14,754,020	36,272,693	45,400,284	48,674,986	74,511,878	46,107,179	20,198,120	41,465,596	
	Crops	10,109,939,728	13,530,394,517	17,465,918,326	46,748,662,216	24,621,097,770	23,516,569,036	21,172,107,547	49,600,676,864	
	Research	19,757,595	32,216,396	35,117,567	41,658,774	190,702,533	62,543,026	24,126,747	249,704,450	
	Irrigation	23,546,111	42,361,794	541,212,896	73,724,565	306,470,675	1,182,068,095	701,771,291	724,951,938	
	KRADD	ADD	13,441,058	85,989,560	69,700,427	84,769,014	87,453,147	79,600,086	103,831,080	266,388,203
		Chitipa	16,942,785	42,411,736	45,262,663	39,379,284	74,147,300	47,316,467	70,283,503	58,889,449
Karonga		17,693,813	71,273,008	69,007,908	70,673,721	109,382,803	64,852,043	120,337,971	108,733,144	
MZADD	ADD	21,824,042	96,005,919	85,975,929	107,224,953	118,414,552	109,690,332	178,843,664	231,155,894	
	Mzimba	31,322,046	161,099,429	203,715,793	203,235,073	232,875,836	191,520,073	238,788,259	354,802,587	
	Rumphi	12,166,360	41,116,428	39,639,112	38,557,132	64,107,938	37,221,702	65,910,260	72,955,620	
	Nkhata Bay	15,125,351	58,249,624	47,252,702	54,381,222	79,339,285	50,239,685	93,589,759	113,251,403	
KADD	Likoma	4,930,079	3,494,651	2,892,845	2,348,400	4,545,358	7,570,082	904,504	1,796,988	
	ADD	4,759,767	77,375,311	86,631,314	115,808,408	147,561,351	97,596,681	139,507,796	200,902,727	
LADD	Mchinji	18,342,091	32,722,250	29,712,869	30,790,320	56,442,075	76,019,786	64,825,404	97,791,089	
	Kasungu	15,200,884	31,975,135	45,670,859	35,236,657	69,826,748	59,044,990	70,967,279	89,207,761	
	Ntchisi	11,118,505	28,444,978	36,399,740	5,823,700	49,273,199	57,272,936	36,381,005	73,504,231	
	Dowa	3,716,462	44,388,929	31,944,754	49,994,678	30,079,792	99,829,230	104,277,157	111,837,033	
	ADD	12,242,552	102,227,295	96,223,126	136,195,520	142,404,337	128,240,380	118,679,466	195,895,900	
LADD	Lilongwe	61,511,094	135,050,910	1,628,065,121	442,448,564	319,683,680	328,348,216	370,643,604	594,475,331	
	Dedza	11,582,519	57,793,244	53,236,076	54,646,117	94,824,834	94,364,109	83,221,071	92,565,503	
	Ntcheu	—	54,783,389	39,111,341	34,740,972	59,467,503	73,445,508	43,307,179	82,705,508	

**Table A.2b Central government and local council agriculture expenditure in the ADDs and districts (in Malawian kwacha)**

Cost Centres	District	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013
SLADD	ADD	12,399,081	45,029,068	99,197,711	140,752,475	105,189,609	85,724,448	257,585,378	186,068,018
	Nkhota Kota	12,417,783	39,238,274	17,269,442	27,777,512	51,260,850	48,462,368	69,162,730	78,821,618
	Salima	15,649,381	98,029,949	64,859,803	112,056,703	237,953,552	172,775,729	174,636,351	161,443,130
MADD	ADD	35,381,138	92,958,838	93,934,002	176,888,609	171,363,194	82,473,072	165,036,402	191,811,962
	Machinga	11,398,991	40,314,190	27,919,203	32,281,900	42,036,729	46,655,951	58,691,592	70,993,723
	Mangochi	16,320,524	43,275,443	95,510,904	89,933,253	133,803,795	75,034,096	147,648,322	187,505,734
	Balaka	14,994,672	29,147,093	28,947,829	31,707,150	37,694,782	42,009,877	45,423,355	59,912,711
	Zomba	18,521,309	46,528,200	87,430,340	108,934,657	103,685,393	110,999,095	173,925,494	181,112,654
BLADD	ADD	70,826,919	129,485,173	710,871,905	173,312,959	162,138,090	128,082,092	196,967,904	288,673,858
	Neno	13,337,716	14,949,994	13,998,484	—	—	8,681,989	—	9,621,890
	Mwanza	12,594,501	28,214,624	19,171,091	13,820,832	51,507,618	23,526,554	59,206,776	60,560,740
	Blantyre	55,556,488	27,176,710	21,126,998	28,463,896	59,810,239	42,648,534	69,171,090	81,167,663
	Chiradzulu	11,468,693	24,071,255	14,234,550	18,948,100	35,719,982	26,996,746	57,448,612	40,584,034
	Thyolo	20,395,246	96,428,005	99,888,641	105,542,598	156,456,558	117,370,328	173,284,366	217,544,742
	Mulanje	20,410,867	26,661,981	20,757,745	30,365,236	56,605,828	29,999,357	52,786,627	91,995,937
	Phalombe	11,377,698	22,409,448	20,054,164	22,522,248	54,562,396	35,344,058	60,233,984	61,994,387
SVADD	ADD	14,755,069	40,895,396	66,980,001	76,676,947	94,385,967	72,620,273	133,681,421	210,341,997
	Chikwawa	10,976,060	75,844,863	55,295,794	77,843,582	102,564,497	86,123,105	120,720,822	138,607,532
	Nsanje	11,912,454	38,347,867	26,864,345	27,474,148	55,937,846	53,279,744	53,345,767	85,068,358

Source: Author's own consolidation from Malawi, AGD (various years) and Malawi MoFEPD (various years).

Note: ADD = Agricultural Development Division; Headquarters = Ministry of Agriculture headquarters; KRADD = Karonga Agricultural Development Division; MZADD = Mzuzu Agricultural Development Division; KADD = Kasungu Agricultural Development Division; LADD = Lilongwe Agricultural Development Division; SLADD = Salima Agricultural Development Division; MADD = Machinga Agricultural Development Division; BLADD = Blantyre Agricultural Development Division; and SVADD = Shire Valley Agricultural Development Division. Dashes indicate data was not available in the consolidated accounts.

**Table A.3 Central government agricultural expenditures on the item level (in Malawian kwacha)**

Item name	Code	2010–2011		2011–2012		2012–2013		2013–2014	
		Dev	ORT	Dev	ORT	Dev	ORT	Dev	ORT
		Actual	Actual	Actual	Actual	Actual	Actual	Revised	Revised
Domestic interest payments	1								
Foreign interest payments	2								
Pensions	5								
Gratuities	6								
Compensations	7								
Refunds	8	—	—	280,000	—				
Salaries	10	38,426,778	2,237,160,993	214,387,848	3,412,479,843	26,813,273	4,905,394,924	698,821,220	28,963
Other allowances	11	—	47,041,754	312,588	64,606,559	—	33,428,333		5,780,163,604
Foreign allowances	12	—	—	—	—	—			103,279,409
Internal travel	21	408,159,162	545,249,547	1,011,031,381	969,825,659	1,297,838,911	2,333,686,845	6,661,290,928	3,806,482,178
External travel	22	8,029,693	26,198,000	84,417,530	15,792,947	99,011,578	28,876,123	517,268,770	35,849,734
Utilities	23	31,973,405	78,065,060	20,058,555	90,544,417	63,689,554	94,089,085	315,071,014	103,901,314
Office supplies and expenses	24	286,718,378	123,132,764	323,596,638	154,545,135	374,876,684	173,222,985	1,735,558,234	149,977,536
Medical supplies and expenses	25	—	7,196,379	5,151,601	29,253,947	60,798,067	24,364,476	94,800,000	114,362,001
Rents	26	—	—	—	—	—	—	46,712,888	55,550
Education supplies and services	27	116,337,238	1,337,435	79,593,452	672,998	170,231,873	3,266,899	711,507,430	4,772,394
Training expenses	28	162,901,866	93,930,998	488,485,324	60,568,526	307,123,003	122,166,916	2,340,025,808	394,782,861
Acquisition of technical services	29	35,428,543	17,053,283	2,159,351,828	1,704,086	311,093,888	1,240,720	3,917,539,444	28,788,716
Insurance expenses	30	—	1,114,512	—	3,437,570	142,323,644	11,417,894	227,071,294	3,818,135
Agriculture Inputs	31	34,971,085	1,592,527,342	125,532,677	48,316,333	279,255,445	3,141,092,674	8,124,052,589	4,886,863,666
Food and rations	32	38,440,845	15,187,230	58,525,500	13,909,366	60,847,238	22,988,356	484,176,580	25,345,009
Other goods and services	33	—	1,305,993,394	2,879,610	3,646,646	525,506	3,768,083	25,385,882	2,111,202
Motor vehicle running expenses	34	115,587,811	449,678,445	436,735,967	176,916,371	424,544,420	279,485,162	2,985,555,984	730,810,067

**Table A.4 Continued**

Item name	Code	2010–2011		2011–2012		2012–2013		2013–2014	
		Dev	ORT	Dev	ORT	Dev	ORT	Dev	ORT
		Actual	Actual	Actual	Actual	Actual	Actual	Revised	Revised
Routine maintenance of assets	35	27,995,564	94,199,912	81,665,888	57,488,109	540,875,182	71,200,325	1,713,706,635	358,100,082
Agriculture subsidies	36	—	19,338,303,239	2,575,266	20,419,258,324	—	43,543,477,063	1,869,577,609	54,401,282,410
Grants to international organizations	39	30,064	1,236,789	—	74,649,030	—	50,819,381	7,030,000	38,252,066
Grants and subventions	40	—	809,128,790	5,324,071	417,561,061	3,271,623	831,420,472	2,349,087,687	2,899,670,726
Acquisition of fixed assets	41	494,095,590	62,182,391	502,201,529	59,911,152	883,110,996	764,759,681	8,170,527,952	1,608,000,714
Loans to domestic nonfinancial	61								
<b>Total</b>		<b>1,799,096,022</b>	<b>26,845,918,257</b>	<b>5,602,107,253</b>	<b>26,075,088,078</b>	<b>5,046,230,886</b>	<b>56,440,166,396</b>	<b>42,994,767,948</b>	<b>75,476,698,337</b>

Source: Author's based on Malawi, AGD (various years) and Malawi MoFEPD (various years).

Note: Dev = Development; ORT = Other recurrent transaction. Dashes indicate that data was not available in the consolidated accounts.

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