SUSTAINABLE DEVELOPMENT GOALS AUDIT ON THE NATIONAL BUDGET ALIGNMENT IN MALAWI

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ACKNOWLEDGMENTS

Authors

This analysis was prepared by Mr. Maleka Thula, Dr. Grace Kumchulesi and Mr. Rominie Kaseghe from Economics Association of Malawi (ECAMA).

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Disclaimer

The views expressed in this publication are those of the author(s) and do not necessarily represent those of the United Nations, including UNDP, or UN Member States.
Member States of the United Nations committed to a universal call to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by adopting the 2030 Agenda for Sustainable Development, including the Sustainable Development Goals (SDGs). The 2030 Agenda comprises 17 SDGs which are accompanied by 169 targets and 230 indicators. The commitment by member states entails domestication of the SDGs in national short, medium and long-term development plans.

Malawi, as one of the member states, ratified and adopted the 2030 Agenda for implementation. Subsequently, Malawi aligned its recently launched third Malawi Growth and Development Strategy 2017-2022 (MGDS III) to the SDGs as a document through which the country will implement, monitor and report on the progress of the SDGs. Adequate financing is essential for the success of this new sustainable development agenda. Member states noted the importance of nationally-owned sustainable development strategies, supported by integrated national financing frameworks. It is therefore expected that the Government of Malawi’s annual budgets and medium-term expenditure frameworks are aligned to the priorities of MGDS III and consequently support the implementation of the SDGs.

Since SDGs implementation started in 2016/17, no budget review has been undertaken to determine how the budgets are aligned to and support the SDGs. It was therefore important to conduct a comprehensive budget review to assess the country’s national budget alignment to the SDGs. This analysis is useful as it highlights strengths, shortfalls and areas in need of future action for SDGs budgeting, monitoring and reporting. Going forward, UNDP will build on this seminal report to carry out similar assessments throughout the SDGs implementation period in Malawi. Specifically, such an exercise will be used as an advocacy tool and will provide evidence-based recommendations and suggestions for successful implementation of the SDGs by government, private sector, development partners, civil society bodies, academia and all key stakeholders.

Maria Jose Torres
UNITED NATIONS RESIDENT COORDINATOR
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>Government of Malawi</td>
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<td>GNI</td>
<td>Gross National Income</td>
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<td>HIPC</td>
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<td>IFMIS</td>
<td>Integrated Financial Management Information System</td>
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<td>Integrated Sustainable Development Goals</td>
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<td>Millennium Development Goal</td>
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<td>TFR</td>
<td>Total Fertility Rate</td>
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<td>WASH</td>
<td>Water, Sanitation and Hygiene</td>
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The ‘SDGs audit’ of national budgets was conducted to determine the level of financial support for implementation of the 17 SDGs in Malawi. The SDGs were domesticated into the MGDS III and are therefore reflected through the Strategy's key priority areas. Specifically, the exercise involved an in-depth review and assessment of the country’s national annual budgets for the first three financial years since the implementation of SDGs started in 2016. The in-depth analysis entailed conducting both a historical overview and a forward-looking analysis of the national budgets. The analysis broadly looked at how budget allocations have historically been aligned to and supported SDGs implementation, while the forward-looking analysis assessed how future allocations should be made to ensure successful implementation of the SDGs by 2030. Further, the study assessed the adequacy of budget allocations to achieve MGDS III priority areas as a channel through which the SDGs can be achieved. The study compared the amount of resources each priority area is required to invest against actual development expenditure allocations to establish any financing gaps/surplus.

The findings from this audit established significant financing gaps, suggesting that substantial increases in domestic resource mobilization will be required to ensure adequate resources for financing the SDGs. In addition, the study established that off-budget support is a critical component of a substantial share of SDGs financing. While adequate budget allocations are a necessary condition for achieving the SDGs, the quality of budget content and execution as measured by the Government’s ability to accurately hit its own revenue and expenditure targets and enable the macroeconomic environment remains crucial. It is observed that GDP growth is not sustainable, as growth is consumption-led and consistently overestimated to create a robust base for high revenue and expenditure growth projections relative to the country’s capacity to realize the same. This results in downward tax revision during implementation every year. In addition, the findings revealed that the prevalence of accumulated deficits has the potential to reverse macroeconomic stability, potentially disturbing the focus on implementation of the SDGs.

On one hand, discussions with key informants established the existence of inefficiencies in which absorption capacity is a challenge, especially for the development budget, and is likely to hinder achievement of the SDGs. On the other hand, it was revealed that governance institutions receive limited resources to operate effectively to support the attainment of the SDGs.

The audit proposes the following recommendations, grouped broadly under three headings, for the consideration of the Government and other stakeholders to improve the capacity of the country to make progress towards achieving the SDGs:

**Policy Response:**

a) The national budget should clearly identify the SDGs being focused and targeted in the sectoral allocations. For instance, a clear indication of national budgetary spending on poverty reduction and climate change adaptation activities needs to be provided. The national budget needs to be gender responsive too.

b) Sustainable strategies, such as public-private sector financing and other domestic revenue mobilization channels, for financing budgetary deficits are required to maintain the focus on SDG achievement.

c) While adequate budget allocations are a necessary condition for achieving the SDGs, further consideration should go to improving the quality of budget content and execution as measured by the Government’s ability to accurately hit its own revenue and expenditure targets.
d) One option could be exploring innovative financing such as co-financing strategies especially at the district level that would assist in optimization of resources and achieving multiple targets, across different sectors, at once. The emphasis here is on moving away from siloed budgeting processes and focusing more on cost-effective multi-sectoral interventions.

**Institutional Action:**

e) An important medium-term option to enlarging fiscal space is to further strengthen Public Finance Management (PFM) systems for enhanced accountability, to reduce pilferage, theft, fraud and corruption. The Government needs to build strong consensus around the role and significance of effective, accountable and inclusive institutions in promoting sustainable and equitable development in Malawi. Specific systems to monitor transparency and accountability in spending are required.

f) To achieve the SDGs, the Government needs to enhance partnerships with non-state actors and encourage them to step up their efforts in financing the SDGs by aligning their priorities with the country’s development agenda and the SDGs. Likewise, there is a need for improved coordination among non-state actors, development partners and other stakeholders in meeting established financing gaps, to ensure optimality in the allocation of resources in line with country priorities and the SDGs.

g) The Government and its partners should strengthen sectors’ absorption capacity by, among others, effectively working on its Management Information System and submitting timely reports to the Ministry of Finance, Economic Planning and Development and other funding agencies. This needs to be appropriately devolved to capture district level reporting too.

**Implementation Issues:**

h) A comprehensive SDGs audit of the National Budget towards the achievement of the SDGs should be conducted annually and regularly alongside the MGDS reviews and the SDGs annual reports. This will help in examining budget performance in relation to meeting sector targets.

i) Mid-term budget reviews should be conducted with a stronger focus on equity and efficiency of expenditures. This may include reviewing allocation mixes within sectors, strengthening procurement functions and combating wastages and corruption.

j) A budget-reporting dashboard for citizens on the linkages between SDGs implementation and the National Budgets should be developed, which would enable information sharing on budgetary performance. This could be a two-way interaction between the Ministry of Finance and the citizens.
UN Country Team engages Parliamentarians on SDGs
In September 2015, world leaders of 193 United Nations member states adopted the 2030 Agenda for Sustainable Development as the successor to the Millennium Development Goals (MDGs) to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. The 2030 Agenda comprises 17 Sustainable Development Goals (SDGs) which are accompanied by 169 targets and 230 indicators. The 2015 UN Addis Ababa Action Agenda (AAAA) declaration on SDGs financing recognizes that the financing needs required to achieve the 2030 Agenda for Sustainable Development are extremely large for countries. The AAAA declaration stresses the need for a comprehensive approach which mobilizes public finance, sets appropriate public policies and regulatory frameworks, unlocks the transformative potential of people and the private sector and incentivizes changes in consumption, production and investment patterns in support of sustainable development. The declaration also acknowledges that official development assistance (ODA) remains crucial, but that ODA alone will not be sufficient, particularly for countries most in need. The AAAA therefore emphasizes the need for all sources of finance, including public and private, domestic and international for implementation of the SDGs. In general, the AAAA framework recognizes that successful implementation of the SDGs goes beyond financing and acknowledges the critical role of partnerships as well as national and international enabling environments.

On the domestic front, Malawi is one of the member states that ratified and adopted the 2030 Agenda and is committed to implement and report on the progress and achievements of the SDGs. To that end, the country domesticated the SDGs in the third Malawi Growth and Development Strategy 2017-2022 (MGDS III), through which Malawi will implement, monitor and report on progress. It is therefore expected that the Government of Malawi’s annual budgets and medium-term expenditure frameworks be aligned to the priorities of the MGDS III and consequently support the implementation of the SDGs. In line with this expectation, the understanding is that the assessment of government’s commitment and progress towards the SDGs would be gauged through examining how national budget allocations are aligned to and support the MGDS III priority areas. The MGDS III describes a national development agenda which identifies five key priority areas, namely: Agriculture, water development and climate change management; Education and skill development; Energy, industry and tourism development; Transport and ICT Infrastructure; and Health and Population. The MGDS III also identifies other development areas to ensure social inclusion and sound governance.

Although national budgets are instrumental to achieving the targets of MGDS III and the SDGs, comprehensive budget reviews in Malawi to determine how the budgets are aligned to and support the SDGs have not been conducted since implementation of the SDGs started in the 2016/17 fiscal year. Previously, budget analyses have largely aimed at assessing budget performance as well as economic and sectoral budget allocations and have not necessarily aligned with the SDGs. In terms of performance, these analyses have mostly focused on whether government expenditure remained within approved budgetary limits and whether grants and revenue targets were met. On budget allocations, analyses have largely focused on understanding how sectors and economic activities have been prioritized and how budget allocations are aligned to the national development agenda, such as the MGDS. By and large, the extent to which budgets supported macroeconomic growth and stability have been at the epicenter of most of these budget analyses.

It is also worth noting that lessons on financing the Millennium Development Goals (MDGs) in Malawi show that although the MGDS of 2006-11 and 2011-16 emphasized achieving poverty reduction through sustainable economic growth and infrastructure development, budget allocations to poverty-reducing spending programmes were sometimes changed by parliament during budget approval sessions. In other cases, the programmes were not implemented due to shortfalls in budget revenue and donor flows. The Government used a Medium-Term Expenditure Framework (MTEF) and the Public Sector Investment Programme (PSIP) to ensure that financial resources are directed to the priorities of the MGDS.

The MTEF reforms included the establishment of an Integrated Financial Management Information System (IFMIS). The Government also set up an implementation, monitoring and evaluation framework to provide regular feedback on progress made towards achieving the MGDS and the targets of the MDGs. Realizing that achievement of the MGDS required enormous resources, the Government collaborated with non-state partners and developed a Development Cooperation Strategy (DCS) for Malawi. The strategy advocated for inclusive partnerships, government leadership and country ownership of the national development agenda and alignment around national systems and strategies. However, factors such as lack of control over supplementary budgets, weak capacity in ministries, delayed reporting on actual spending, weak links between plans and budgets and corruption resulted in Malawi partially achieving four of the eight MDGs, namely MDG 4 (Reduce child mortality), MDG 6 (Combat HIV/AIDS, malaria and other diseases), MDG 7 (Ensure environmental sustainability) and MDG 8 (Develop global partnership for development)³.

Achieving the SDGs thus requires a massive step up in domestic resource mobilization, development of pro-SDGs national budgets, transparency and accountability in spending and strengthened capacity and coordination amongst stakeholders implementing the SDGs.

Malawi uses three levels of development planning, namely long-term, medium-term and short-term. While the long-term Vision 2020 is about to expire, the Government recently launched its medium-term planning agenda, the MGDS III, which will be implemented between 2017 and 2022. The MGDS III and subsequent medium-term plans will be the main instrument for government implementation of the SDGs. There is hence a need for the alignment of budgets and MTEFs with the MGDS, and consequently the SDGs. With financial and technical support from UNDP, Malawi used the Integrated Sustainable Development Goals (iSDG) model⁴ to prioritize and domesticate the SDGs in the MGDS III. Annex 1 shows the mapping of key priorities of the MGDS III to the SDGs. All 17 SDGs are reflected in the MGDS III through the nation’s key priority areas for development. At the level of global targets, 61 of the 169 SDG targets are aligned with the key priority areas of the MGDS III. The health and population priority area encompass most of the SDG indicators (23 out of 61)⁵.

Given the foregoing, an SDG audit of the national budgets is useful to highlight strengths, shortfalls and areas in need of future action for SDGs budgeting, monitoring and reporting. Thus, an in-depth review and assessment of the national budgets was undertaken to determine how budget allocations are aligned to and support SDGs implementation. The assessment also evaluates how the allocations will impact the implementation of SDGs using a forward-looking analysis covering optimal budgetary allocation as a pathway for successful implementation by 2030.

The rest of the paper is organized as follows: Section 2 presents the methodological approach; Section 3 looks at findings on the alignment of budget allocations to the SDGs; Section 4 details consultation proceedings from stakeholders; and Section 5 presents conclusions and recommendations.

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Existing literature relevant to budgeting and government financing was reviewed to identify key issues in government budgeting. The desk review informed both the development of a protocol that was followed and the associated interview guides. Reviewed documents included: Budget documents, Financial Statements, Mid-Term Budget reports, MGDS, MGDS II and III, MGDS II Review report, MDGs documents and SDGs documents, among others.

Key informant interviews were conducted and provided insights into the contribution made by different stakeholders involved in the budget process. Informants with comprehensive understanding and information on budgeting and financing were interviewed. They included selected Ministries, Departments and Agencies, Development Partners and representatives from the private sector, non-governmental organizations and civil society organizations. Analysis began by assessing whether overall historical trends in budget allocations and financing from 2016/17 to 2017/18 were fully aligned to the MGDS III requirement since the adoption of the SDGs implementation in the 2016/17 financial year. The understanding is that if budget allocations are fully aligned to the MGDS III, through which the SDGs were domesticated, then it should follow that the SDGs progress will depend on how national budget allocations are best aligned to the MGDS III national agenda. However, it is worth noting that alignment of the national budget to the MGDS III is necessary but not sufficient for the SDGs to be fully attained by 2030. The need for enhanced coordination between the Government and all relevant stakeholders, prioritization of government expenditures and quality of budget content and execution, together with an enabling macroeconomic environment, will be key in the successful implementation of the SDGs.

In order to establish required resources for meeting the SDGs, the average per capita development requirement and per capita total budget expenditure were estimated, from which financing gaps were established. To determine the overall development requirement to achieve the SDGs, costs as estimated in the MGDS III for government flagship and development projects in each priority area for the entire 5 years were used. Subsequently, flagship project annualized investment resources were added to priority area project costs earmarked for each year. It was also assumed that the average development investment requirement will decline as we approach the end of the SDGs implementation period, reflecting the principle of diminishing marginal returns. The population projections from the National Statistical Office (NSO) were used to obtain per capita expenditure figures. The analysis also took into consideration off-budget support by various non-state actors to ensure that the assessment of development expenditure is not underestimated.

Secondly, based on the assumption that all 17 SDGs are fully domesticated in the MGDS III, the study assessed the adequacy of budget allocations to achieve MGDS III priority areas. The study compared the amount of resources each priority area is required to invest against actual development expenditure allocations to establish any financing gaps/surplus. It was also assumed that the prevailing recurrent expenditure for all sectors is sufficient to support extra development activities which currently lack financing. This assumption implies that more resources would be required where development expenditure deficits were established, while reprioritization of recurrent expenditure would be needed to ensure that public resources are channeled to where they are most needed. The sectoral analysis considered allocations to sectors at district council level as well as subventions to government parastatals in various sectors. At the sector level, the aim was to establish how budget allocations to priority areas help to achieve the SDGs.
Finally, as a forward-looking approach, the study analyzed additional spending needs for the SDGs implementation up to 2030. The assessment of spending needs also followed the MGDS III development project costing at both the national and sectoral levels. The analysis specifically isolated gender and governance issues to assess the sensitivity of budget allocations towards gender and governance institutions. This was done to gauge the preparedness of the country in addressing discrimination based on sex and to promote transparent, accountable and prudent public finance management systems.

### 2.4. Data Sources

The analysis used both primary and secondary data. Largely, the assessment utilized domestic statistics from the Ministry of Finance, Economic Planning and Development, National Statistical Office, Reserve Bank of Malawi and other local data authorities. Where necessary, some data were sourced from international reports, declarations and statistics, such as from UN organizations, African Union declarations and others. Primary data was mostly collected from various stakeholders that were engaged during consultations.

The study utilized nominal data for all variables, thus projections assumed that the inflation adjustment factor was inherent to the data generating process. Due to the unpredictability of future domestic economic conditions, this approach was easier than projecting inflation separately for the periods leading up to 2030. The findings of this study would not be different from using real figures, since the projections took into consideration historical inflation dynamics in Malawi. In addition, the United States Dollar (which is relatively stable against the Malawi kwacha) was used as the unit of account for forward-looking analysis. Also, the study controlled for errors that could arise from units of measurement by using figures expressed as a percentage of GDP.

Several assumptions made in the MGDS III, in addition to expert judgement, were used as a basis for the projections made up to 2030. Key assumptions were:

- Historical average of GDP nominal growth rate of about 20.0 percent\(^6\) for the period 2010-2018 and higher than projected single digit inflation in the medium term;
- Used nominal budget figures, thus projections had a built-in inflation factor;
- Initial investment of 33.0 percent in the first year, 24.0 percent in the second year, 16.0 percent in the third year, 16.0 percent in the fourth year and 11.0 percent in the fifth year, per MGDS III;
- Sectoral budget projections were informed by historical growth averages for at least 5 years.

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\(^6\) Author computed using NSO Economic Management figures for period 2010-2015.
Signing of the UNDAF with Malawi Government
Since the national budget remains the key instrument through which national development plans are executed, the integration of the SDGs into national development plans should be adequately resourced to achieve the SDGs by 2030.

This section assesses annual government revenue and spending as a proportion of GDP, with spending measured against internationally agreed SDG-related targets. The assumption is that GDP growth should be sustained at 7.0 percent if Malawi is to make meaningful strides to achieve its development agenda. However, Malawi’s GDP growth is notably not sustainable in that growth is consumption-led. Moreover, GDP growth has consistently been overestimated to create a robust base for high revenue and expenditure growth projections relative to the country’s capacity to realize the same. This accounts for downward revision of GDP growth during implementation every year as realities set in. Consequently, implementation of the national budgets is characterized by accumulated deficits that result in scaling down budgets and potentially interferes with macroeconomic stability and the achievement of the SDGs.

The 2018/19 National Budget is estimated at K1,454.2 billion, representing 28.0 percent of GDP. This indicates an increase of about 12.0 percent and 28.0 percent from the 2017/18 and 2016/17 approved budgets at K1,223.3 billion and K1,132.9 billion, respectively. With domestic inflation averaging 11.6 percent in 2017/18 and 20.8 percent in 2016/17, the 2016/17 and 2017/18 budgets registered marginal real growth, as the increases in the national budget were slightly higher than inflation. Recurrent expenditure is estimated at K1,104.5 billion (about 20.7 percent of GDP) in 2018/19, compared to K966.3 billion and K823.3 billion in the 2017/18 and 2016/17 financial years, correspondingly. This represents recurrent expenditure growth of 17.0 percent from the 2017/18 and 34.0 percent from the 2016/17 financial years. The World Bank Malawi Economic Monitor Report (2017) shows that between 2013/14 and 2017/18, the bulk of recurrent expenditures (22.0 percent of GDP) comprised wages and salaries (6.4 percent of GDP), goods and services (6.2 percent of GDP), subsidies and transfers (4.6 percent of GDP) and interest payments (4.1 percent of GDP) (Figure 1).

Figure 1: Composition of recurrent budget between 2013 and 2018 (% of GDP)

In terms of development budget, on-budget development expenditure is pegged at K391.7 billion, comprising about 7.0 percent of GDP and representing an 11.0 percent increase from the 2017/18 approved budget (K353.0 billion) and a 21.0 percent increase from the 2016/17 approved budget (K322.5 billion). Off-budget development expenditure from various NGOs and development partners is estimated at K61.9 billion in 2018/19, compared to K40.1 billion in 2017/18 and K168.8 billion in 2016/17. Consequently, total development expenditure for 2018/19 represents 31.0 percent of total budget, of which 26.0 percent is on-budget development expenditure.

In 2016/17, off-budget development support stood at 15.0 percent of the total budget, representing over half of the on-budget development expenditure at 28.0 percent of total budget. This outturn underscores the fact that significant resources key in the attainment of the SDGs are channeled outside the national budget and need to be taken into consideration in monitoring SDGs progress. This observation is largely in line with the draft Malawi Development Finance Assessment (DFA) Report (2018) which finds that the non-governmental and philanthropic sector currently contributes significantly to Malawi’s humanitarian and development financing.

Total revenue and grants for 2018/19 are projected at K1,261.3 billion, an increase of 11.0 percent from the 2017/18 fiscal year and 33.0 percent from the 2016/17 approved budget. Of this, domestic revenues are K1,052.3 billion (increase of 7.0 percent). The projected revenue is 50.8 percent of the estimated K2,068.5 billion projected development financing of MGDS III in 2018/19. Meanwhile, grants are pegged at K209.1 billion (up by 29.0 percent) and expected to fall drastically from K209.1 billion to K27.0 billion in 2019/20.

The AAAA declaration stresses that domestic resources are the sustainable way to finance the SDGs. Hence, appropriate public policies and regulatory frameworks are required to unlock the transformative potential of people and the private sector to incentivize changes in consumption, production and investment patterns in support of sustainable development.

Countries also agreed to strengthen international cooperation to build capacity in developing countries, including through enhanced ODA in the AAAA framework. The Action Agenda further encourages developed countries to increase the target for ODA to the world’s poorest nations to 0.2 percent of national income, with the European Union promising to do so by 2030. The conservative projection on grants for Malawi is against a backdrop in which donors had not firmed up their budget support positions beyond the 2018/19 fiscal year. Worth noting is that the World Bank and EU committed to support Malawi in the next fiscal year, 2019/20.

Historically, Malawi has been implementing a deficit budget as government spending has been persistently above total revenue and grants. This trend is expected to continue in years ahead. The Government has resorted to borrowing to cover the persistent financing gaps. The apprehension is that continued government borrowing is likely to crowd out SDGs focus with additional resources more likely to be channeled towards debt service repayment. Data shows that between the 2012/13 and 2017/18 financial years, debt service of interest payments amounted to 5.0 percent of GDP. This is almost equal to development expenditure allocation, which averaged around 6.0 percent of GDP during the same period. This reveals huge concerns over debt sustainability and whether adequate fiscal space for financing the SDGs would be available, given that a significant amount of resources is channeled towards debt service.

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Figure 2 shows overall trends and projections in government revenue and spending as a proportion of GDP under the baseline scenario. Total budget as percentage of GDP averaged 28.0 percent (K1,303.5 billion) between 2016/17 and 2018/19, and MTEF also shows that the picture will remain unchanged in the next 2 years. Projections reveal that between the 2022/23 and 2030 fiscal years, the government budget will remain relatively unchanged at around 28.0 percent of GDP.

These projections assume that revenue and grants will increase by 28.0 percent and GDP growth will be sustained at 7.0 percent, per the assumption of MGDS III. An assumption of 4.0 percent borrowing contribution to total revenue was also made. In addition, tax reforms in the medium term are assumed to increase efficiency and tax base.

On the spending side, the key assumption is that growth in government wages and salaries will be contained within 10.0 to 15.0 percent of GDP. To some extent, this will ensure that the increase in recurrent expenditure is kept within manageable thresholds. With total budget estimated at an average of 28.0 percent of GDP, the iSDG-Malawi model showed an SDG achievement of 45.0 percent. However, overall SDG attainment is at 58 percent with just 12 percent of GDP and at 62 percent with 20 percentage of GDP allocation to SDG sectors. The model thus, highlights the significance of allocative efficiency and resource use rather than just an increase of resources to achieve the SDGs.

Total development budget as a percentage of national budget stood at 43.0 percent of total budget in 2016/17, largely explained by the K168.8 billion off-budget support and averaged around 29.0 percent of the national budget between 2017/18 and 2018/19. Beyond, the 2019/20 total development budget is projected to be around 28.0 percent of national budget, of which on-budget is projected to average 23.0 percent of the national budget. As percentage of GDP, the development budget is projected to average 6.0 percent during the review period.

Figure 2: Trends in government revenue and spending (% of GDP)

Source: Authors’ own computation from MoFEPD, NSO Statistics

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Figure 3 shows trends in total budget and development expenditure using both the baseline scenario and MGDS III expenditure requirements. Our calibration shows that the national budget was expected to be about 90.0 percent of GDP (K4,168.7 billion) in order to meet the MGDS III spending requirement in 2017/18. This is much higher than the approved budget of 28.0 percent of GDP (K1,323.3 billion) in 2017/18. Going forward, this means that as a country, more resources are needed to cover the financing gap observed in the past, with further financing gaps observed in the 2018/19 financial year as allocations fall short of MGDS III development requirements. In keeping with the MGDS III principle of scaling up investment in the initial years with a gradual decrease in subsequent years, Figure 3 shows that total budget as a percent of GDP is expected to decline, reaching about 30.0 percent of GDP by 2030. Development expenditure was expected to be around 70.0 percent of GDP (K3,242.3 billion) in 2017/18 to meet the MGDS spending benchmark, however, the approved expenditure was around 8.0 percent of GDP (K353.0 billion). The projected declining trend reflects diminishing marginal returns as successive additions of one factor of production, ceteris paribus, result in smaller increases in output.

Having examined the country’s resource envelope and spending patterns, it remains imperative to establish how much the country needs to spend to attain the SDGs by 2030. Figure 4 shows the per capita investment requirement for the country to achieve the SDGs during the MGDS III implementation period. Author’s calibration using MGDS III costing of development projects reveals that Malawi needs about US$131.58 per capita development expenditure to attain the SDGs by 2030. Currently, the country’s per capita total development expenditure averages around US$33.20, resulting in a financing gap of over US$98.38, even after accounting for off-budget support. Out of US$33.20 per capita total development expenditure, US$8.60 is off-budget development expenditure. Currently, per capita actual budget expenditure (development + recurrent expenditure) is estimated at US$114.72, which is lower than the per capita development/investment MGDS III requirement of US$131.60. Subsequently, the per capita total budget expenditure requirement is estimated at US$213.10, implying that recurrent expenditure should be 33.0 percent of the total budget per capita expenditure.

\[^{11}\text{Investment requirement was derived largely based on MGDS III growth assumptions and development projects costing.}\]
\[^{12}\text{Used total development budget as a proxy for per capita investment.}\]
\[^{13}\text{Development financing gap per capita (US$98.38) plus per capita budget expenditure (US$114.72).}\]
This outturn underscores huge discrepancies between required investment and actual investment, meaning that Malawi needs to enhance its investment efforts to make progress towards SDGs achievement. To achieve the SDGs, there is a great need for enhancing and establishing partnerships to allow non-state actors to step up their efforts in financing the SDGs. Even more critical towards the attainment of the SDGs is the need for non-state actors to align their priorities with both the country’s development agenda and the SDGs. This finding is in line with the Development Finance Assessment Report (2018)\textsuperscript{14} which calls for improved dialogue and better cooperation between the Government and the not-for-profit sector to ensure that NGO investment is well coordinated and aligned to national development priorities.

*Figure 4: Per capita investment requirements and deficit for SDGs implementation (US$)*

The MGDS III also stresses the need for Malawi to scale up investment to at least 33.0 percent of GDP in 2017/18, with a gradual decrease in subsequent years to double per capita income in the medium term. It is therefore expected that capital injection would result in a GDP real growth rate of about 6.9 percent in the first year and an average of 6.2 percent for the rest of the years. The average projected growth of 6.2 percent\textsuperscript{15} is lower than the globally agreed estimate of 7.0 percent for Less Developed Countries (LDCs) to achieve the SDGs. However, if the country’s projected growth rate can be sustained through 2030, Malawi would be on track to achieve the SDGs.

In summary, the keys points to note:

- *Significant resources key in the attainment of the SDGs are channeled outside the national budget. Therefore, better alignment of priorities and resources as well as more coordination is required.*
- *Continued government borrowing to cover the persistent financing gaps is likely to crowd out SDGs focus.*
- *Malawi has a financing gap of over US$98.38 towards SDGs implementation.*
- *MGDS III average projected growth rate of 6.2 percent is lower than the globally agreed estimate of 7 percent for LDCs to achieve the SDGs. However, if it can be sustained through 2030, Malawi would be on track to achieve the SDGs.*


\textsuperscript{15} Economic theory recommends a minimum of 6.0 percent annual growth rate to achieve meaningful economic growth.
This study also assessed sectoral budget allocations to establish spending levels and financing gaps in the sectors, as guided by the MGDS III priority areas in line with the SDGs. This section provides the findings of sectoral allocations and financing gaps/surplus. The total per capita development financing gap for all priority areas identified in the MGDS III, including gender and governance as cross-cutting issues, was found to average US$114.15. This is US$17.43 less than the overall per capita development/investment MGDS III requirement of US$131.58.

This outturn is due to the fact that apart from investing in these key priority areas, the Government and stakeholders recognize the need to finance other development areas identified in the MGDS III. Therefore, US$17.43 per capita investment would be the financing required for other development areas, such as financial services; vulnerability, disaster management and social support; human settlement and physical planning and integrated rural development, among others, to be deemed key to national economic growth, despite not being classified as key priority areas in the MGDS III.

### 3.2.1 Agriculture and Climate Change

As shown in Table 1, Agriculture and Climate Change is one of the key priority areas of the MGDS III and is linked to 10 of the 17 SDGs, including the goal to end poverty of all forms everywhere and to achieve zero hunger, food security and adequate nutrition for all. Acknowledging the relevance of the sector towards the achievement of various SDGs as well as the role it plays in the country’s economic development, the sector is allocated K775.0 billion for flagship projects. These projects include means to increase agricultural production and productivity, access to water resources and the empowerment of youth, women, persons with disability and vulnerable groups in agriculture during the MGDS III implementation period. The MGDS III also allocates K894.1 billion to various projects earmarked to be undertaken between 2017/18 and 2021/22.

Agriculture remains central to the economy of Malawi as the sector accounts for around 28.0 percent of the country’s GDP and contributes over 80.0 percent of the country’s national export earnings. Agriculture is a major employer which absorbs the largest percentage of the country’s workforce at around 64.0 percent, provides livelihoods to about 80.0 percent of the population and contributes to Malawi’s food and nutritional security. These statistics show that agriculture has the potential to support the achievement of at least 10 SDGs and contribute to all three dimensions of sustainability: economic, social and environmental. This is borne out of the simulations of the iSDG-Malawi model that highlight the interconnectivity between policies and SDG targets in SDG-based planning. The model also indicates that the amount of resources allocated to the agriculture sector will significantly affect achievement of the SDGs directly or indirectly through interconnectedness of the goals.

In 2016/17, agriculture spending was 17.8 percent of the budget and declined to 17.0 percent and 10.0 percent in 2017/18 and 2018/19, respectively. At this level, expenditure in the sector remained generally higher than the 2014 Malabo Declaration on Accelerated Agricultural Growth and Transformation for Shared Prosperity and Improved Livelihoods, where African leaders committed to spend 10.0 percent of their total budgets on agriculture through 2025.

The leaders resolved to ensure that the agricultural growth and transformation process is inclusive and contributes to at least 50.0 percent of the overall poverty reduction target. Hence, countries had to create and enhance appropriate policies and institutional and budgetary support to sustain annual agricultural GDP growth of at least 6.0 percent. Although Malawi has sustained its commitment by allocating at least 10.0 percent of its budget to agriculture, it has largely failed to attain the required growth rate, except in 2014 when the country recorded 6.3 percent growth.

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Figure 5 shows annual spending in agriculture from 2016/17 to 2018/19 and projections to 2030/31 under the baseline scenario. Malawi met the minimum spending requirement in all previous years and is expected to exceed the target in the coming years.

**Figure 5: Agriculture Budget as a percentage of total budget and GDP**

Agriculture budget as a percentage of GDP declined from 5.0 percent in 2017 to 3.0 percent in 2018, as the Government tried to channel its limited resources to other equally competing priorities. Agricultural expenditure is projected to average 4.0 percent of GDP between 2020/21 to 2030/31, as the sector will continue to greatly benefit the national budget.

What is critical here is the need for Malawi to invest simultaneously in sustainable programmes that will improve the livelihoods of the people of Malawi. Such programmes may include irrigation and climate change adaptation, which could derive maximum benefits of the requisite investments in agriculture.

Going forward, the current expenditure trends in the agricultural sector imply that more resources are required to meet cumulative spending deficits experienced over preceding years of the MGDS III implementation to make significant progress towards the SDGs implementation. It is recommended that such resources should be spent on programmes that are inclusive, resilient and poverty reducing.
In terms of per capita investment, Figure 7 shows the discrepancies between the per capita MGDS III agriculture development spending requirement and per capita actual development expenditure. Currently, per capita development expenditure for the agricultural sector is estimated at an average of US$5.90, lower than the MGDS III per capita development requirement of US$23.20. Consequently, the per capita investment gap is around US$17.20. Current per capita total agricultural expenditure between 2016/17/18 and 2021/22 is estimated at US$12.40, meaning that the required total per capita expenditure for the agricultural sector is estimated at US$29.70, of which 78.0 percent (US$23.20) should be development expenditure. The implication is that there is a need to find a sustainable means of financing this deficit if the MGDS targets are to be achieved, as recourse to borrowing may have negative implications on meeting the SDGs in general. Collective efforts and re-alignment of priorities towards the national agenda for all players in the agricultural sector would be key to making progress in achieving a transformative agricultural sector that is more inclusive, productive and resilient to external shocks.

**Figure 6: Trends in Agriculture spending baseline vs MGDS III Requirement (% of GDP)**

**Figure 7: Per capita investment requirements and deficit in agriculture (US$)**

**Source:** Authors’ own computation from MoFEPD, NSO Statistics
**Noteworthy points:**

- Agriculture budget as a percentage of GDP declined from 5.0 percent in 2017 to 3.0 percent in 2018.
- More resources are required to meet cumulative spending deficits; and these should be spent on sustainable programmes that will improve the livelihoods of the people of Malawi. For instance, more focus on integrated programmes of agriculture, irrigation and climate change adaptation as they are inclusive, resilient and poverty reducing.

### 3.2.2 Education and Skills Development

The fourth SDG commits to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all children. In addition to meeting this goal, MGDS III is also aligned to goals 5, 8 and 9 of the SDGs to achieve gender equality and empower women and girls; promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; and build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation, respectively. Through the MGDS III and the National Education Sector Plan (NESP), the Government of Malawi seeks to continue improving equitable access, quality and relevance of education. To do that, MGDS III estimates K357.1 billion for education sector flagship projects, while the total investment requirement for the education and skills development priority area is estimated at K835.2 billion between 2017/18 and 2021/22. Some of the key flagship projects aim to improve accessibility and quality of higher education, improve quality of secondary education and increase equitable access, quality and relevance of basic education.

However, inequalities, poor quality and inaccessibility remain major challenges in the education sector and have resulted in poor education outcomes, especially for girls, those in the rural areas and marginalized groups. In the 2015/16 fiscal year, the Government of Malawi changed its budgeting system from output-based to programme-based budgeting. The education sector includes four programmes, namely Basic, Secondary, Higher and Management and Administration. In view of this, the 2016/17 fiscal year allocated 61.0 percent of the recurrent education budget to basic education, followed by higher education at 20.0 percent and secondary education at 15.0 percent. The Management and Administration programme provides support services to these three core programmes and was allocated 4.0 percent. Basic education thus enjoyed a relatively higher percentage in its allocation.

In the 2018/19 fiscal budget, the education sector was allocated K269.9 billion, representing a 10.0 percent and 38.0 percent increase from the 2017/18 and 2016/17 approved budgets, respectively. As a result, between 2016/17 and 2018/19, education expenditure averaged 18.0 percent of total budget and 5.0 percent of GDP. This is consistent with the international benchmark set for the SDGs, which stipulates that the education sector be allocated at least 15.0 percent of total public expenditure and 4.0 percent of GDP.

What remains now is to ensure that sectoral budget allocations pay attention to the prevailing challenges in the sector, including shortage of qualified teachers, shortage of teaching and learning materials, shortage of infrastructure, limited incentives for teachers and systemic inequalities in order to reach disadvantaged groups and achieve set targets for goals. It is encouraging to see that budget allocation to tertiary education increased by 190.0 percent, although the budget for secondary education increased by only 8.0 percent.

The increase in budgetary allocation to tertiary may be explained by the focus on development of Technical and Community Colleges which is key in creating self-employment, especially for those who might have dropped out of school. Nonetheless, the Government should endeavor to achieve allocative efficiency to avoid negative impact on other sectors, such as Early Childhood Development (ECD), and to have maximum impact on addressing challenges in the education sector to improve socio-economic development in Malawi.

Figure 9 shows trends in education sector expenditure under the baseline scenario versus MGDS III expenditure requirements. The education sector allocation was 5.0 percent of GDP in 2017/18, equivalent to just half of the MGDS III budget expenditure requirement of 10.0 percent of GDP in 2017/18. Baseline expenditure allocation shows that government expenditure will average 5.0 percent between 2016 and 2030. However, our projections show that budget allocation to the education sector is required to range from 7.0 percent and 10.0 percent of GDP between 2017 and 2024, and thereafter converges to the baseline scenario at around 5.0 percent of GDP by 2030. The current expenditure trends in the education sector typify the spending deficits the country is facing in every sector.

Figure 9: Trends in Education spending baseline vs MGDS III Requirement (% of GDP)

Source: Author’s own computation from MoFEPD, NSO Statistics and Malawi Education Sector Statistics, Ministry of Education
Figure 10 shows per capita spending for the education sector. From 2017/18 to 2021/2022, the Government is estimated to spend US$2.90 per capita development against the MGDS III requirement of US$17.60, resulting in a per capita development expenditure deficit of US$14.60. Meanwhile, per capita total education expenditure is estimated at US$19.00, slightly higher than the development requirement of US$17.60. This outturn implies that to make significant progress towards attainment of the SDGs, Malawi needs to spend an average per capita total education expenditure of US$33.60, with 52.0 percent going towards development expenditure and the rest to recurrent expenditure.

Previous studies report that the non-governmental and philanthropic sector currently manages the majority of humanitarian and development finance in Malawi, especially in the health and education sectors.22 What is therefore required is improved dialogue and cooperation between the Government and the non-profit sector to ensure that NGO and donor investment is well coordinated and aligned to national development priorities to achieve optimal impact from investments in the sector. Of vital importance is the need for long term and sustained investments in quality of education (teacher training, remuneration etc.), as these are critical for improved human development outcomes.

**Figure 10: Per capita investment requirements and deficit in education (US$)**

<table>
<thead>
<tr>
<th>Year</th>
<th>MGDS per capita Investment Requirement</th>
<th>Per capita total edu exp</th>
<th>Per capita Investment deficit surplus</th>
<th>Per capita devt budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>16.7</td>
<td>20.6</td>
<td>-3.9</td>
<td>20.4</td>
</tr>
<tr>
<td>2018</td>
<td>15.4</td>
<td>20.3</td>
<td>-4.9</td>
<td>18.6</td>
</tr>
<tr>
<td>2019</td>
<td>16.6</td>
<td>17.6</td>
<td>-0.8</td>
<td>18.1</td>
</tr>
<tr>
<td>2020</td>
<td>18.6</td>
<td>2.7</td>
<td>15.9</td>
<td>18.6</td>
</tr>
<tr>
<td>2021</td>
<td>20.4</td>
<td>2.8</td>
<td>17.6</td>
<td>20.4</td>
</tr>
</tbody>
</table>

**Source:** Author’s own computation from MoFEPD, NSO Statistics

**Points to note:**

- At an average of 18.0 percent of total budget and 5 percent of GDP, allocations to education are the largest proportion of the budget.

- Government spending US$2.90 per capita development against the MGDS III requirement of US$17.60.

- Long term and sustained investments in quality of education and enhanced allocative efficiency required for maximum impact on addressing challenges in the education sector.

- Improved dialogue and cooperation between the Government and the non-profit sector required for optimal impact.

Rural community installing solar power in Phalombe
SDG 7 aims to ensure access to affordable, reliable, sustainable and modern energy for all. However, the SDGs Baseline Report reveals that the energy sector is facing a myriad of challenges such as rising energy and electricity demand; insufficient power generation capacity; increasing high oil import bills; low investment in new power generation units; high transmission and distribution costs; transmission losses; poor power quality and reliability; heavily subsidized pricing; insufficient focus on alternative energy sources; and lack of access to modern electricity for a large segment of the population.

Only 10.0 percent of the country’s population has access to electricity. Inequalities are highlighted when the analysis is disaggregated by area of residence, with only 3.0 percent of rural residents having access to electricity, compared to around 42.0 percent of urban residents. In responding to energy challenges, MGDS III estimates K1,206.2 billion to finance flagship projects in the energy sector, while the energy sector as a priority area is allocated K669.0 billion between 2017/18 and 2021/22. Key flagship projects identified in the MGDS III aim at promoting accessible, affordable and reliable alternative sources of energy and sustainable sources of energy and enabling communities to use renewable and clean energy.

Figure 11 shows spending trends in the energy and natural resources sector. The country’s energy and natural resources sector spending as a percentage of GDP remained below 1.0 percent between 2016/17 and 2018/19 and is projected to average around 1.0 percent by 2030. Meanwhile, energy spending as percentage of total government expenditure dropped from 2.0 percent in the 2016/17 financial year to around 1.0 percent in the 2018/19 financial year, largely due to a decline in the development budget from reduced donor support to the sector.

The declining trend in government spending in the energy sector is largely due to reforms, in which most development projects are planned to involve the private sector through public private partnerships and are hence apportioned lower budget allocations. The involvement of the private sector is one of the key recommendations in the 2018 Development Finance Assessment Report for Malawi.

It is also interesting to note that the Government allocated only 1.0 percent and 2.0 percent of the total sector development budget to non-renewables in the 2017/18 and 2018/19 financial years, respectively. This outturn would have serious consequences on sustainability of the non-renewable energy sector. It is also worth noting that the bulk of development expenditure in the sector between 2016/17 and 2018/19 was financed by donors, raising concerns about the Government’s commitment to delivering a vibrant energy sector.

![Figure 11: Energy Budget as percentage of total budget and GDP](image)

Source: Author’s own computation from MoFEPD, NSO Statistics

Figure 12 shows trends in budget allocation to the energy sector as well as projections for the baseline scenario versus MGDS III expenditure requirements. Allocation to the energy sector was 0.7 percent of GDP in 2017/18, compared to 9.0 percent of GDP as required by the MGDS III planned allocation in 2017/18. Meanwhile, baseline expenditure allocation shows that government expenditure will be lower than 1.0 percent of GDP throughout the SDGs implementation period. However, for successful implementation of SDGs, our projections show that budget allocation to the sector should be between 5.0 percent and 9.0 percent of GDP between 2017 and 2022. Thereafter, projected allocations are expected to converge to baseline projections to reach 1.8 percent of GDP by 2030. Figure 12 shows huge financing gaps in the energy sector, raising concerns for SDGs attainment by 2030.

**Figure 12: Trends in Energy sector spending baseline vs MGDS II Requirement (% of GDP)**

Source: Author’s own computation from MoFEPD, NSO Statistics

Figure 13 shows per capita spending in the energy sector between 2016/17 and 2018/19 and projections up to 2030. According to MGDS III, the per capita minimum investment requirement is estimated at US$27.80. However, the sector’s per capita total budget expenditure averaged around US$1.40 between 2017/18 and 2021/22, much lower than the recommended development expenditure alone.

Consequently, the current government development expenditure deficit on per capita investment basis is around an average of US$26.50 (Figure 9). The Government is projected to record total energy budget per capita of US$2.12 between 2017/18 and 2021/2012. Our calibration shows that the total per capita expenditure requirement for the energy sector is estimated at US$28.60, of which 97.0 percent (US$27.80) should be development expenditure.

The bulk of resources are projected to be channeled towards development. As most development activities are meant to be undertaken commercially or through PPPs, the Government will need less resources for recurrent expenditure. **It should be noted that there is a need for structural transformation in the energy sector to arrest ongoing power shortages which are negatively affecting production and resulting in job losses. There is also a need for collective efforts among all stakeholders in the sector to align their programmes and activities towards the national agenda.**
Important to note here:

- **Baseline expenditure allocation will be lower than 1.0 percent of GDP throughout the SDGs implementation period as against the required 5.0 percent to 9.0 percent of GDP between 2017 and 2022 for successful implementation of SDGs.**

- **Total per capita expenditure requirement for the energy sector is estimated at US$28.60, of which 97.0 percent (US$27.80) should be development expenditure.**

- **A need for structural transformation in the energy sector to arrest ongoing power shortages, which are negatively affecting production and resulting in job losses.**

### 3.2.4 Health and Population

SDG 3 aims to achieve healthy lives and promote well-being for all at all ages by the end of 2030. Malawi has made strides in several health indicators. For instance, life expectancy at birth improved from 48.3 years in 2005 to 63.9 years in 2015.  

However, the country’s health sector continues to face a myriad of challenges, including high disease burden, poor sanitation, inadequate infrastructure and medical equipment, suboptimal stock levels of essential drugs and medical supplies and inadequate, poorly trained human resources.

These challenges are compounded by rapid population growth and high poverty levels, resulting in poor health outcomes for many Malawians.

In responding to health sector problems, MGDS III estimates K84.0 billion and K516.7 billion to finance flagship and priority area projects, respectively between 2017/18 and 2021/22. Key flagship projects identified in the MGDS III aim at promoting access and equitable health service delivery, increasing retention of human resources in the Ministry of Health and expanding a skilled and empowered youth population.

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The total budget to the Ministry of Health has declined from the 2017/18 budget estimate of K76.38 billion to K75.13 billion in the 2018/19 fiscal year. This represents a decline of 1.63 percent and 11.36 percent in nominal and real terms, respectively. Figure 14 reveals that the current spending trends for Malawi on the health sector are far below the minimum requirement (Abuja declaration of 15.0 percent of total budget). On average, between 2016/17 and 2018/19, the country’s spending on the health sector has been around 10.0 percent of total budget. Hence, Malawi falls short of this target (Figure 14).

Notable in the health budget is the inclusion of the Essential Health Package (EHP) budget line item since 2004, which is in line with the MGDS III and EHP strategic framework. However, the Water, Sanitation and Hygiene (WASH) budget has declined by 12.6 percent, from the 2017/18 revised estimate of K17.1 billion to K16.59 billion in 2018/19. The budgetary allocation to the WASH sector represents 1.1 percent of total budget and 0.3 percent of GDP. This is below the 1.5 percent of GDP committed by African leaders per the eThekwini Declaration.

Projections beyond 2021 show that health expenditure as a percentage of total budget is expected to average 6.0 percent of total budget and around 2.0 percent of GDP. At this level, the country’s expected expenditure remains significantly below the minimum benchmark, raising concerns over SDGs progress. Donors are expected to contribute approximately 74.0 percent of the development budget in 2018/19 and government is expected to finance the remaining 26.0 percent in 2018/19, which is estimated at K6.4 billion. While reliance on external support for development efforts raises sustainability questions, sustainable and strong partnerships are encouraged in the efforts to achieve the SDGs, at least in the short term.

Figure 15 shows trends in budget allocation to the health sector as well as projections for the baseline scenario versus MGDS III expenditure requirements. Allocation to the sector was 3.0 percent of GDP in 2017/18, lower than the 5.0 percent of GDP health sector allocation required by MGDS III in 2017/18.

Baseline expenditure allocation shows that government expenditure will remain around 3.0 percent of GDP throughout the SDGs implementation period. In contrast, for the successful implementation of the SDGs, our projections show that budget allocation to the sector should gradually decline from 5.0 percent of GDP in 2017/18 to 3.0 percent of GDP by 2030, exhibiting diminishing returns as more resources are needed in the initial periods than in later periods of SDGs implementation. However, huge financing gaps in the health sector remain, raising concerns for SDGs attainment by 2030.

Figure 14: Health Budget as percentage of total budget and GDP

Source: Author's own computation from MoFEPD, NSO Statistics
Figure 16 shows per capita spending for the health sector between 2017 and 2021. Analysis of development expenditure in the MGDS III reveals that the health sector requires per capita development expenditure of US$9.00 against the current per capita health development budget of US$2.18. This means that at current government expenditure, the per capita health investment gap is around an average of US$6.82. Our simulations also show that per capita total budget expenditure is estimated to average US$12.02 from 2017/18 to 2021/22. As a result, per capita total budget requirement is estimated at US$18.82, with 48.8 percent (US$9.00) of this required to be allocated towards development expenditure. Given this outturn, there is a need for improved coordination among non-state actors, development partners and other stakeholders in meeting the gap and investing in areas of highest impact to ensure that the country is on track to achieve healthy lives and promote well-being for all at all ages.

Source: Author’s own computation from MoFEPD, NSO Statistics

Figure 15: Trends in Health spending baseline vs MGDS II Requirement (% of GDP)

Source: Author’s own computation from MoFEPD, NSO Statistics

Figure 16: Per capita investment requirements and deficit in health (US$)

Source: Author’s own computation from MoFEPD, NSO Statistics
In summary:

- **Current spending trends at 10.0 percent on the health sector are far below the minimum requirement of 15.0 percent of total budget.**

- **Health sector requires per capita development expenditure of US$9.00 against the current per capita health development budget of US$2.18.**

- **Donor contributions of approximately 74.0 percent to the development budget in 2018/19 raise issues about sustainability and predictability. Nonetheless more partnerships and improved coordination are required to address the investment gap.**

### 3.2.5 Transport Sector

The transport sector falls under SDG 9, which aims at building resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation by the end of 2030. Malawi’s transport network comprises road, rail, air and inland water. Malawi transportation systems are relatively underdeveloped. In 2010, for instance, 26.0 percent of the classified road network was in ‘poor’ condition. While some of this network has since been upgraded and maintained, there is also the potential for general deterioration.

In order to improve transport infrastructure in the country, MGDS III estimates K1,595.2 billion to finance transport sector flagship projects, while the sector as a priority area is required to invest K652.3 billion between 2017/18 and 2021/22. Key flagship projects in the MGDS III aim at enhancing water transport services, ensuring safety and improving transportation services for foreign business and the tourism industry.

The total budget for the transport sector increased by 6.0 percent from 2017/18 to K101.4 billion in 2018/19. Figure 17 shows that government spending on the transport sector has comprised around 7.5 percent of the total budget between 2016/17 and 2018/19. However, the Government projects lower expenditure of around 7.0 percent of the total budget in 2019/20, as it estimates a slowdown in both non-tax revenue and grants during the year.

The projections show that government expenditure as a percentage of total budget will oscillate around 7.0 percent from 2020 to 2030. Similarly, government spending as percentage of GDP was around 2.0 percent between 2016/17 and 2018/19 and projected to remain around 2.0 percent in 2019/20 until 2030/31.

*Figure 17: Transport Budget as percentage of total budget and GDP*

Source: Author’s own computation from MoFEPD, NSO Statistics

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Figure 18 shows trends in budget allocation to the transport sector and projections for the baseline scenario versus MGDS III expenditure requirements. According to the MGDS III requirements, allocation to the sector was supposed to average an equivalent of 11.0 percent (K567.4 billion) of GDP between 2017/18 and 2018/19, however the Government allocated only 2.0 percent of GDP (K101.4 billion) during the financial year. Baseline expenditure allocation shows that government expenditure will oscillate around 2.0 percent of GDP throughout the SDGs implementation period. However, for successful implementation of the SDGs, our projections show that budget allocation to the sector should gradually decline from 11.0 percent of GDP in 2018/19 to 3.0 percent of GDP by 2030. It is estimated that US$6.8 billion would be required between the 2016/17 and 2031/32 financial years to improve the transport sector in Malawi. Like other priority areas, huge financing gaps in the transport sector remain and call for increased efforts to make progress towards the SDGs attainment by 2030.

**Figure 18: Trends in Transport spending baseline vs MGDS III Requirement (% of GDP)**

According to Figure 19, per capita development expenditure for the sector was recorded at an average of US$5.60. This is lower than the per capita development investment set out in MGDS III of US$33.30, resulting in a per capita deficit of US$27.70. Further analysis shows that current per capita development expenditure in the transport sector budget is US$8.00. Consequently, per capita total budget expenditure for the transport sector requirement is estimated at US$35.70, with 95.0 percent (US$33.90) of the budget to be allocated to development. The huge financing deficit raises concerns for the country's capacity to enhance infrastructure in the sector and potentially achieve SDG 9.

Source: Author’s own computation from MoFEPD, NSO Statistics

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Main points to note:

- Government spending as percentage of GDP was around 2.0 percent between 2016/17 and 2018/19 and projected to remain around 2.0 percent in 2019/20 until 2030/31.

- As per MGDS III requirements, allocation to the sector should average 11.0 percent of GDP between 2017/18 and 2018/19.

- US$6.8 billion would be required between the 2016/17 and 2031/32 financial years to improve the transport sector in Malawi and achieve SDG 9.

- Financing gaps in this sector call for increased efforts to make progress towards the SDGs attainment by 2030.

3.2.6 Gender and Women Empowerment

SDG 5 seeks to achieve gender equality and empower all women and girls. Even though Malawi’s population constitutes about 52.0 percent women and girls, the country did not meet the goal of Promoting Gender Equality and Empowerment of Women in the implementation of the MDGs. Gender inequality persists, and women and girls are mostly marginalized in social, economic and political development. For instance, 16.7 percent of parliamentary seats are held by women and 14.9 percent of adult women have reached at least a secondary level of education, compared to 24.2 percent of their male counterparts. Gender inequality is high, with a Gender Inequality Index of 0.619 and ranking of 148 out of 189 countries.

Government spending on the gender sector shows that there has been an increase in the amount of resources allocated to gender from the 2017/18 financial year (0.3 percent of total budget) to around 1.3 percent in the current financial year of 2018/19. However, the budget is projected to decline in financial years 2019/20 and 2020/21 according to the MTEF (Figure 20). Spending on gender issues has not reached 1.0 percent of the country’s GDP and spending as a percentage of total budget has been less than 2.0 percent.

As a result, key targets for the sector are unlikely to be met because of inadequate resources. These targets include: 26.0 percent women representation in decision-making positions; reduction to 31.0 percent from 42.0 percent of women and girls subjected to sexual violence by 2020; reduction in proportion of elderly, women and persons with disabilities living below US $1.20 per person per day from 54.0 percent to 35.0 percent by 2020; and an increase from 5.0 percent to 10.0 percent of youth participating in leadership activities by 2018.

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28 Gender Inequality Index (GII)
Figure 21 shows trends in budget allocation to the gender sector and projections for the baseline scenario versus MGDS III expenditure requirements. The MGDS III requires gender sector spending of 1.0 percent of GDP (K51.6 billion) between 2017/18 and 2018/19, however the Government allocated only 0.2 percent of GDP (K11.7 billion) during the period. Projections show the baseline expenditure allocation will average around 0.2 percent of GDP throughout the SDGs implementation period, whereas MGDS III requires an allocation of around 1.5 percent of GDP in the initial years before gradually declining to around 0.3 percent of GDP by 2030.

Figure 20: Gender Budget as percentage of total budget and GDP

Source: Author's own computation from MoFEPD, NSO Statistics

Figure 21: Trends in Gender spending baseline vs MGDS II Requirement (% of GDP)

Source: Author's own computation from MoFEPD, NSO Statistics
To summarise, the main points are:

- **MGDS III requires gender sector spending of 1.0 percent of GDP between 2017/18 and 2018/19, however the Government allocated only 0.2 percent of GDP during the period.**

- **Per capita development expenditure for gender at an average of US$0.40 is lower than the average per capita development investment (US$3.30) set out in MGDS III, resulting in a deficit of US$2.90.**

- **Huge financing gaps in the sector may contribute to continued gender inequality and marginalization of women and girls in society and jeopardize SDG achievement.**

**3.2.7 Governance for Accountable and Effective Institutions**

SDG 16 seeks to promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels. In keeping with the findings of the iSDG-Malawi model that stresses SDG 1 and SDG 2 as strongly affected by SDG 16, this analysis sought to establish the amount of resources available to institutions that promote peace, access to justice, accountability and transparency.

Budget allocations to some of the institutions that promote governance were analyzed, including the Anti-Corruption Bureau, Ministry of Justice and Constitutional Affairs and Ministry of Home Affairs and Internal Security. The analysis revealed that these institutions receive very little resources to efficiently and effectively promote peace, justice, accountability and transparency.

For instance, between 2014/15 and 2018/19, these institutions were together allocated only 1.6 percent of total budget. In 2018/19, the institutions were allocated K26.8 billion (1.8 percent of total budget) compared to K29.1 billion (2.2 percent of total budget) in the preceding year.

This trend represents huge financing challenges facing MDAs promoting governance and raises serious concerns regarding the achievement of SDG 16 and other goals largely influenced by SDG 16. It is not surprising that during the same period, cases of corruption and public finance mismanagement have been on the rise in the country.
4.0. STAKEHOLDERS’ CONSULTATIONS - Adequate Revenue and Accountable Spending Are Needed to Achieve SDGs

The consultations were done with a wide range of stakeholders to understand their involvement in the planning and national budgeting processes. In general, it was established that stakeholders from government institutions, civil society organizations, development partners and academia are engaged in the budgetary process at all levels. The key issues that emerged from stakeholders’ consultations are discussed as follows:

4.1 Involvement in national development planning and budgeting process

As alluded to above, Malawi’s development strategies have been aligned to the SDGs. Engagements with stakeholders showed that both the planning and budgeting processes are highly consultative for government ministries, departments and agencies (MDAs). In particular, MDAs indicated that they are involved in establishing budget estimates, budget monitoring, field visits, audit reports and monitoring financial malpractices.

However, the private sector and CSOs lamented that while consultations take place, the extent to which their suggestions or inputs are reflected in budget allocations is somewhat minimal. It was also observed that development partners play a crucial role in providing both technical and financial support to the processes. In terms of the public, it was observed that there is poor understanding of the budget. Public participation in budgeting is vital to realize the positive outcomes associated with greater budget transparency. To measure public participation, the Open Budget Survey 30 assesses the degree to which the government provides opportunities for the public to engage in budget processes.

In 2017, Malawi’s score of 15 out of 100 indicates that it provides few opportunities for the public to engage in the budget process. Although this score is higher than the global average score of 12, there is still room for improvement. The OBS also examines the role that legislatures, supreme audit institutions and independent fiscal institutions play in the budget process and the extent to which they provide effective oversight of the budget. The 2017 score reflects that the legislature provides limited oversight during the formulation/planning stage of the budget cycle and adequate oversight during the implementation stage of the budget cycle. This therefore calls for improved involvement of governance institutions, especially in playing an oversight role throughout the budget cycle.

4.2 Adequacy of Budget for SDGs Implementation

While the allocations made to sectors are mostly inadequate, late disbursement of resources was also mentioned as a challenge which affects the development budget. As a result, approved funds are usually less than actual funds, especially for the development budget. Moreover, statutory budget lines take a large chunk of resources, which hinders development. Unfortunately, hard-to-reach areas are still the most affected by this challenge and exacerbate existing inequalities, particularly in the education and health sectors. This development would potentially affect the implementation of the SDGs.

4.3 Capacity for Monitoring and Reporting

Most of the stakeholders reported that they have monitoring and reporting frameworks for the SDGs in their institutions. It was also revealed that for MDAs, the responsibility of SDGs monitoring and reporting is domiciled in the Department of Economic Planning and Development within MoFEPD. However, some CSOs observed that unlike the MDGs, there is no national task force to report on the consolidated progress of the SDGs by all players. This calls for the need for coordination of all relevant stakeholders to ensure that monitoring and reporting are done holistically.

This SDGs audit of national budgets was conducted to determine the level of support for the implementation of the SDGs in Malawi. The SDGs were domesticated into Malawi’s development plans and it is assumed that all 17 SDGs are reflected in the MGDS III through the nation’s key priority areas for development. The audit entailed conducting both a historical overview and a forward-looking analysis of the national budgets.

The analysis broadly looked at how budget allocations have historically been aligned to and supported SDGs implementation. On a forward-looking basis, the analysis assessed how future allocations should be made to ensure successful implementation of the SDGs by 2030. It is expected that the annual budget analyses would play an important role in operationalizing and achieving the SDGs.

The analysis of historical and current budget allocations revealed huge financing gaps for SDGs implementation at both national and sectoral levels. It was observed that the country is far from the minimum expenditure requirement for most of the priority areas as outlined in the MGDS III. The implication is that Malawi is unlikely to achieve the SDGs by a wide margin unless more public and private resources are mobilized, and more allocative efficiencies are achieved. The Government of Malawi needs additional financing for priority areas in order to meet developmental goals. However, from the foregoing analysis, Malawi has limited scope for enlarging its fiscal space.

The country’s domestic and external debt could quickly become unsustainable with additional borrowing. This notwithstanding, the Government can enlarge its focus by broadening its tax base and modernizing the tax administration system. Further, the Government can reprioritize its expenditure so that funds are allocated to catalytic investments in manufacturing, irrigation farming and energy sectors. Public private partnerships (PPP) should also be sought more vigorously, though cautiously, considering the associated fiscal risks. An important medium-term option to enlarging fiscal space is to strengthen PFM to reduce pilferage, theft, fraud and corruption. While adequate budget allocations are a necessary condition for achieving the SDGs, the quality of budget content and execution as measured by the Government’s ability to accurately hit its own revenue and expenditure targets and enable the macroeconomic environment remains crucial. It is often observed that GDP growth is not sustainable, as growth is consumption-led and has consistently and artificially been overestimated to create a robust base for high revenue and expenditure growth projections relative to the country’s capacity to realize the same. This results in downward tax revision during implementation every year.

The study established a minimum annual total per capita budget expenditure requirement of US$213.10 (both recurrent and development expenditure), out of which per capita development expenditure of US$131.60 is required for the country to make significant progress towards SDGs achievement. Currently, the country’s per capita development expenditure averages around US$33.20, resulting in a financing gap of over US$98.38, even after accounting for off-budget support. It is noteworthy that budget allocations to gender and women empowerment, energy, and governance institutions are very low, at less than 2.0 percent of the total budget, and are projected to remain low. Despite the established financing gaps, it was also revealed that some government institutions had absorption challenges in utilizing their allocated resources for the development budget, posing risks to the achievement of the SDGs.

The findings also revealed huge off-budget development support inflows reaching as high as 15.0 percent of the total budget and representing over half of on-budget development expenditure at 28.0 percent of total budget. This outturn underscores the significant resources channeled outside the national budget that are key in the attainment of the SDGs, and thus need to be taken into consideration in monitoring SDGs progress.
The bulk of development expenditure was found to be donor aid, raising sustainability concerns. Sustainable and strong partnerships among stakeholders are encouraged in the efforts to achieve the SDGs.

In addition, the study found that the **prevalence of accumulated deficits has the potential to reverse macroeconomic stability** and undermine the economy, potentially disturbing the focus on the implementation of the SDGs.

In summary, the findings from this budget analysis suggest that **substantial increases in domestic resource mobilization will be required** to ensure adequate resources for financing the SDGs. While off-budget support will account for a substantial share of SDGs investments for development efforts, government resources will also need to rise significantly in comparison to current levels.

Give that the SDGs require substantial resources and domestic resources is the preferred option, it is important to leverage innovative financing mechanisms. One such approach is that of ‘co-financing’ which has already been tried in Zomba. **Co-financing** is about investing in high-value interventions that hit multiple targets, across different sectors, at once. As the values of the impacts (e.g. girls remain in school, HIV infections averted, unwanted pregnancies averted) accrue across multiple sectors, the willingness to pay of each benefiting sector is usually less than the cost of the intervention.

Looking ahead, in subsequent analysis it will be important to undertake in depth examination of contribution of specific sectors such as banking, which is cash rich but risk averse, to the achievement of SDGs. Corporate Social Responsibility needs to be more aligned to national priorities so that it has a sustainable impact.

A more targeted analysis of gender and governance will also be useful as the catalytic areas for accelerating SDG achievement.

**Recommendations:**

The audit proposes the following issues for consideration of all stakeholders to improve the capacity of the country to make progress towards achieving the SDGs:

**Policy Response:**

While financing gaps and budget deficits are projected to persist, the Government needs to develop innovative and sustainable strategies of financing these deficits and maintaining a clear SDG focus, including being gender responsive.

a) The national budget should clearly identify the SDGs being focused and targeted in the sectoral allocations. For instance, a clear indication of national budgetary spending on poverty reduction and climate change adaptation activities needs to be provided.

b) Sustainable strategies, such as public-private sector financing and other domestic revenue mobilization channels, for financing budgetary deficits are required to maintain the focus on SDG achievement.

c) One option could be exploring innovative financing such as co-financing strategies especially at the district level that would assist in optimization of resources and achieving multiple targets, across different sectors, at once. The emphasis here is on moving away from siloed budgeting processes and focusing more on cost-effective multi-sectoral interventions.

d) To move away from unsustainable debt, the Government should re-prioritize its expenditure in favor of more productive investments in manufacturing, irrigation farming and energy sectors, as opposed to consumption-related expenditures.

e) While adequate budget allocations are a necessary condition for achieving the SDGs, further consideration should go to improving the quality of budget content and execution as measured by the Government's ability to accurately hit its own revenue and expenditure targets.

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31 UNDP has piloted a co-financing methodology in the area of HIV, health and social protection in four sub-Saharan African countries: Ethiopia, Malawi, South Africa and Tanzania.

Institutional Actions:

The Government needs to build strong consensus around the role and significance of effective, accountable and inclusive institutions in promoting sustainable and equitable development in Malawi. Specific systems to monitor transparency and accountability in spending are required.

f) An important medium-term option to enlarging fiscal space is to further strengthen Public Finance Management (PFM) systems for enhanced accountability, to reduce pilferage, theft, fraud and corruption.

g) To achieve the SDGs, the Government needs to enhance partnerships with non-state actors and encourage them to step up their efforts in financing the SDGs by aligning their priorities with the country’s development agenda and the SDGs.

h) Likewise, there is a need for improved coordination among non-state actors, development partners and other stakeholders in meeting established financing gaps, to ensure optimality in the allocation of resources in line with country priorities and the SDGs.

i) The Government and its partners should strengthen sectors’ absorption capacity by, among others, effectively working on its Management Information System and submitting timely reports to the Ministry of Finance, Economic Planning and Development and other funding agencies.

Implementation Issues:

j) The SDGs audit of the National Budget should be conducted annually and regularly alongside the MGDS reviews and the SDGs annual reports. This will help in examining budget performance in relation to meeting sector targets and progressing on SDG achievement. This should be a multi-stakeholder review process.

k) Annual budget reviews should be conducted with a stronger focus on equity and efficiency of expenditures. This may include reviewing allocation mixes within sectors, strengthening procurement functions and combating wastages and corruption.

l) The Government needs to implement structural transformation to arrest ongoing power shortages which are negatively affecting production and resulting in job losses. Further, the Government should fast track the implementation of investment projects on infrastructure, energy generation and distribution.

m) The Government should map the national budgets against the SDGs targets and indicators to evaluate the National Budgets. Efforts should also be made to include qualitative reporting in the main budget document to provide an overview on how the budget is linked to different SDGs. Stakeholders also need to engage in regular budget debates on the linkages between the SDGs and the budgets.

n) A budget-reporting dashboard for citizens on the linkages between SDGs implementation and the National Budgets needs to be developed. This could be done based on stakeholder consultations to have a user-friendly tool.
6.0. BIBLIOGRAPHY

# Table 1: Mapping of key priority areas to SDGs

<table>
<thead>
<tr>
<th>MGDS III Key Priority Areas</th>
<th>Sustainable Development Goals (SDGs)</th>
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</thead>
</table>
| **Agriculture and Climate Change Management**   | 1. End poverty in all its forms everywhere  
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture  
3. Ensure healthy lives and promote well-being for all at all ages  
5. Achieve gender equality and empower all women and girls  
6. Ensure availability and sustainable management of water and sanitation for all  
7. Ensure access to affordable, reliable, sustainable and modern energy for all  
11. Make cities and human settlements inclusive, safe, resilient and sustainable  
13. Take urgent action to combat climate change and its impacts  
14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development  
15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reserve land degradation and halt biodiversity loss |
| **Education and Skills Development**            | 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all  
5. Achieve gender equality and empower women and girls  
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all  
9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation                                                                                     |
| **Transport and ICT Infrastructure**            | 1. End poverty in all its forms everywhere  
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture  
3. Ensure healthy lives and promote well-being for all at all ages  
5. Achieve gender equality and empower all women and girls  
7. Ensure access to affordable, reliable, sustainable and modern energy for all  
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all  
9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation                                                                                     |
| **Health and Population**                       | 1. End poverty in all its forms everywhere  
3. Ensure healthy lives and promote well-being for all at all ages  
5. Achieve gender equality and empower all women and girls  
6. Ensure availability and sustainable management of water and sanitation for all  
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all |
Energy, Industry and Tourism Development

1. End poverty in all its forms everywhere
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
5. Achieve gender equality and empower all women and girls
7. Ensure access to affordable, reliable, sustainable and modern energy for all
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

Source: Extracted from MGDS III

Documents Reviewed

Table 2: List of key documents reviewed

<table>
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<th>National Budget Documents</th>
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<tbody>
<tr>
<td>Financial Statements</td>
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<td>Malawi Growth and Development Strategy II (MGDS II)</td>
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Key Informants

Table 3: List of key informants

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<tr>
<th>No.</th>
<th>Key Informant</th>
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<th>Location</th>
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<tbody>
<tr>
<td>1</td>
<td>Ministry of Finance, Economic Planning and Development</td>
<td>Director of Budget</td>
<td>Lilongwe</td>
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<td>2</td>
<td>Department of Economic Planning and Development</td>
<td>Director of Planning</td>
<td>Lilongwe</td>
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<tr>
<td>3</td>
<td>Ministry of Education, Science and Technology</td>
<td>Director of Planning</td>
<td>Lilongwe</td>
</tr>
<tr>
<td>4</td>
<td>Ministry of Gender, Children, Disability and Social Welfare</td>
<td>Director of Planning</td>
<td>Lilongwe</td>
</tr>
<tr>
<td>5</td>
<td>Council for Non-Governmental Organizations (CONGOMA)</td>
<td>Chairperson</td>
<td>Lilongwe</td>
</tr>
<tr>
<td>6</td>
<td>Malawi Economic Justice Network (MEJN)</td>
<td>Chief Executive</td>
<td>Lilongwe</td>
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<tr>
<td>7</td>
<td>International Monetary Fund (IMF)</td>
<td>Country Representative</td>
<td>Lilongwe</td>
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<td>8</td>
<td>United States Agency for International Development (USAID)</td>
<td>Head of Mission</td>
<td>Lilongwe</td>
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<td>9</td>
<td>Public Accounts Committee (PAC)</td>
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