

Malawi Debt Transparency Report

May 2024

This report was produced on behalf of the National Democratic Institute of International Affairs (NDI).

1. Analyze Malawi's historical (past 10 years) and current debt stock

1.1 Present public debt situation analysis including overall debt situation on foreign debt, domestic debt; and Debt Service

Malawi is currently experiencing debt distress, as confirmed by assessments conducted by the World Bank and International Monetary Fund (IMF) in November 2022. This conclusion was further acknowledged in the Annual Debt Report released in July 2023 and IMF Staff Review in November 2023. Total debt has grown rapidly, averaging 21 percent annual increase over the last eight years (table 1). The growth has been driven by structural fiscal deficits and rising interest costs. Moreover, domestic debt has increased at a much faster rate of 36 percent every year for the last four. This blistering pace is indicative of the worsening debt distress. These assessments underscore the pressing need for concerted efforts to address the country's debt situation and implement measures to mitigate its impact on the economy and the well-being of its citizens.

Table 1: Evolution of Public Debt (in Billions)

	(HIPC)										
	2005	2006	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Mar 2024
Total Public Debt (MK)	426.6	130.8	2,408.6	2,628.8	3,058.2	3,669.2	4,124.0	5,454.9	6,835.6	9,411.3	14,710.0
External (USD)	3.0	0.5	1.9	1.9	2.1	2.2	3.2	3.6	3.6	3.9	4.1
Domestic (MK)¹	73.3	69.0	1,076.4	1,235.0	1,511.2	1,971.9	1,800.7	2,565.5	3,897.8	5,362.5	7,590.0
GDP	327.0	430.5	3,512.9	4,224.1	4,950.9	5,618.2	8,520.6	9,274.1	10,897.3	12,507.2	17,949.9
Domestic Revenue	6.1	75.8	646.8	871.2	971.7	1,050.3	1,264.3	1,406.0	1,586.8	2,063.5	2,635.9
Interest payments							251.1	281.5	402.2	555.6	752.6
Exchange rate	125	143	746	724	769	735	737	805	816	1,026	1,180
	Percent of GDP										
Total (%)	130	30	69	62	62	65	48	59	63	75	82
External (%)	108	14	38	33	31	30	27	31	27	32	40
Domestic (%)	22	16	31	29	31	35	21	28	36	43	42
Interest payments as a % of domestic revenue							20%	20%	25%	27%	29%
Increase in stock of debt (%)											
Total Debt		-69%		9%	16%	20%	12%	32%	25%	38%	56%
External		-85%		3%	11%	3%	44%	14%	0%	10%	4%
Domestic		-6%		15%	22%	30%	-9%	42%	52%	38%	42%

Source: Annual Debt Reports (MoF), Financial and Economic Review (Reserve Bank of Malawi)

The primary driver of the debt distress is the refinancing of committed domestic debt. In the most recently available annual borrowing plan (table 2), refinancing accounted for 65% of the annual needs. These refinancing requirements are taking place within a tight monetary policy. To contain inflation, the Reserve Bank has increased the policy rate from 18 to 26% in the last year and a half. In practical terms, the government is issuing securities at a higher interest cost to retire maturing securities which were at a lower cost.

Table 2: Financing Requirements for the 2023/24 Financial Year

Category	Amount (MWK billions)	Proportion
[1] Primary deficit	451.62	15.7%
[2] Domestic refinancing on Committed Debt	1,879.65	65.2%
[3] Maturities within the FY	255.81	8.9%
Arrears from previous FY	138.94	4.8%
Foreign amortisation	157.32	5.5%
Gross financing requirements	2,883.34	100.0%

Source: 2023/24 Annual Borrowing Plan

Notes

1 Revenues minus Expenditures excluding interest payments.

2 Committed debt contracted before 2023/24FY.

3 Domestic debt issued and maturing within 2023/24 FY.

As a result of these developments, interest payments in the 2024/25 budget estimates increased 56.3% to K1.456 trillion, or a quarter of the total budget. The 2024/25 budget contains very high expectations of revenue growth (48.8%). Given the depressed economic conditions and very high lending rates, these expectations are unlikely to be realized. If this scenario plays out, the government will have to borrow even more, continuing the ruinous upward trajectory of domestic debt.

2. Assess the technical capacity-building needs of Members of Parliament and staff to assess the country's debt stock, debt sustainability and viability of loans

2.1 Members of Parliament

It is pivotal that parliamentarians understand the significance of debt oversight, the difference between debt for economic growth and debt for consumption, and that parliament is able to carry out meaningful debt oversight throughout the budget cycle. During our situational analysis, we conducted interviews with several members of parliament, including those who hold or previously held significant parliamentary or ministerial authority in finance and budget policy.

There was a candid acknowledgment of the growing significance of public debt as an issue for the country's present and future prosperity. However, it was noted that there is a limited detailed understanding of the topic amongst parliamentarians, hindering their motivation on the issue as well as their ability to effectively demand government accountability on this matter.

Yet, a recent awareness of the problem in general terms was also noted by members to have grown. It was also acknowledged that the Budget Committee has not effectively facilitated parliamentary scrutiny of debt owing to a delay in the information being received by parliament, as well as a lack of precedence in

parliamentary practice, resulting in the alarm not being raised more widely on this issue on an institutional level. Therefore, broader parliamentary understanding of the country's debt situation is seen as essential to building the political will necessary to support this committee to implement its debt scrutiny powers more effectively.

2.2 Members of Staff

There are two administrative sources of research support for parliamentary debt oversight: the Clerk's Department that supports the work of parliamentary committees, and the Parliamentary Budget Office (PBO). Staff from the Clerk's Department will be asked to provide support to a particular committee if a bill (such as a loan authorization bill) is referred to it. However, it seems widely accepted that the responsibility for debt scrutiny through insight and analysis rests on the PBO. The establishment of the PBO is the result of years of advocacy and support from Civil Society Organizations (CSOs). The PBO has been focused on recruitment and delivering technical support for the annual budget process that only partially touches on the debt situation in the country. The PBO now exists with the financial backing of the Ministry of Finance and has a full staff complement to enable it to enhance parliamentary financial scrutiny.

2.3 Debt Sustainability

The debt sustainability analysis prepared by the World Bank and Ministry of Finance is easy enough for MPs to understand and is available to them. Members of Parliament, as well as various key technical staff, readily offered that borrowing for consumption and to pay salaries is not sustainable. There is some appreciation that the high interest rate regime will stifle domestic production, constraining any expected increases in tax collection.

At technical levels, there is robust debate on the impact of the balance of payments, exchange rate movements and actual budget outturns on debt sustainability. However, the cause of the structural deficits, high and rising interest costs, and the fundamental economic question on whether small open economies like Malawi can sustain deficit financing indefinitely are not discussed or debated.

Successive decisions made on the annual expenditure plans seem to take deficit financing as a given, with little attention to the long term sustainability or lack thereof of public debt. This blind spot was most pronounced among MPs. Although MPs want sufficient time for deeper scrutiny of external loans, they acquiesce to the truncated process lest they face political backlash if seen as opposed to development projects such as roads and water projects.

This need contributes to the low political will for debt oversight. Further, as interest rates rise, the proportion of debt refinancing is rising, meaning that even the primary deficit is squeezed (table 2 above). As more resources go to pay interest, it constrains the ability of government expenditure to focus on the very projects MPs want, as well as its ability to stimulate domestic demand. Finally, the interplay between monetary policy and the domestic debt distress is not discussed and likely not understood. The policy rate currently is 26%, with the stated objective of bringing inflation to the target of 5 plus or minus two. This coupled by the high financing requirements (65% of which is refinancing) means very high rates on treasury bills and notes. In turn, this creates a snowballing effect.

2.4 Viability of Loans

Our analysis revealed a significant gap in assessing loan viability within the parliamentary processes. Standing Order 125 requires a 28 day waiting period before bills are read in the House. However, the process of parliamentary oversight is focused on external loans and authorisation typically involves the Ministry of Finance bringing the bill and often requesting parliament to treat the bill as urgent, so that most bills are passed within the seven-day period, with limited debate and scrutiny. External loan authorization bills therefore lack comprehensive analysis, and the documents submitted with the bill typically provide only a brief overview of the loan's purpose. While it is likely that the underlying project appraisal documents by multilateral lenders contain such analysis, these appraisals are not included in the submission of the bill, which further impedes parliament's ability to review the loan.

3. Assess the capacity-building needs of Members of Parliament and staff regarding loan authorization processes, scrutiny of public debt management (including borrowing plans, strategies and reports) and oversight of government decisions

3.1 Members of Parliament

Not all members of parliament require extensive technical skills in debt and loan analysis, although as noted, a broad understanding of the debt situation in Malawi is vital. However, the Budget and Finance Committee of Parliament plays a crucial role in providing support in this area and therefore a detailed and technical insight is needed amongst members of this committee. In recognition of this, the Committee's Chairperson stressed the importance of technical training, especially regarding the issuance of public debt to be given to members of this committee.

Additionally, MPs need a comprehensive understanding of the Public Finance Management Act 2022, focusing on two main aspects: understanding the powers of the Budget Committee as outlined in section 22 of the Act, and understanding the composition of the entire budget cycle. Training should also address the relationships between key steps of the budget cycle, as there tends to be an overemphasis on loan authorization, despite decisions impacting the budget's direction and speed being made much earlier in the cycle.

For instance, the sustainability of public debt hinges on decisions made at the stage when the economic and fiscal policy statement is being created, which outlines the strategic priorities guiding the Government in preparing budget estimates, including decisions regarding the budget deficit and borrowing mix. It is at this stage that members should seek to lend significant influence as it is at this stage that members should determine whether public debt is sustainable and whether small open economies like Malawi can sustain deficit financing indefinitely.

Overall, from the discussions held with a sizeable number of parliamentarians, both members and non-members of the Budget and Finance Committee, it is evident that current levels of macro-economic understanding varies considerably, and that technical insight into the issue of debt for Malawi's economic and social prospects needs focused attention and development.

3.2 *Members of Staff*

The historical lack of scrutiny for money bills and limited experience in financial scrutiny amongst members of parliament underscores the challenge facing parliamentary staff. Our assessment mission revealed a strong desire among parliament's administration to better understand the technical intricacies of Malawi's debt situation. It appears that staffers at the PBO lack timely access to the necessary information to feel adequately informed about Malawi's debt landscape on a technical level, noting that information requested in quarterly meetings with the Ministry of Finance is often not immediately available and can take months to be provided afterwards. Engaging with parliamentary members of staff we identified a determination to work more closely with the Ministry of Finance to allow PBO staffers to provide a more technical and expert brief to parliament's finance committees. However, a significant obstacle to this endeavor has been the prevailing assumption that support from parliamentary staff must directly relate to parliamentary proceedings, and that their collaboration with the Ministry of Finance must relate to parliamentary business. In reality, PBO staffers should feel able to produce reports and analysis outside of any formal parliamentary proceedings simply to support members' understanding and insight. Members of staff expressed eagerness to receive external support enabling them to understand the debt situation and generate technical briefs proactively.

4. Assess the legal and institutional set up for debt data collection (which institutions are responsible) and the methodology by which debt data (domestic, foreign, central government and SOEs etc.) is collected, stored and analyzed.

4.1 Legal: Constitutional & the Public Finance Management Act (PFMA), 2022

The legal framework governing public debt is primarily outlined in the Constitution, the Public Finance Management Act (PFMA) of 2022, and the Standing Orders. Under Article 180 of the Constitution, the government is mandated to raise loans but only with the authority of an act of Parliament. Parliament is further empowered to authorize the use of loan proceeds for specific purposes.

Part VIII of the PFMA of 2022 establishes certain procedures regarding debt management that do not explicitly involve parliamentary approval or oversight. Section 71 of the PFMA directs the Secretary to the Treasury to prepare a medium-term debt management strategy, which is then submitted to the Minister of Finance for cabinet approval by December 31st. The strategy shall be based, the law directs, on the macro-economic framework of Malawi and prevailing market conditions, while ensuring the development of the domestic debt market. The macro-economic framework for the next financial year, with forecasts for a further two, are contained in the economic and fiscal statement for the next financial year, which section 27 of the PFMA requires the Minister to publish no later than November 30 of each year. While members of the public can in writing question or make recommendations about economic and fiscal statements, there is no requirement for parliamentary approval.

Similarly, Section 72 of the PFMA requires the preparation of an annual borrowing plan by March 31st, with cabinet approval sought by April 30th, and subsequent publication in the gazette. Despite these legal instruments being in place, there appears to be no explicit role outlined for parliament regarding them, raising questions about the extent of parliamentary oversight in ensuring transparency and accountability in public debt matters.

There is robust debate among technical staff on the adequacy of the PFMA to facilitate parliamentary oversight of domestic public debt. As is practice in most countries, debt service is statutory. Once debt is contracted under the law, there is no further requirement for approval of actual repayments when they fall due, and neither should there be.

Nevertheless, the macro budget framework, contained in the economic and fiscal strategy statement, establishes the overall amount of borrowing and should therefore be intricately examined by MPs as soon as it is presented to parliament. Specifically, MPs could use PFMA section 22 to interrogate any or all the steps outlined in this framework.

4.2 Institutional

The institutional framework related to public debt scrutiny involves several key entities. Firstly, the Debt and Aid Division within the Ministry of Finance plays a central role. This division is tasked with producing critical documents such as the Annual Borrowing Plan and the Issuance Calendar, providing essential guidance on the government's borrowing activities. Additionally, they are responsible for preparing the Annual and Mid-Year Debt Reports, which offer comprehensive insights into the country's debt evolution and its impact on the economy. Secondly, the Economic Affairs Division, also within the Ministry of Finance, is responsible for producing the annual Economic and Fiscal Policy Statement. This statement outlines the macroeconomic framework, including expenditure ceilings, tax revenue estimates, and deficit levels, thereby shaping the overall fiscal policy direction. Furthermore, the Reserve Bank of Malawi plays a significant role in managing domestic debt. It oversees the issuance of government securities, including treasury bills, notes, and project-specific infrastructure bonds. The Reserve Bank also publishes essential information, such as the Treasury notes prospectus and the results of weekly auctions, providing transparency and accessibility to debt-related data. Overall, these institutions collaborate to collect, store, and analyze debt data, and the challenge is to ensure this analysis and information is timely presented to parliament to support meaningful engagement.

5 Assess the level of information, periodicity of and type of reporting on debt decisions and data to parliament by the relevant institutions.

The PFMA 2022 lays out six steps of the budget cycle, where parliament can conceivably play an oversight role. Each step has an instrument or report that contains information on debt (table 3). **The primary drawback is that the law does not explicitly require parliament's approval at any of the steps except loan authorization.** On the Economic and Fiscal Strategy Statement, the law creates a process just within the executive - secretary of treasury, cabinet minister - cabinet. This is the instrument that creates the primary deficit, yet parliament does not scrutinize it.

Table 3: Periodicity of, and type of reporting on debt

Instrument/report	Contents	Who Prepares?	Date Due	Who Approves?	Parliament's Role	Observations
Medium Term Debt Management Strategy	Three year debt management plan showing external domestic borrowing mix	Debt & Aid division in MoF	Every 3 years, with annual updates	Cabinet	Noting	No evidence that parliament has ever discussed
Economic and Fiscal Strategy Statement	Overall macro framework - expenditures, expected revenues, and deficit	Economic affairs division in MoF	Nov-30	Cabinet	Noting	First report produced, not interrogated by parliament
Financial statement	Budget framework, showing approved, revised and actual outturn, & evolution of debt	MoF	February		Noting	Part of budget documents
Annual Borrowing Plan	Annual financing requirements showing primary deficit & refinancing, and proposed mix of securities to be issued	Debt & Aid division in MoF	February	Cabinet	Noting	Submitted together with expenditure estimates, but not debates separately
Debt Issuance Calendar	Schedule of issuance of the various securities	MoF & RBM	February	Cabinet		No evidence of interrogation
Annual Debt Reports	Evolution of public debt, and debt service - full year	Debt & Aid	End of year		Noting	No evidence of interrogation
Mid-Year Debt Report	Evolution of public debt, and debt service - half year	Debt & Aid	Sixth month			
Loan Authorization Bills	Purpose of a specific loan, stated in one clause	MoF. & Justice	Periodic	Cabinet	Approval	Notice period not followed, treated as emergency

Source: PFMA 2022, Interviews & Consultant's observations

In addition, the annual borrowing plan is presented to parliament together with the budget policy statement and estimates. Parliament's approval of the latter two is assumed, implicitly to cover the borrowing plan. Parliament on its part, has not elected to use its powers under PFM section 22 to play a stronger role earlier in the budget cycle. The mission could not determine precisely the reasons driving this choice of a path of least resistance. There was broad acknowledgment that the legislation was created without precedence of any significant budgetary oversight practice in parliament on which to build this oversight. In addition, resource constraints were the most frequently offered explanation. Committee meetings are financed by the very executive arms that they are interrogating. The Ministry of Finance and Reserve Bank pay for the quarterly meeting with the Budget Committee.

The documents, reports and instruments contain a reasonable amount of debt information. However, the information is fragmented, and not all reports or policy instruments are tabled in parliament. The PFMA compels the preparation of a medium term debt management strategy, approval by cabinet, but not its tabling in parliament. The budget presentation contains five budget documents, tabled together - the Budget Statement (what the minister reads), Financial Statement (showing budget framework as approved, revised and the actual outturn for previous year), Annual Borrowing Plan, Budget Estimates and Annual Economic Report. Whereas senior technical staff saw this as a positive effort to present as comprehensive information as possible, the fact that the financial statement, and the economic report to inform the annual borrowing plan, and therefore realistic budget estimates, are all presented together means that the opportunity for parliament to inform the numbers is by-passed.

Examining the budget committee report on the 2024/25 budget, it is clear that the recommendations of the budget committee, cannot substantially alter the aggregate numbers of expenditure, taxation and borrowing proposed in the budget presentation. As the mission was informed, the Budget Committee and

parliament, “cannot” reduce the size of the budget. The direction and speed of travel remains as contained in the Economic and Fiscal Strategy Statement. In its latest report, the Budget Committee notes that they have raised alarm on unsustainable domestic borrowing.

6 Assess the level of access to information by members of the public on public debt

6.1 General Public

While some information on public debt is accessible online through both the Ministry of Finance and Reserve Bank websites, the majority of reports are outdated. Currently, there is a lack of user-friendly and comprehensive sources of information on public debt and its impact on the economy. This presents a challenge for individual citizens who may need to possess a high level of knowledge and sift through multiple documents to form an informed opinion on the situation. Improving the accessibility and clarity of information on public debt is essential to promote transparency and empower citizens to participate effectively in economic discourse and decision-making processes.

6.2 Civil Society

During the mission, we engaged with and interviewed prominent civil society actors who demonstrated a high level of expertise on public debt. Despite this, there were divergent opinions within civil society regarding the primary current issues related to public debt. Their efforts primarily center around supporting parliament, the PBO, and initiatives such as the Constituency Development Fund (CDF), as well as fostering improved relations between members of parliament and district councils. For example, since 2015, Action Aid (AA) has worked closely with parliament to bolster its oversight capabilities, addressing challenges stemming from limited political capacity and committee effectiveness. The primary aim has been to enhance parliamentarians' comprehension of the budget, especially given the prevalent lack of technical or academic backgrounds among them. AA successfully advocated for the establishment of a PBO, now funded by the government as part of parliament's administrative budget. They ensured clear organizational structures and defined job roles for the PBO, while also facilitating capacity-building initiatives such as exchange visits and peer-to-peer learning opportunities. Some of the key observations made by civil society included the need for parliament to stay informed on the government's borrowing plans, and be proactive in utilizing existing tools such as the annual borrowing plan and debt management strategy to expand oversight beyond the budget. For instance, it was acknowledged that engagement with civil society at the start of the budget cycle is good but tapers off at later stages, as parliament fails to conduct meaningful oversight of subsequent budget adjustment instruments. Civil society actors demonstrated an acute awareness of the lack of political appetite as a key challenge to parliament's role in debt oversight, observing that incentives for MPs to engage in public debt management are lacking.

7.0 Review practices and procedures for obtaining and reviewing information within parliament, by MPs and PBO staff

7.1 Procedure

The procedure for acquiring and evaluating information regarding debt by Parliament is set out in Part III of the Public Finance Management Act. Section 21 grants the Budget Committee the authority to offer comprehensive guidance on budgetary affairs, scrutinize budget policy statements and estimates, and oversee adherence to both the Constitution and the PFMA. Section 22 empowers the Committee to

investigate "any Government financial matter" and obtain "full access to records pertaining to revenue, expenditure, and any other public resource." In accordance with parliamentary protocol, reports destined for parliament are typically presented by the Minister. Furthermore, PBO staff may present specific requests aligned with their responsibilities. Additionally, the Budget Committee itself may have distinct requests or demands intermittently, extending beyond their regular quarterly meetings with the Minister of Finance and the Reserve Bank.

7.2 Practice

Members of Parliament expressed dissatisfaction with the information they receive from the Government, finding it insufficient. Conversely, the Ministry of Finance believes they provide adequate information to the committee for it to fulfill its oversight obligations. Clearly, there is a need to reconcile these differing perspectives to align expectations. To date, and under the new PFMA, the Budget Committee has not thoroughly examined various instruments throughout the budget cycle, with some of these instruments, like the Economic and Fiscal Policy Statement, being prepared for the first time and without any integrated precedence of practice for doing so. The Committee has voiced concerns about resource constraints, noting that the financing of quarterly meetings by the Ministry of Finance and the Reserve Bank hampers their ability to fulfill their mandate. However, the execution of procedures remains flawed: External loans undergo loan authorization bills, but the process is rushed and disorderly. Furthermore, despite 99% of interest payments being related to domestic debt, there is no explicit loan authorization procedure between parliament and the Executive on domestic loans. This situation has led to mutual suspicion among stakeholders, including the Ministry of Finance, the judiciary, and MPs. Clarifying roles and responsibilities, improving communication channels, and addressing resource constraints are crucial steps towards fostering trust and enhancing the effectiveness of parliamentary oversight.

8.0 Recommend measures, processes, and instruments that should be adopted in order to eliminate debt opacity and improve public debt accountability and enhance parliamentary scrutiny

During this situational capacity assessment it became clear that Parliament, the Ministry of Finance, and the PBO each have roles to play in improving public debt scrutiny in Malawi, and as such each of these stakeholders should be engaged in following up on each of the recommendations set out below. Overall, there is a pressing requirement to enhance the implementation of the PFMA, focusing on the thorough examination and explicit approval of key documents such as the economic and fiscal policy statement, medium-term debt management strategy (MTDMS), and annual borrowing plan (ABP). To achieve this, the MTDMS and ABP should be presented earlier than the Budget Statement and Estimates, allowing for comprehensive scrutiny and approval. Furthermore, the approved MTDMS and ABP should be referred to as the Minister prepares the Budget Statement and Estimates, so that parliament ensures alignment and coherence in fiscal planning and management. Strengthening these aspects of the Act will enhance transparency, accountability, and efficiency in public financial management processes. In addition to this key overarching recommendation several additional areas of focus are outlined below.

8.1 Recommendations for increasing parliamentary capacity support

A prevailing view among members of parliament and the leadership of the Budget and Finance Committee is the need for training regarding the issuance of public debt, both external and domestic, as well as awareness raising amongst members on the country's debt stock, debt sustainability and its

macroeconomic implications for Malawi. The chairperson of the Budget Committee called for this training to take place across parliament and for its content to provide members with global examples of how to carry out debt scrutiny more meaningfully. In addition, upskilling the technical expertise of the Budget and Finance Committee was seen as important for improving the quality of their engagements with the Ministry of Finance. At the staff level, while the PBO recognizes its pivotal role in supporting MPs in scrutinizing public debt, staff members acknowledged it is currently in the early stages of understanding the comprehensive scope of this task and the array of reports and analyses that may be necessary, beyond budget analysis, something which would benefit from outside support in the form of ongoing mentoring and training. For instance, during our situational analysis we discussed the possibility of short debt briefs that contextualize public debt in terms of specific themes such as “the impact on economic prosperity”, “the impact on young people”, “the impact on infrastructure” and “the impact on women and gender equality”. In addition, for both staff and members of parliament, there is a need to understand how to insert budget oversight throughout the budget cycle to ensure meaningful parliamentary scrutiny at the mid-term and end of year stages.

8.2 Recommendations for explicit approvals of key steps in the budget cycle

Currently, there is no requirement in the PFMA for parliament to approve the Economic and Fiscal Policy Statement (EFPS). This absence represents a significant weakness, as the deficit becomes de facto determined upon Cabinet's approval of the EFPS. Similarly, the medium-term debt management strategy outlines the proposed borrowing mix for the medium term, including choices between concessional and commercial loans, as well as the maturity profiles of domestic debt. Additionally, the Annual Borrowing Plan (ABP) delineates how the Government's aggregate borrowing requirements will be met, detailing planned borrowing operations, borrowing instruments, timing of domestic borrowings, preferred tenors of domestic instruments, and projected disbursements of external financing. However, since none of these key documents are considered by the Budget Committee or debated in Parliament, it can be argued that Parliament is not effectively involved in approving domestic borrowing. Our recommendation is to amend the law to include explicit approvals of these documents in order to ensure greater transparency, accountability, and parliamentary oversight in the budgetary process.

8.3 Recommendations for loan authorization of foreign debt

Building on the requirement outlined in the PFMA section 70, which mandates that loans be authorized, a concerning practice has emerged regarding the approval of foreign loans through individual loan authorization bills. Regrettably, with the exception of two instances, these bills are not referred to committee, and debate is initiated and concluded in under one hour. The primary enhancement recommended in this report is for the bill to be referred to committee to allow for thorough scrutiny. This represents a straightforward reform, particularly considering that these loans are typically for projects and are accompanied by detailed project appraisal documents. By involving the committee in the scrutiny process, transparency, accountability, and informed decision-making can be significantly improved, ensuring that foreign loans serve the best interests of the nation.

8.4 Recommendations for improving the authorization of domestic debt

The absence of explicit authorization for domestic debt is notable, as there exists only a presumption that the passage of the budget estimates implies implicit approval of the deficit. As highlighted earlier, three crucial documents in the budget cycle—namely, the economic and fiscal policy statement, the

medium-term debt management strategy, and the annual borrowing plan—are approved by the Cabinet, influencing the size of the annual deficit and the securities issued to finance it. An improvement in this aspect entails recommending that the economic and fiscal policy statement, the medium-term debt management strategy, and the annual borrowing plan undergo formal approval processes. As mentioned in subsection 8.2, of particular importance is the formal approval of the Annual Borrowing Plan, given its significance in delineating the government's borrowing requirements and planned borrowing operations. By formalizing the approval process for these key documents, transparency, accountability, and effective oversight can be enhanced, ensuring responsible management of domestic debt and the overall fiscal framework.

8.5 Recommendations for addressing structural and procedural issues

To enhance the role of the parliamentary service in addressing the issue of public debt, it is crucial for parliament to expand its budget oversight role across the budget cycle. The parliamentary programme currently supports a cluster committee system that allows all members of parliament to discuss the annual budget at the start of the cycle, yet no comparative budget scrutiny process takes place for latter stages in the process despite significant adjustments being made to the level of borrowing and public debt. The Parliament of Malawi should consider institutionalizing new procedures and structures that substantively ensure the government accounts for adjustments in its spending. For instance, parliament could mandate that the Ministry of Finance provide quarterly reports to Parliament on borrowing and its implications. In addition, to bolster the role of the Budget Committee in conducting meaningful political scrutiny, two structural changes are proposed: Firstly, amending the rules to ensure continuity in committee membership and minimize political interference in parliamentary processes, thereby fostering stability and effectiveness in oversight mechanisms. Secondly, parliament could mandate the preparation of a handover report either at the end of each annual session or at the conclusion of a parliamentary term to document critical discussions on debt oversight and ensure continuity in parliamentary scrutiny efforts. In terms of the parliament's staff administration, it is important to clarify the respective roles of the PBO and the committee section in providing debt scrutiny support to parliament. This can be achieved by separating and specifying the processes of debt oversight undertaken by the PBO and the committee section, enabling members of parliament to engage more effectively with parliamentary analysis and make informed recommendations regarding the additional support and information they require. An additional suggestion is to establish an office in the Ministry of Finance dedicated to liaising with the PBO that could streamline communication and coordination, enhancing the effectiveness of debt management efforts.

8.6 Recommendations for understanding & addressing political will for debt oversight

As this situational analysis identified, political will is needed to meaningfully implement the PFMA including in the areas that would enable parliament to more meaningfully oversee public debt. However, as a recent USAID report finds, 'political will' is rarely an attitude or norm that can be easily altered through persuasion or argumentation¹. Low political will is usually the 'outward manifestation of underlying structural constraints that shape the incentives or tie the hands of the leader in question'. During this assessment mission we identified some of the underlying reasons for low political will. The three most important are related to elements of entrenched interests and political power, bureaucratic agency, and capacity. For instance, every Member of Parliament wants a development project in their

¹ USAID, July 2023 *DRG Learning, Evaluation, and Research Activity II, Anti Corruption Learning Agenda Final Report*
https://pdf.usaid.gov/pdf_docs/PA0214NB.pdf

constituency, and is thus careful not to oppose borrowing for such projects, the information needed for parliament to carry out debt scrutiny is held up in bureaucratic processes and emerging PBO capacity. However, a more thorough analysis will be needed to successfully design the next phase of this programme, and therefore this analysis should be integrated within its next set of activities, including training with staff and members of parliament.

During the course of this situational analysis, three similar but distinct recommendations for parliament's consideration emerged regarding ways to enhance political engagement on public debt, improve parliament's understanding of debt sustainability, and enhance members' self-awareness of their role in public debt management. Firstly, there was the suggestion to establish a parliamentary caucus focused specifically on public debt. This caucus would facilitate collaborative discussions and knowledge sharing among members, promoting a deeper understanding of debt-related issues and fostering informed decision-making processes within parliament. However, this idea may be subject to the Speaker's approval. Secondly, we discussed the possibility of creating a dedicated debt management committee within the parliamentary structure. This committee would provide focused attention and expertise in effectively managing the country's debt portfolio, ensuring transparency, accountability, and prudent fiscal management practices. Finally, in discussions with members of parliament, we explored the option of creating a task force dedicated to addressing domestic debt challenges. Such a task force would aim to reverse the trend of unrealistic promises through political advocacy and awareness-building that promotes fiscal sustainability and responsible debt management practices.

8.7 Recommendations for broader advocacy on long-term fiscal sustainability

A final recommendation is for parliamentarians to use their position as elected leaders to call for broader measures to ensure long-term fiscal sustainability, greater engagement with experts and CSOs, and other platforms for engaging with different perspectives and solutions. Firstly, parliamentarians can more broadly encourage a “reset” in public debt to relieve Malawi's economy from long term debt paralysis, emphasizing the need for comprehensive strategies to reduce deficits and promote fiscal responsibility over the long term. Additionally, parliamentarians can advocate for banks to cap interest rates can help mitigate the burden of debt servicing costs on domestic loans, thereby freeing up resources for other essential expenditures and promoting economic stability. Furthermore, parliamentarians should begin to lobby the government to ensure that government liabilities, guarantees, and assurances are subject to “meaningful parliamentary scrutiny” in order to enhance transparency and accountability in financial management, foster public trust in fiscal decision-making processes.

Key informants engaged with in the course of this situational analysis

1. Ministry of Finance (Debt and Aid division)
2. Reserve Bank of Malawi
3. Parliamentary Budget Office (PBO)
4. Members of Parliament
5. Civil society [Action Aid, Democracy International, AFIDEP, CSAT, Malawi Economic Justice Network]
6. Donors [World Bank, USAID]
7. Parliamentary Staff
8. Open Governance Partnership Secretariat

9. OGP Technical Working Group

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