



MALAWI GOVERNMENT

2015/16 BUDGET PERFORMANCE QUARTERLY REPORT (Q1)

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 First Quarter of the 2015/16 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

EHP	Essential Health Package
ESWAP	Education SWAP
FISP	Farm Input Subsidy Program
FY	Financial Year
IFMIS	Intergrated Financial Management Information System
IMF	International Monetary Fund
LDF	Local Development Fund
MoH	Ministry of Health
NLGFC	National Local Government Finance Committee
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
SWAP	Sector Wide Approach
VAT	Value Added Tax

Executive Summary

Revenue Performance

In the 2015/16 Financial Year, Government plans to collect a total of K666.3 billion in Domestic Revenues of which, K592.4 billion and K73.9 billion are Tax Revenues and Non-Tax Revenues, respectively. In the First Quarter of the Financial Year, total Domestic Revenues were projected to be K148.7 billion of which, K137.5 billion were Tax Revenues and K11.2 billion were Non-Tax revenue. However, the outturn for this quarter was K138.3 billion on Tax Revenue and K11.5 billion on Non – Tax Revenues, reflecting a favourable performance of K1.0 billion. Tax revenues overperformed by K0.7 billion while non-tax revenues overperformed by K0.3 billion. This gives us K149.8 billion being total domestic revenue collection in the quarter under review.

Performance of Grants and Loans

In the 2015/16 Financial Year, Government projects to receive Grants amounting to K97.1 billion, of which, K6.9 billion are Program Grants, K37.2 billion are Dedicated Grants and K52.9 billion Project Grants. In the First Quarter of the Financial Year, expected disbursements from Grants were K41.7 billion, of which K12.3 billion was Program Grants, K12.5 billion was Dedicated Grants and K16.9 billion was to come from Project Grants. The Outturn for the First Quarter of the Financial Year is that K31.4 billion was received representing an overall underperformance of Grants by K10.3 billion.

Expenditures Performance

In the 2015/16 Financial Year, Government planned to spend K930 billion, including net lending. Out of this sum, K705.9 billion is planned for Recurrent Expenditure and K224.1 billion Development Budget Expenditure. In the First Quarter of the Financial Year, Government planned to spend K231.2 billion including net lending, of which, K168.9 billion is Recurrent Expenditure and K61.7 billion is Development Budget Expenditure. However, overall, Government expenditure amounted to K220.1 billion reflecting an underexpenditure of K11.1 billion against the target for the quarter.

INTRODUCTION

1.1 Background to the Report

In June 2015, the National Assembly approved a Budget of K930 billion for the 2015/16 Financial Year (FY). This Budget is expected to be financed by Domestic Resources amounting to K666.3 billion K97.1 billion from Grants and Loans of K166.5 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 First Quarter (July to September, 2015) 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 First quarter of the 2015/16 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 First Quarter of the 2015/16 Financial Year was done in October, 2015. 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

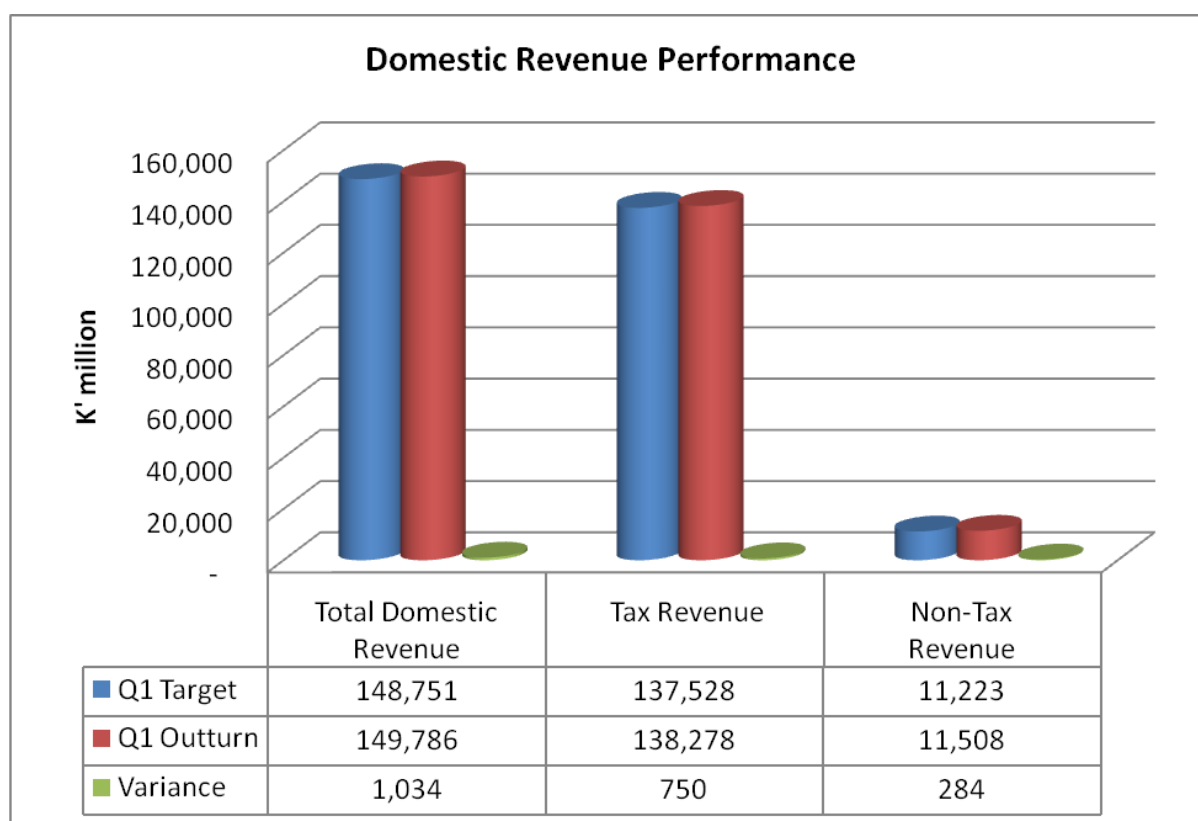
In the 2015/16 Financial Year, Government projected to collect total Domestic Revenues to the tune of K666.3 billion, of which, K592.4 billion were projected to be Tax Revenues and K73.9 billion Non-Tax Revenues (NTRs). This Chapter seeks to assess the performance of Government in Revenue collection during the first 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 first quarter of the Financial Year, total net Domestic Revenues were projected to amount to K148.7 billion of which, K137.5 billion was expected to be Tax Revenues while Non-Tax Revenues were projected at K11.2 billion.

Figure 2.1 below compares the Outturn in Domestic Revenues in the first quarter of the Financial Year against their corresponding targets. As indicated in the Figure 2.1 below, overall, Domestic Revenues overperformed by K1.0 billion as compared to its target. Total Domestic Revenues collected amounted to K149.8 billion against a target of K148.8 billion. This translates to overcollection of 0.7 percent.

Figure 2.1 Total Domestic Revenues Performance



2.3 Tax Revenue Performance

Table 2.1 below shows the performance of tax for the First quarter of the Financial Year against the projections. As the table illustrates, overall, Tax Revenues overperformed by K750 million. The outturn of Tax revenue was K138.3 billion against a target of K137.5 billion. The overperformance on the Tax revenue is attributed to taxes on Income and Profits and in particular PAYE and individual benefits taxes. Taxes on Goods and Services; Exercise Duty; and the international trade, however, underperformed by 1.7 per cent, 3.8 per cent and 2.2 per cent respectively.

Table 2.1 Tax Revenue Performance

Tax Category	Q1 Target	Q1 Outturn	Variance	% Collection
	(K' million)			
Tax revenue (Net)	137,528.30	138,278.31	750.01	0.55
Income and profits	69,198.61	71,177.98	1,979.37	2.86
Individual	44,238.65	46,954.78	2,716.13	6.14
Corporate	12,435.01	11,608.06	(826.95)	(6.65)
Withholding	12,524.95	12,615.15	90.19	0.72
Goods and services	54,907.10	53,950.61	(956.49)	(1.74)
VAT	41,819.55	41,353.36	(466.19)	(1.11)
Excise Duties	13,087.56	12,597.25	(490.30)	(3.75)
International trade	13,814.22	13,511.77	(302.44)	(2.19)
Import duty	13,837.69	13,483.24	(354.45)	(2.56)
Prepayment	(23.47)	28.53	52.00	(221.58)
Other	(391.64)	(362.06)	29.58	(7.55)
Misc. duties	138.62	121.74	(16.87)	(12.17)
Tax refunds	(2,466.81)	(2,049.64)	417.16	(16.91)
Penalties	206.31	205.32	(0.99)	(0.48)
Dividend	1,721.18	1,351.31	(369.88)	(21.49)
Turn-over tax	9.06	9.22	0.16	1.80

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

Table 2.2 below presents the outturn in NTRs in the first quarter of the 2015/16 Financial Year against their set targets. As indicated in the table, actual NTRs amounted to K11.5 billion compared to their target of K11.2 billion, thus an overcollection of K284 million. This favourable performance is attributed the performance of the road and storage levies. However departmental receipts performed decimally. An undercollection of 5.4 per cent was recorded in the quarter under review.

Table 2.2 Non – Tax Revenue Performance in the first quarter

	Q1 Proj	Q1 actual	Variance	%
	(K' million)			Collection
Non-Tax Revenue	11,223.19	11,507.56	284.38	2.53
Departmental receipts	3,157.75	2,986.65	(171.10)	(5.42)
Road Levy	3,991.63	4,665.00	673.37	16.87
Rural electrification levy	2,587.94	2,316.38	(271.56)	(10.49)
Storage Levy	354.03	352.96	(1.07)	(0.30)
Road Tax	1,131.84	1,186.56	54.73	4.84

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 NTR of 5.4 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

Department	Jul-Sept Actual	Jul-Sept Projection	Variance	Performance(%)
Accountant General	26,875,003	31,250,000	(4,374,997)	86.0
Administrator General	56,207	22,500	33,707	249.8
Agriculture	29,071,873	37,500,000	(8,428,127)	77.5
Civil Aviation	993,734,121	675,000,000	318,734,121	147.2
Education	57,956,980	239,994,500	(692,043,020)	24.1
Finance	-	50,000,000	(50,000,000)	-
Fisheries Department	1,155,700	6,333,000	(5,177,300)	18.2
Forestry	1,879,446	-	1,879,446	-
Geological Survey	180,000	4,500,000	(4,320,000)	4.0
Government Stores	7,936,000	-	7,936,000	-
Health & Population	152,482	2,500,000	(2,347,518)	6.1
Immigration	856,264,093	1,050,000,000	(193,735,907)	81.5
Information	1,686,313	5,000,000	(3,313,687)	33.7
Judiciary	13,129,643	7,500,000	5,629,643	175.1
Labour & Social Services	18,056,500	37,500,000	(19,443,500)	48.2
Lands & Phy. Planning	293,882,812	325,000,000	(90,708,841)	90.4
Marine	327,500	3,750,000	(3,422,500)	8.7
Meteorological Services	217,500	1,500,000	(1,282,500)	14.5
Mines	38,099,153	50,000,000	(11,900,848)	76.2
NSO	3,612,600	250,000	3,362,600	1,445.0
ODPP	-	6,250,000	(6,250,000)	-
Police	97,130,965	200,000,000	(102,869,035)	48.6

Department	Jul-Sept Actual	Jul-Sept Projection	Variance	Performance(%)
Prisons	58,000	-	58,000	-
Railways	-	56,250,000	(56,250,000)	-
Registrar General	395,001,006	300,000,000	95,001,006	131.7
Tourism & Parks	1,049,650	1,400,000	(350,350)	75.0
Trade and Industry	75,438,600	37,500,000	37,938,600	201.2
Water & Irrigation	5,556,769	-	5,556,769	-
Women & Children	58,877,500	25,000,000	33,877,500	235.5
Youth, Sports	9,263,586	3,750,000	5,513,586	247.0
TOTALS	2,986,650,000	3,157,750,000	(740,697,153)	94.6

2.5 Conclusion

In aggregate terms, the performance of revenue collection in the first quarter of the financial year was slightly above the set targets for tax revenues and non-tax revenues were slightly below the target. In order to improve the performance of non tax revenues, ministries and departments should continue prioritising activities that generate revenues.

Performance of Grants

3.1 Introduction

In the 2015/16 Financial Year, the projected resource inflows from Grants amounts to K97.1 billion, of which, K6.9 billion would be realized from Program Grants, K37.2 billion from Dedicated Grants and K52.9 billion from Project Grants.

In the first quarter of the 2014/15 Financial Year, Government expected to receive K41.7 billion in form of Grants. Out of this amount, K12.3 billion is expected to be Program Grants, K12.5 billion from Dedicated Grants and K16.9 billion would come from Project Grants. This Chapter, examines the performance of these Grants in the quarter under review.

3.2 Grants Performance in the Financial Year

Figure 3.1 presents the performance of Grants in the first quarter of the financial year. As indicated in the table, overall, Grants underperformed by K10.3 billion. In particular, Dedicated and Project Grants underperformed by K1.0 billion and K9.3 billion respectively. On the other hand, actual disbursements on programme grants were almost equal to its projection.

Table 3.1 Performance of Grants in the First Quarter

	First Quarter		
	K'million		
	Q1 Outturn	Q1 Projection	Variance
Grants	31,370.54	41,703.24	(10,332.70)
Program	12,278.74	12,278.00	0.74
AfDB grants	12,278.74	12,278.00	0.74
Dedicated grants	11,436.87	12,456.72	(1,019.85)
Food security	8,565.00	8,744.00	(179.00)
World Bank (Drought recovery-SGR maize)	8,565.00	8,565.25	(0.25)
Multidonor Trust Fund (Seed/fertiliser subsidy)	-	178.75	(178.75)
NAC inflows	2,427.70	2,655.00	(227.30)
World Bank	2,427.70	2,655.00	(227.30)
Health SWAP	-	82.50	(82.50)
UNFPA	-	82.50	(82.50)
PFEM RP Pool	444.17	375.22	68.95
DFID	-	375.22	(375.22)
AfDB DISCRETE	444.17		444.17
World Bank Recovery Resources	-	600.00	(600.00)
Rehab of Edu, Health and Water Infrs	-	600.00	(600.00)
Project grants	7,654.93	16,968.52	(9,313.59)

3.4 Conclusion

As indicated above, overall, disbursement of donor resources under Grants category underperformed in the first quarter of the financial year in all categories except under program grants where development partners disbursed as projected.

Expenditure Performance

4.1 Introduction

This chapter highlights the performance of expenditures in the first quarter of the 2015/16 Financial Year and explains the factors underlying the observed expenditure trends.

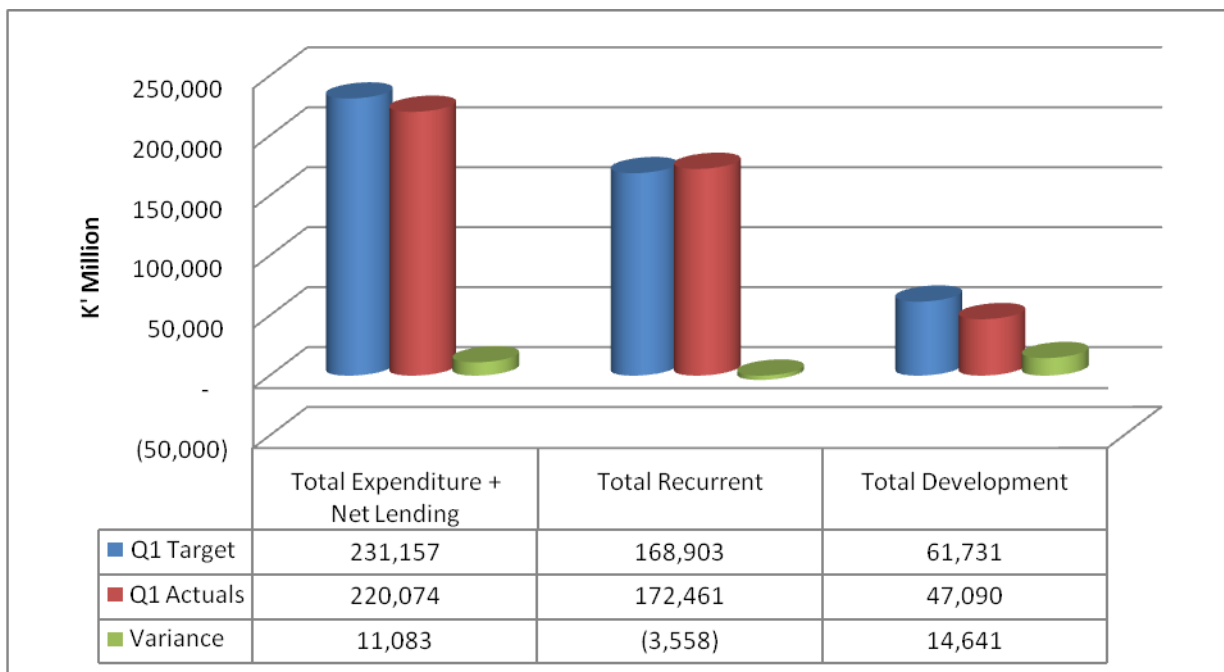
In the 2015/16 Financial Year, Government is expected to spend K930 billion including net lending. Of this sum, K705.9 billion is projected to be Recurrent Expenditures and K224.1 billion is projected to be Development Budget Expenditures. In the quarter under review, total expenditure including net lending and direct payments was projected at K231.2 billion broken down as K168.9 billion recurrent expenditure, K61.7 billion development budget Expenditure.

For the quarter under review, out of the projected recurrent expenditure, wages and salaries were projected at K55.5 billion; Interest Payments K27.9 billion while other current expenditures including Goods and Services; and Subsidies and Transfers were projected at K55.6 billion and K29.9 billion, respectively. On the other hand, expenditures on Development budget were projected at K61.7 billion broken down as K14.6 billion domestically financed projects and K47.1 billion foreign financed projects.

4.2 Performance of Overall Expenditures

The Outturn for the first quarter of the financial year indicates that total expenditure was K220.1 billion including net lending, broken down as K172.5 billion Recurrent Expenditures and K47.1 billion development budget expenditures with a net lending of K0.5 billion. Chart 4.1 below illustrates the projected expenditures against the outturn.

Chart 4.1 Total Government expenditure in the first quarter of the 2014/15 FY



As can be shown in Chart 4.1 above, total expenditures in the quarter were below the projected amount of K231.2 billion by K11.1 billion.

4.2.1 Performance of Recurrent Budget

In general, Government projected to use K168.9 billion to run its daily business during the quarter under review. The outturn shows that expenditures were above the target by K3.6 billion as shown in Table 5.1 below. The higher than expected expenditure is attributed to payments towards interest on foreign debt which were higher than projected.

Table 4.1 Recurrent Expenditure Breakdown

	Quarter 1 Actual	Quarter 1 Projection	Variance
Recurrent expenditure	172,460.72	168,903.05	(3,557.66)
Wages and salaries	55,848.41	55,483.00	(365.41)
Interest on debt	31,374.25	27,865.12	(3,509.14)
Foreign	6,124.25	1,709.27	(4,414.98)
Domestic	25,250.00	26,155.85	905.85
Goods and services	57,619.10	55,576.94	(2,042.17)
Subsidies and transfers	27,618.95	29,978.00	2,359.05

4.2.1.1 Expenditures under Personal Emoluments (PE)

In 2015/16 Financial Year, Government is expected to spend K131.1 billion on PE. In the period under review and as indicated in Table 4.1, wages and salaries were projected at K55.5 billion. The expenditure was slightly above the projection by 0.7 per cent.

4.2.1.2 Other Recurrent Transactions (ORT)

ORT expenditure for the first quarter of the financial year was projected to amount to K113.4 billion (which is total recurrent expenditure less wages and salaries). Actual expenditures as at the end of the quarter were K116.6 billion

which was above the target by K3.2 billion representing an overperformance of 2.8 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 current economic status. The decreased Government expenditures as depicted in Chart 4.1 may have a negative impact on people's welfare. 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 K257.4 billion. In the quarter under review, the target was K52.2 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 equal to the target, a performance which is commendable.

Table 5.2 Social Spending

Category	2015-16 Approved Estimates	Q1 Projection	Q1 Actual
	Millions of Kwacha		
Health Expenditure	69,146.11	15,320.57	15,320.57
Wages	31,058.37	9,280.13	9,280.13
Other Recurrent	31,987.74	5,756.44	5,756.44
Ministry of Health ORT	15,165.03	2,797.06	2,797.06
Local Assemblies ORT	16,221.65	2,893.15	2,893.15
Subvented Organisations	601.06	66.23	66.23
Development expenditure	6,100.00	284.00	284.00
Education Expenditure	121,992.79	30,352.76	30,352.76
Wages	60,342.97	16,933.45	16,933.45
Other Recurrent	55,891.46	13,088.81	13,088.81
Ministry of Education ORT	14,784.22	3,378.22	3,378.22
Local Assemblies ORT	8,231.51	1,851.86	1,851.86

Category	2015-16 Approved Estimates	Q1 Projection	Q1 Actual
	Millions of Kwacha		
Subvented Organisations	32,875.73	7,858.73	7,858.73
Development expenditure	5,758.36	330.50	330.50
Agriculture Expenditures	50,485.34	5,486.73	5,486.73
Farm Input Subsidy Program	50,485.34	5,486.73	5,486.73
Lands and Housing Expenditures	7,000.00	-	-
Cement and Iron Sheets Subsidy	7,000.00	-	-
Gender, Children, Disability and Social Welfare	2,095.35	435.91	435.91
Wages	948.78	257.09	257.09
Other Recurrent	814.21	156.84	156.84
Development expenditure	332.36	21.97	21.97
Local Development Fund Expenditures	4,499.63	177.63	177.63
Local Development Fund	4,499.63	177.63	177.63
Vice Presidency Expenditures	113.96	37.06	37.06
Poverty and Disaster Management	113.96	37.06	37.06
Wages	48.68	19.58	19.58
Other Recurrent	65.29	17.49	17.49
Total Social Expenditure	257,428.53	52,246.57	52,246.57

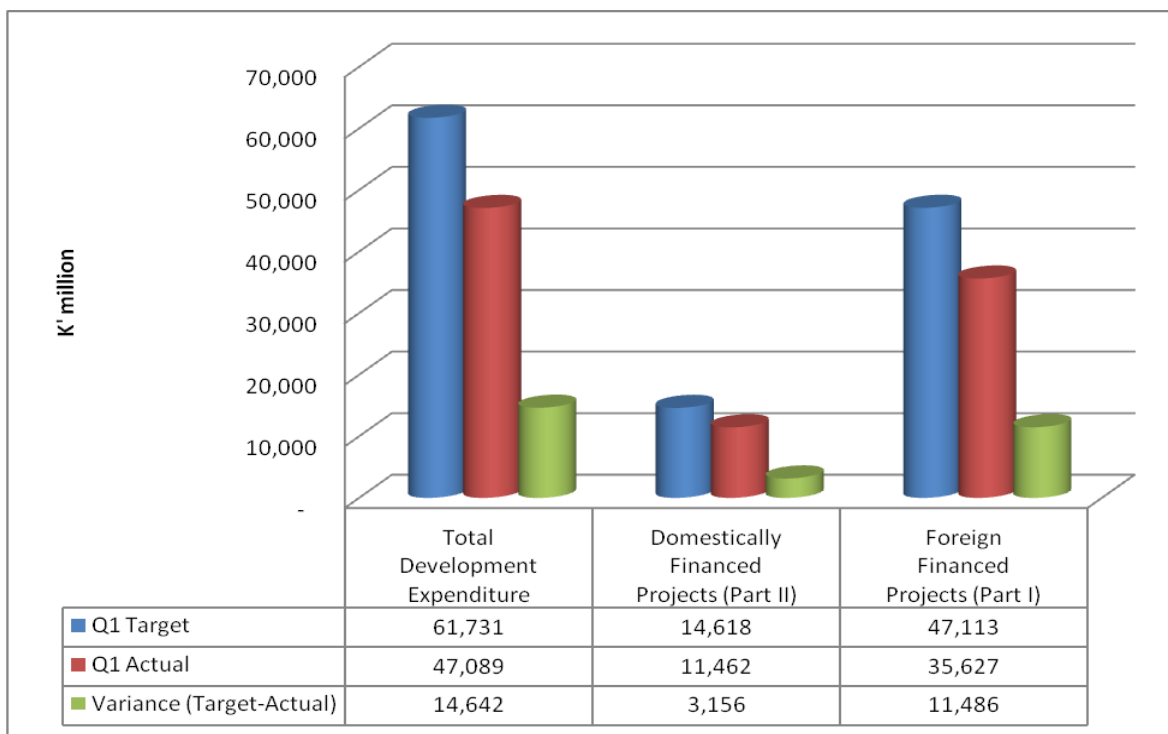
There is need, therefore, to maintain the first quarter momentum in the subsequent quarters in order to meet the annual target so that the poor are seen to benefit from the budget.

4.2.2 Performance of Development Budget

On Development Budget, Government planned to spend K61.7 billion in the first quarter, of which, K14.6 billion was to be financed using domestic resources (Part II) and K47.1.0 billion was for Foreign Financed Projects (Part I). As depicted by Chart 4.2 below, the outturn on Development Budget was that K47.1 billion was spent broken down as K35.1 billion on Part 1 and K11.5

billion on Part II. Overall, the development expenditure was below the target by K14.6 billion. The underexpenditure was on account of corresponding low inflows under grants and consequently leading to delayed funding which in turn affected funding levels.

Chart 5.2 Performance of the Development Budget



4.3 Conclusion

This Chapter focused on the performance of expenditures of Government in the first quarter of the 2015/16 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 contained within the targets but significantly below the target.

Conclusion and Recommendations

The report has shown that revenue domestic collection in the first quarter of the 2015/16 Financial Year was above 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. This was mainly on account of low inflows under the dedicated and project grants. 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 below the target for the Quarter. The departure from the target is significant and this may translate to low levels of services provided in terms of both quality and quantity. If the status quo is not reversed, the various output targets may not be achieved in this financial year.

The recurrent budget overspent mainly on interest on debt whereas the rest of the recurrent items reported underexpenditures. Despite this, social spending was equal to the target which is commendable. It is therefore recommended that the first quarter 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. 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 to ensure adherence to set targets to avoid accumulation of arrears to contractors and also for smooth completion of some of the projects.