



MALAWI GOVERNMENT

2017/18 BUDGET PERFORMANCE QUARTERLY REPORT (Q2)

Ministry of Finance

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Foreword

This Quarterly Budget Performance Report is premised on the performance of the National Budget implementation in the Second Quarter of the 2017/18 Fiscal Year. The report provides a detailed analysis of all the Revenue that Government collects; status of Grants and Loans and the subsequent Expenditures that Government has incurred in the quarter under review. The main objective of this report is to appraise all Stakeholders on the current status of National Budget implementation, including risks and challenges associated with it, so that where necessary, remedial measures can be undertaken much earlier to salvage the situation.

The Ministry of Finance hopes that the information provided in this report will be valuable and informative to all the Stakeholders. Any further suggestions for improvements are welcome and can be submitted to the Secretary to the Treasury.

Abbreviations and Acronyms

FY	Financial Year
IFMIS	Intergrated Financial Management Information System
IMF	International Monetary Fund
LDF	Local Development Fund
MoFEPD	Ministry of Finance, Economic Planning and Development
NTRs	Non-tax Revenues
ORT	Other Recurrent Transactions
Part I	Donor supported projects
Part II	Projects financed by domestically generated resources
PAYE	Pay As You Earn
PE	Personnel Emoluments
VAT	Value Added Tax

Executive Summary

Revenue Performance

In the 2017/18 Financial Year, Government plans to collect a total of K992.7 billion in Domestic Revenues of which, K900.7 billion and K91.9 billion are Tax Revenues and Non-Tax Revenues, respectively. In the Second Quarter of the Financial Year, total Domestic Revenues were projected to be K256.7 billion of which, K228.5 billion were Tax Revenues and K28.2 billion were Non-Tax revenue. However, the outturn for this quarter was K196.1 billion on Tax Revenue and K19.9 billion on Non – Tax Revenues, reflecting an underperformance of K40.7 billion. Tax revenues underperformed by K32.5 billion while non-tax revenues underperformed by K8.2 billion. This gives us K216.0 billion being total domestic revenue collection in the quarter under review.

Performance of Grants and Loans

In the 2017/18 Financial Year, Government projects to receive Grants amounting to K147.6 billion, of which, K59.8 billion are Program Grants, K32.5 billion are Dedicated Grants and K59.3 billion Project Grants. In the Second Quarter of the Financial Year, expected disbursements from Grants were K20.5 billion, of which K5.7 billion was Dedicated Grants and K14.8 billion was to come from Project Grants. The Outturn for the Second Quarter of the Financial Year is that K14.4 billion was received representing an overall underperformance of Grants by K6.1 billion.

Expenditures Performance

In the 2017/18 Financial Year, Government planned to spend K1,335.8 billion, including net lending. Out of this sum, K978.8 billion is planned for Recurrent Expenditure and K352.9 billion Development Budget Expenditure with a net lending of K4.1 billion. In the Second Quarter of the Financial Year, Government planned to spend K312.4 billion, of which, K232.1 billion is Recurrent Expenditure and K80.3 billion is Development Budget Expenditure. However, overall, Government expenditure amounted to K330.7 billion reflecting an overexpenditure of K18.5 billion against the target for the quarter.

INTRODUCTION

1.1 Background to the Report

In June 2017, the National Assembly approved a Budget of K1,335.8 billion for the 2017/18 Financial Year (FY). This Budget is expected to be financed by Domestic Resources amounting to K900.7 billion and Grants amounting to K147.6 billion.

In order to assess the performance of the National Budget from time to time, a report is produced on quarterly basis to provide insight into all the relevant components of the budget.

This report therefore, examines performance of Government Budget in meeting the set targets for Second Quarter (October to December, 2018) of the Financial Year. It highlights where discrepancies between the projected and the outturn figures have occurred and also provide a possible explanation for such discrepancies.

1.2 Key Objectives of the Report

The main objective of this report is to present the performance of Government in implementing the National Budget in the Second Quarter of the 2017/18 Financial Year. Specific objectives of the report include:

- (i) To present the performance of Domestic Revenues;
- (ii) To report on performance of Grants and Loans from Development Partners; and

- (iii) To present the details of the performance of Expenditures of Government.

1.3 Methodology

The review and assessment of receipts and expenditures for the Second Quarter of the 2017/18 Financial Year was done in January, 2017. The work involved analysis of data from the Reserve Bank of Malawi, Spending Agencies, Intergrated Financial Management Information System (IFMIS) and consultations with various Stakeholders.

1.4 Layout of the Report

The First Chapter introduces the report, its objectives and methodology in assessing performance. The Second and Third Chapters discuss the performance of Revenues and Grants respectively. The Fourth Chapter focuses on the discussion of Expenditures while Chapter Five concludes the Report.

Performance of Domestic Revenues

2.1 Introduction

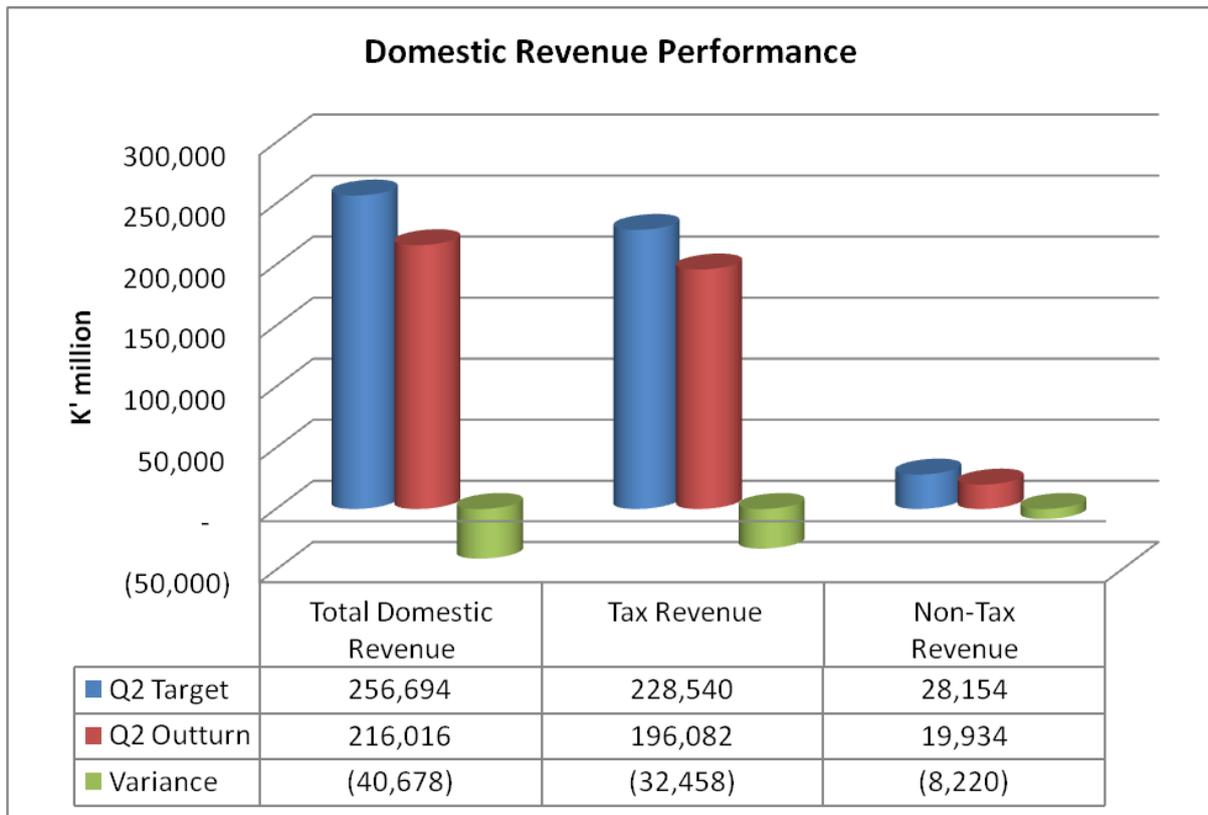
In the 2017/18 Financial Year, Government projected to collect total Domestic Revenues to the tune of K992.7 billion, of which, K900.7 billion were projected to be Tax Revenues and K91.9 billion Non-Tax Revenues (NTRs). This Chapter seeks to assess the performance of Government in Revenue collection during the second quarter of the Financial Year by comparing the Revenue Outturn for the quarter against the set targets; and discussing some of the underlying factors that explain the variances.

2.2 Overall Performance in Revenue Collection

In the second quarter of the Financial Year, total net Domestic Revenues were projected to amount to K256.7 billion of which, K228.5 billion was expected to be Tax Revenues while Non-Tax Revenues were projected at K28.2 billion.

Figure 2.1 below compares the Outturn in Domestic Revenues in the second quarter of the Financial Year against their corresponding targets. As indicated in the Figure 2.1 below, overall, Domestic Revenues underperformed by K billion as compared to its target. Total Domestic Revenues collected amounted to K216.2 billion against a target of K256.7 billion. This translates to an undercollection of 15.9 percent.

Figure 2.1 Total Domestic Revenues Performance



2.3 Tax Revenue Performance

Table 2.1 below shows the performance of tax for the Second quarter of the Financial Year against the projections. As the table illustrates, overall, Tax Revenues underperformed by K32.5. The outturn of Tax revenue was K196.1 billion against a target of K228.5 billion. The underperformance on the Tax revenue is attributed to all taxes: Income and Profits, Taxes on Goods and Services; and International trade taxes underperformed by 18.5 per cent, 8.5 percent and 20.4 per cent respectively.

Table 2.1 Tax Revenue Performance

	QII Target	QII Outturn	QII Variance
	K' Million		
Domestic Revenue	256,694	216,016	- 40,678
Tax revenue (Net)	228,540	196,082	-32,458
Income and profits	112,712	91,854	-20,858
Individual	68,923	57,807	- 1,116
PAYE	63,796	52,901	-10,895
Other	5,127	4,906	-221
Fringe benefit	2,837	2,444	- 394
Non-resident tax and others	2,289	2,462	173
Corporate	25,620	20,033	- 5,587
Company assessments	3,482	4,072	589
Provisional	22,137	15,961	-6,176
Withholding	18,170	14,014	-4,155
Goods and services	96,996	88,733	-8,264
VAT	74,766	68,621	-6,145
Import	41,516	34,797	- 6,720
Domestic	33,250	33,824	575
Excise Duties	22,231	20,112	-2,119
Import	13,568	11,961	-1,608
Local	8,662	8,151	- 512
International trade	23,554	18,761	-4,792
Import duty	23,139	18,706	-4,433
Prepayment	415	55	- 359
Other	- 4,723	- 3,266	1,457
Misc. duties	292	-24	-316
Tax refunds	- 5,860	- 3,759	2,101
Penalties	463	217	-246
Dividend	379	283	- 96
Turn-over tax	3	16	14

2.4 Performance of Non – Tax Revenues (NTRs) in the Second Quarter

Table 2.2 below presents the outturn in NTRs in the second quarter of the 2017/18 Financial Year against their set targets. As indicated in the table, actual NTRs amounted to K19.9 billion compared to a target of K28.2 billion, thus an undercollection of K8.2 billion. This unfavourable performance is attributed the performance of the parastatal dividend and rural electrification levy which underperformed by 82.4 per cent and 21.3 per cent respectively. However

departmental receipts missed their target by 0.7 per cent. This is a huge improvement as compared to the first quarter performance where the undercollection was at 13.2 per cent of its target.

Table 2.2 Non – Tax Revenue Performance in the second quarter

NTR	Q2 Target	Q2 Outturn	Variance	% Variance
	K' Million			
Non-Tax Revenue	28,153.93	19,933.52	(8,220.41)	(29.20)
Departmental receipts	6,315.62	6,269.87	(45.76)	(0.72)
Road Levy	6,557.23	7,408.67	851.44	12.98
Parastatal dividends	10,324.52	1,820.94	(8,503.58)	(82.36)
Rural electrification levy	3,123.21	2,459.29	(663.92)	(21.26)
Storage Levy	462.72	493.69	30.96	6.69
Road Tax	1,370.62	1,481.06	110.44	8.06

The Table 2.3 below presents the performance of departmental receipts per department. As shown in the table below, most institutions underperformed resulting in an overall underperformance of departmental receipts of 13.2 per cent and this needs to be supported for departments to reach full capacity.

Table 2.3 Non – Tax Revenue Performance in the first quarter by department

Ministry/Department	Q2 Target	Q2 Outturn	Variance	Performance %
	Kwacha			
Accountant General	34,725,000	19,702,601	-15,022,399	57
Administrator General	125,000	-	-125,000	-
Agriculture	53,833,098	17,667,401	-36,165,696	33
Civil Aviation	1,440,000,000	1,620,297,808	180,297,808	113
Civic Education, Culture and Community Development	14,644,000	1,957,000	-12,687,000	13
Education	23,171,426	75,820,265	52,648,839	327
Finance	25,000,000	44,133,100	19,133,100	177
Fisheries Department	21,252,759	410,000	-20,842,759	2
Forestry	-	306,920	306,920	

Geological Survey	4,040,000	708,000	-3,332,000	18
Health and Population	62,500,000	1,135,121	-61,364,879	2
Immigration	2,380,250,000	2,366,649,611	-13,600,389	99
Information	6,666,666	6,324,282	-342,384	95
Judiciary	10,000,000	17,625,250	7,625,250	176
Labour and Social Services	81,483,196	62,960,600	-18,522,596	77
Lands, Housing and Physical Planning	329,000,050	64,377,890	-264,622,160	20
Marine	3,950,000	1,379,000	-2,571,000	35
Meteorological services	650,000	-	-650,000	-
Mines	115,000,000	178,468,686	63,468,686	155
NSO	250,000	1,036,970	786,970	415
ODPP	7,800,000	8,382,500	582,500	107
Police	623,226,200	181,822,711	-441,403,489	29
Prisons	4,200,000	50,000	-4,150,000	1
Railway Services	250,000	-	-250,000	-
Registrar General	431,825,110	791,234,024	359,408,915	183
Tourism and Parks	-	629,650	629,650	
Trade and Industry	34,635,000	26,933,800	-7,701,200	78
Water and Irrigation	-	5,966,928	5,966,928	
Subtotal	5,708,477,503	5,495,980,119	-212,497,385	96
0	-	-	-	
Treasury Funds	607,142,497	773,889,881	166,747,384	127
Total Departmental	6,315,620,000	6,269,870,000	-45,750,001	99
KEY				
	Overperformance			
	Severe underperformance			

The green colour represents MDAs who performed extremely well, thus those above 100 per cent of the target and the red colour represents the MDAs that are below 50 per cent of the target.

From the table above only 8 MDAs representing 27 per cent of the revenue collecting MDAs performed extremely well while 10 others representing 33 per cent of the MDAs underperformed severely. These MDAs shown in red above

need to be closely monitored as the risk of not meeting their annual target is very high.

2.5 Conclusion

In aggregate terms, the performance of revenue collection in the second quarter of the financial year was below the set targets for both tax revenues and non-tax revenues. The tax revenues have consistently underperformed over the past six months. There is need to revisit the budget assumptions at mid-year to take into account the prevailing economic situation. On the other hand, in order to improve the performance of non tax revenues, ministries and departments should continue prioritising activities that generate revenues and MoFEPD, through the Revenue Division should monitor the revenue collecting MDAs especially those red to ensure improvement in performance in subsequent quarters.

Performance of Grants

3.1 Introduction

In the 2017/18 Financial Year, the projected resource inflows from Grants amounts to K147.6 billion, of which, K55.8 billion would be realized from Program Grants, K32.5 billion from Dedicated Grants and K59.3 billion from Project Grants.

In the second quarter of the 2017/18 Financial Year, Government expected to receive K20.5 billion in form of Grants. Out of this amount, K5.7 billion from Dedicated Grants, K14.8 billion would come from Project Grants and no any inflows from Program Grants were expected. This Chapter, examines the performance of these Grants in the quarter under review.

3.2 Grants Performance in the Second Quarter

Figure 3.1 presents the performance of Grants in the second quarter of the financial year. As indicated in the table, overall, Grants underperformed by K6.1 billion largely due to lower than antecipated inflows from Dedicated and Project Grants which underperformed by K5.5 billion and K0.7 billion respectively.

Table 3.1 Performance of Grants in the Second Quarter

	Second Quarter		
	Target	Outturn	QII Variance
	K' Million		
Grants	20,498.53	14,355.12	- 6,143.41
Dedicated grants	5,674.82	221.12	- 5,453.70
NAC inflows	2,177.16	-	-2,177.16
World Bank	2,177.16	-	-2,177.16
Education SWAP	2,913.05	-	-2,913.05
GDC	1,161.29	-	-1,161.29
Norway	1,751.76	-	-1,751.76
PFEM RP Pool	584.61	221.12	-363.49
World Bank	584.61	221.12	-363.49
Project grants	14,823.71	14,134.00	-689.71

3.4 Conclusion

As indicated above, overall, disbursement of donor resources under Grants category underperformed in the second quarter of the financial year in all categories. There is need to revisit the assumptions made on grants visavis the projects they finance at mid-year as this will directly affect the public sector investment program implementation.

Expenditure Performance

4.1 Introduction

This chapter highlights the performance of expenditures in the second quarter of the 2017/18 Financial Year and explains the factors underlying the observed expenditure trends.

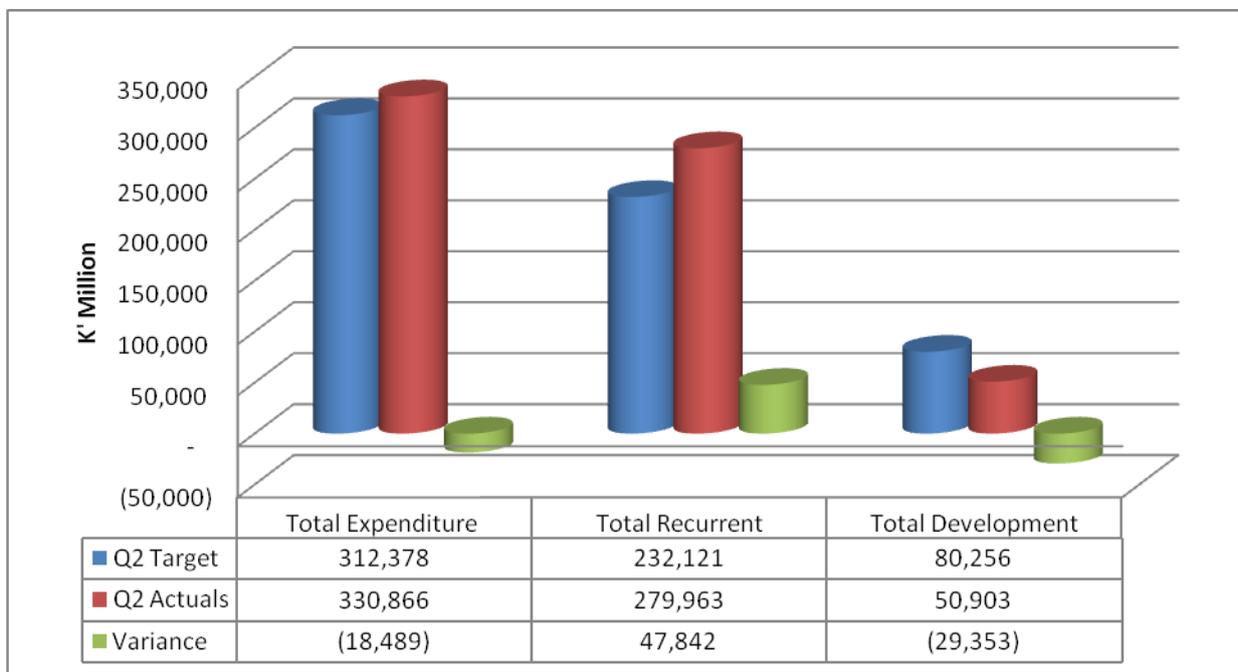
In the 2017/18 Financial Year, Government is expected to spend K1,335.8 billion including net lending. Of this sum, K978.8 billion is projected to be Recurrent Expenditures and K352.9 billion is projected to be Development Budget Expenditures. In the quarter under review, total expenditure including net lending and direct payments was projected at K312.4 billion broken down as K232.1 billion recurrent expenditure and K80.6 billion development budget Expenditure.

For the quarter under review, out of the projected recurrent expenditure, wages and salaries were projected at K76.8 billion; Interest Payments K31.5 billion while other current expenditures including Goods and Services; and Subsidies and Transfers were projected at K123.8 billion. On the other hand, expenditures on Development budget were projected at K80.3 billion broken down as K27.7 billion domestically financed projects and K52.6 billion foreign financed projects.

4.2 Performance of Overall Expenditures

The Outturn for the second quarter of the financial year indicates that total expenditure was K330.9 billion, broken down as K279.9 billion Recurrent Expenditures and K50.9 billion development budget expenditures. Chart 4.1 below illustrates the projected expenditures against the outturn.

Chart 4.1 Total Government expenditure in the second quarter of the 2017/18 FY



As can be shown in Chart 4.1 above, total expenditures in the quarter were below the projected amount of K312.4 billion by K18.5 billion.

4.2.1 Performance of Recurrent Budget

In general, Government projected to use K232.1 billion to ran its daily business during the quarter under review. The outturn shows that expenditures were above the target by K47.8 billion as shown in Table 5.1 below. The higher than expected expenditure is attributed to payments towards wages and salaries, interest on debt, and purchase of goods and services which were higher than projected.

Table 4.1 Recurrent Expenditure Breakdown

	QII Target	QII Outturn	QII Variance
	K' Million		
Recurrent expenditure	232,121.27	279,963.04	47,841.77
Wages and salaries	76,808.39	79,080.21	2,271.82
Interest on debt	31,507.43	39,195.20	7,687.77
Foreign	2,914.45	4,342.90	1,428.45
Domestic	28,592.98	34,852.30	6,259.32
Purchase of Goods and Services	123,805.44	161,687.62	37,882.18
Subsidies and transfers	61,391.46	47,206.51	-14,184.96
Arrears	800.00	133.33	- 666.67

4.2.1.1 Expenditures under Personal Emoluments (PE)

In 2017/18 Financial Year, Government is expected to spend K309.6 billion on PE. In the period under review and as indicated in Table 4.1, wages and salaries were projected at K76.8 billion. The expenditure was slightly above the projection by 2.9 per cent.

4.2.1.2 Other Recurrent Transactions (ORT)

ORT expenditure for the second quarter of the financial year was projected to amount to K155.3 billion (which is total recurrent expenditure less wages and salaries). Actual expenditures as at the end of the quarter were K200.9 billion which was above the target by K45.6 billion representing an overexpenditure of 29.3 per cent.

4.2.1.3 Social Spending

This section analyses trends in social spending which is a cushion against economic adversities especially on the poor following the any economic shocks. Therefore, expenditures on health, education, farm input subsidy program (FISP) among others were identified as having a direct impact on the poor and expenditures on these items are monitored. Total annual expenditures on social spending is estimated at K435.1 billion. In the quarter under review, the target was K109.4 billion.

Table 5.2 below shows social spending performance. It can be noted from the table that in the quarter under review social spending was slightly above the target by K32.8 billion, a performance which is commendable.

Table 5.2 Social Spending

	Q 2 Target	Q2 Actual	Q2 Variance
	K' Million		
Health Expenditure	22,206.25	29,861.18	7,654.93
Wages	5,804.14	8,219.00	2,414.86
Local Council Wages	7,725.97	9,147.08	1,421.11
Other Recurrent	6,769.45	11,608.90	4,839.45
Ministry of Health ORT	4,774.54	9,594.24	4,819.70
Local Resources	4,774.54	9,594.24	4,819.70
NAC	375.00	-	-375.00
Local Assemblies ORT	1,994.91	2,014.66	19.75

	Q 2 Target	Q2 Actual	Q2 Variance
	K' Million		
Subvented Organisations	97.69	97.69	-
Development expenditure	1,809.00	788.51	-1,020.49
Education Expenditure	61,556.40	63,593.73	2,037.32
Wages	4,975.17	6,776.47	1,801.30
Local Councils Wages	24,516.01	24,516.01	-
Other Recurrent	16,744.10	19,605.36	2,861.26
Ministry of Education ORT	2,372.23	3,909.28	1,537.05
Local Assemblies ORT	2,270.14	3,493.15	1,223.01
Subvented Organisations	12,101.73	12,202.93	101.20
Development expenditure	3,219.40	492.96	-2,726.44
National Local Government Finance Committee	2,800.00	6,134.00	3,334.00
Drugs for DHOs	2,800.00	6,134.00	3,334.00
Agriculture Expenditures	22,455.00	42,809.00	20,354.00
Farm Input Subsidy Program	22,455.00	8,000.00	-14,455.00
Maize Purchase	-	34,809.00	34,809.00
Lands and Housing Expenditure	1,750.00	754.71	-995.29
Cement and Iron Sheets Subsidy	1,750.00	754.71	-995.29
Gender, Children, Disability and Social Welfare	764.71	1,094.54	329.83
Wages	396.88	449.27	52.39
Other Recurrent	295.63	628.22	332.59
Development expenditure	72.20	17.05	-55.15
Local Development Fund Expenditures	105.00	150.00	45.00
Local Development Fund	105.00	150.00	45.00
Poverty and Disaster Management	25.88	25.88	-
Other Recurrent	25.88	25.88	-
Total Social Expenditure	111,663.23	144,423.03	32,759.80

Source: Malawi Government

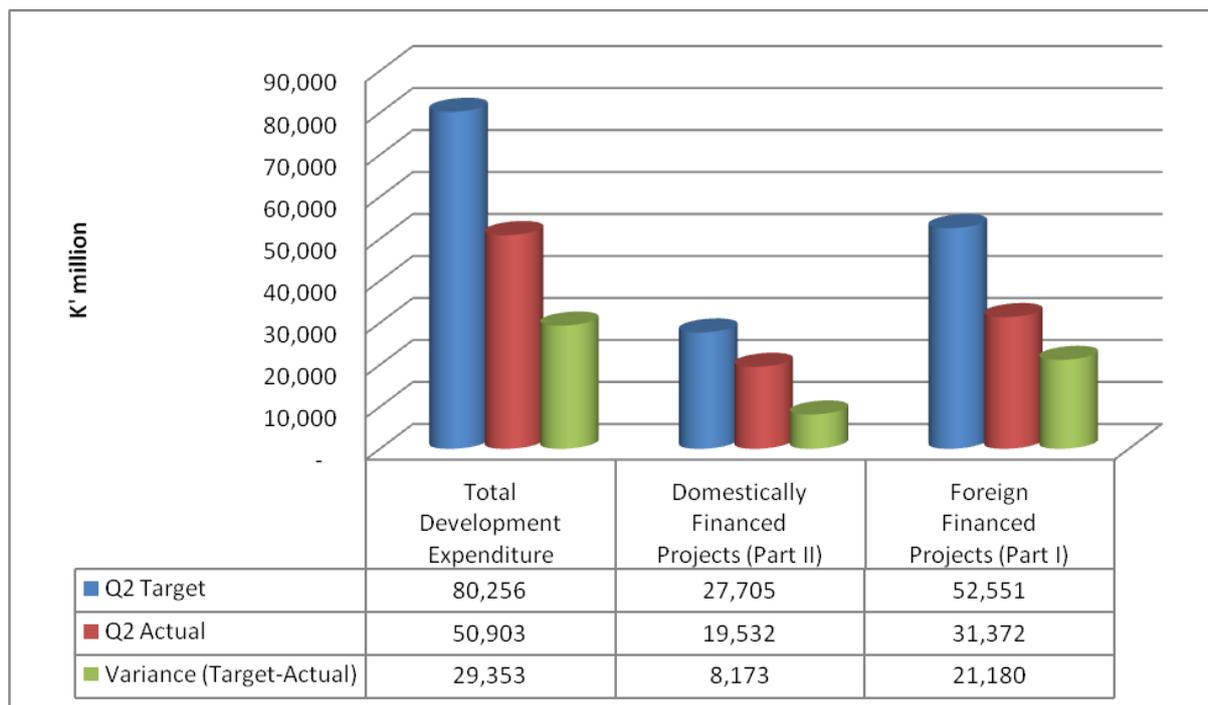
Much as the expenditure on social sectors is higher than projected in the quarter under review, the table above shows that the development budget lines underperformed across the sectors. There is need therefore for deliberate effort

to protect infrastructure development in the social sectors such as construction and rehabilitation of education and health infrastructure.

4.2.2 Performance of Development Budget

On Development Budget, Government planned to spend K80.3 billion in the second quarter, of which, K27.7 billion was to be financed using domestic resources (Part II) and K52.6 billion was for Foreign Financed Projects (Part I). As depicted by Chart 4.2 below, the outturn on Development Budget was that K50.9 billion was spent broken down as K31.4 billion on Part 1 and K19.5 billion on Part II. Overall, the development expenditure was below the target by K29.4 billion. The underexpenditure was on account of corresponding low inflows on both domestic revenues and grants.

Chart 5.2 Performance of the Development Budget



4.3 Conclusion

This Chapter focused on the performance of expenditures of Government in the second quarter of the 2017/18 Financial Year. The expenditures were broken down into various categories and the analysis was based on the deviations between the target and the actual expenditure. Generally, the outturn showed that expenditure was above the target. However, development expenditure was way below the target. There is need therefore for deliberate effort to ensure improvement in funding towards investment projects.

Conclusion and Recommendations

The report has shown that domestic revenue collection in the second quarter of the 2017/18 Financial Year was below the target in most categories. It is therefore recommended that revenue collection institutions should continue to prioritise revenue collection activities.

Disbursement of resources under Grants underperformed in the quarter under review in all categories. It is recommended that Government should continue engaging the development partners for a turn-around of the status quo.

On the expenditure side, Government expenditure was above the target for the Quarter. The recurrent budget overspent mainly on generic goods and services and social spending was above the target which is commendable. It is therefore recommended that this momentum on social spending should be maintained in the subsequent quarters in order to meet the annual target so that the poor are seen to benefit from the budget.

The development budget underspent and progress is minimal in most of the projects. This is mainly due to low funding on Part II projects and lower than anticipated disbursements on Part I projects. This phenomenon is not uncommon in preceding quarters and needs to be reversed. It is therefore recommended that funding to the projects should improve in the subsequent quarters on Part II projects and Government should continue engaging development partners on Part I financing. This sets out to ensure adherence to

set targets to avoid accumulation of arrears to contractors and also for smooth completion of some of the projects.