



MALAWI GOVERNMENT

2015/16 BUDGET PERFORMANCE QUARTERLY REPORT (Q2)

Ministry of Finance, Economic Planning & Development

P.O. Box 30049

Lilongwe 3

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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 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
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 is from Tax Revenues and Non-Tax Revenues, respectively. In the Second Quarter of the Financial Year, total Domestic Revenues were projected to be K154.1 billion of which, K133.8 billion were Tax Revenues and K20.3 billion were Non-Tax revenue. However, the outturn for this quarter was K141.9 billion of which K133.2 billion was Tax Revenue and K16.7 billion on Non – Tax Revenues, reflecting an underperformance of K4.2 billion. Tax revenues underperformed by K0.6 billion and non-tax revenues by K3.6 billion.

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 are Project Grants. In the Second Quarter of the Financial Year, expected disbursements from Grants were K38.9 billion, of which K22.0 billion was Dedicated Grants and K16.9 billion was to come from Project Grants. The Outturn for the Second Quarter of the Financial Year represents an overall underperformance of Grants by K32.7 billion. Total Grants received amounted to K6.3 billion, out of the projected K38.9 billion during the period under review representing an underperformance of 83.6 percent.

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 Second Quarter of the Financial Year, Government planned to spend K253.5 billion including net lending, of which, K191.0 billion is Recurrent Expenditure, K62.3 billion is Development Budget Expenditure and a net lending of K0.2 billion. However, overall, Government spent K188.2 billion reflecting an under expenditure of K65.3 billion.

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 and K97.1 billion from Grants and Loans.

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, 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 Second quarter of the 2015/16 Financial Year. Specific objectives of the report include:

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

- (iii) To present the details of Expenditures of Government in the Second Quarter of the Financial Year.

1.3 Methodology

The review and assessment of Receipts and Expenditures for the Second Quarter of the Financial Year was done in January, 2016. The work involved analysis of data from the Reserve Bank of Malawi, Spending Agencies, 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

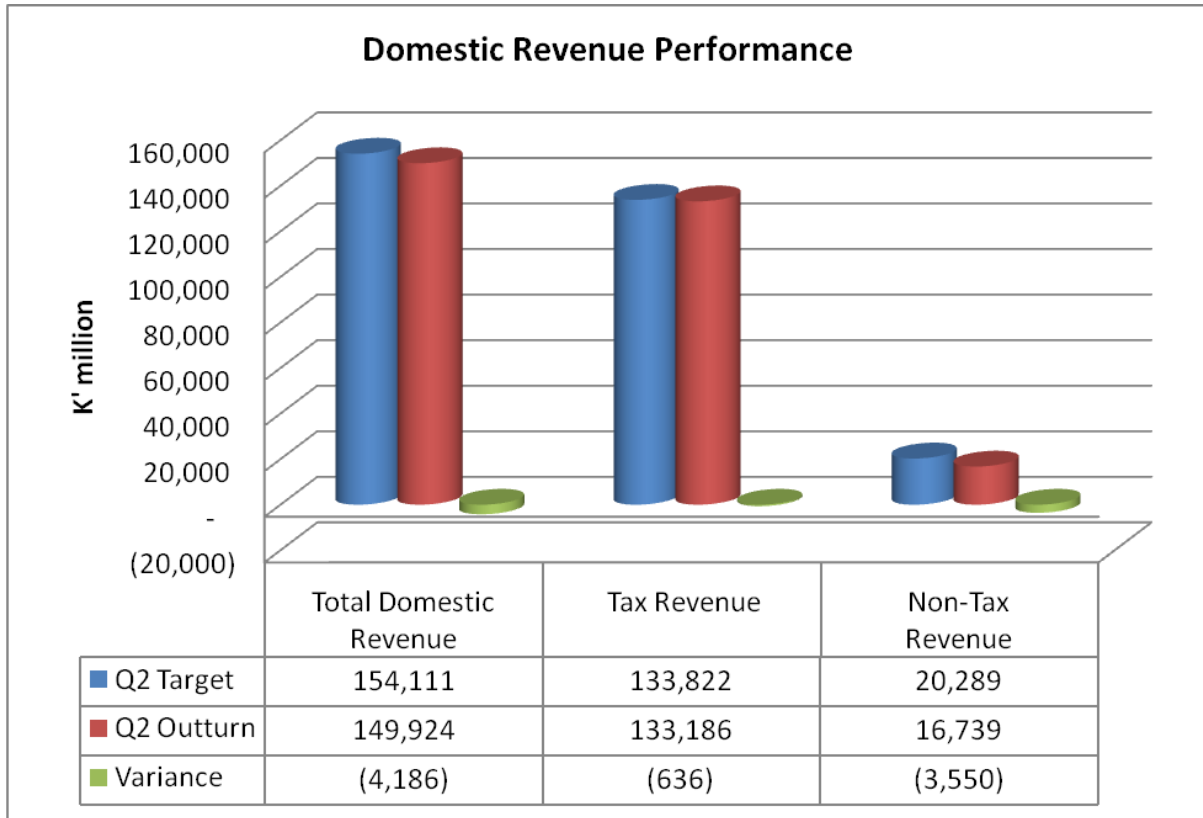
2.1 Introduction

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). In the Second quarter of the Financial Year, total net Domestic Revenues were projected to amount to K154.1 billion of which, K133.8 billion was expected to be Tax Revenues while Non-Tax Revenues were projected at K20.3 billion. 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

Figure 2.1 below compares the outturn in Domestic Revenues in the second quarter of the Financial Year against their corresponding targets. As indicated overall, Domestic Revenues underperformed by K4.2 billion as compared to its target. Total Domestic Revenues collected amounted to K149.9 billion against a target of K154.1 billion. This translates to underrcollection of 2.7 percent.

Figure 2.1 Total Domestic Revenues Performance



2.3 Tax Revenue Performance

Table 2.1 below compares the Tax Revenue Outturn for the Second quarter of the Financial Year against the projections. As the table illustrates, overall, Tax Revenues underperformed by K0.6 billion, as the outturn of K133.2 billion against a target of K133.8 billion. The underperformance on the Tax revenue is mainly on account of taxes on Income and Profits underperformed by K1.4 billion or 2.1 per cent.

Table 2.1 Tax Revenue Performance

	QII Proj	QII actual	Variance	% Variance
	K'Million			
Total revenue and grants	193,081.89	156,216.68	(36,865.20)	(19.1)
Domestic Revenue	154,110.69	149,924.49	(4,186.20)	(2.7)
Tax revenue (Net)	133,821.57	133,185.63	(635.93)	(0.5)
Individual	39,629.20	41,078.52	1,449.32	3.7
Corporate	16,897.72	14,594.47	(2,303.24)	(13.6)
Withholding	12,516.39	11,938.57	(577.82)	(4.6)
Goods and services	54,150.17	54,861.06	710.89	1.3
VAT	41,883.66	42,188.96	305.30	0.7
Excise Duties	12,266.51	12,672.10	405.59	3.3
International trade	12,573.08	12,556.39	(16.69)	(0.1)
Import duty	12,549.82	12,527.71	(22.11)	(0.2)
Prepayment	23.26	28.68	5.42	23.3
Other	(1,944.99)	(1,843.38)	101.61	(5.2)
Misc. duties	150.89	146.01	(4.88)	(3.2)
Tax refunds	(2,743.04)	(2,601.66)	141.38	(5.2)
Dividend	244.65	211.28	(33.37)	(13.6)

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 2015/16 Financial Year against their set targets. As indicated in the table, actual NTRs amounted to K16.7 billion compared to their target of K20.3 billion, thus an undercollection of K3.6 billion. This unfavourable performance is attributed the performance of all categories of departmental receipts. Only the road levy overperformed by K 206 million or 4.1 per cent while all the other types under performed.

Table 2.2 Non – Tax Revenue Performance in the second quarter

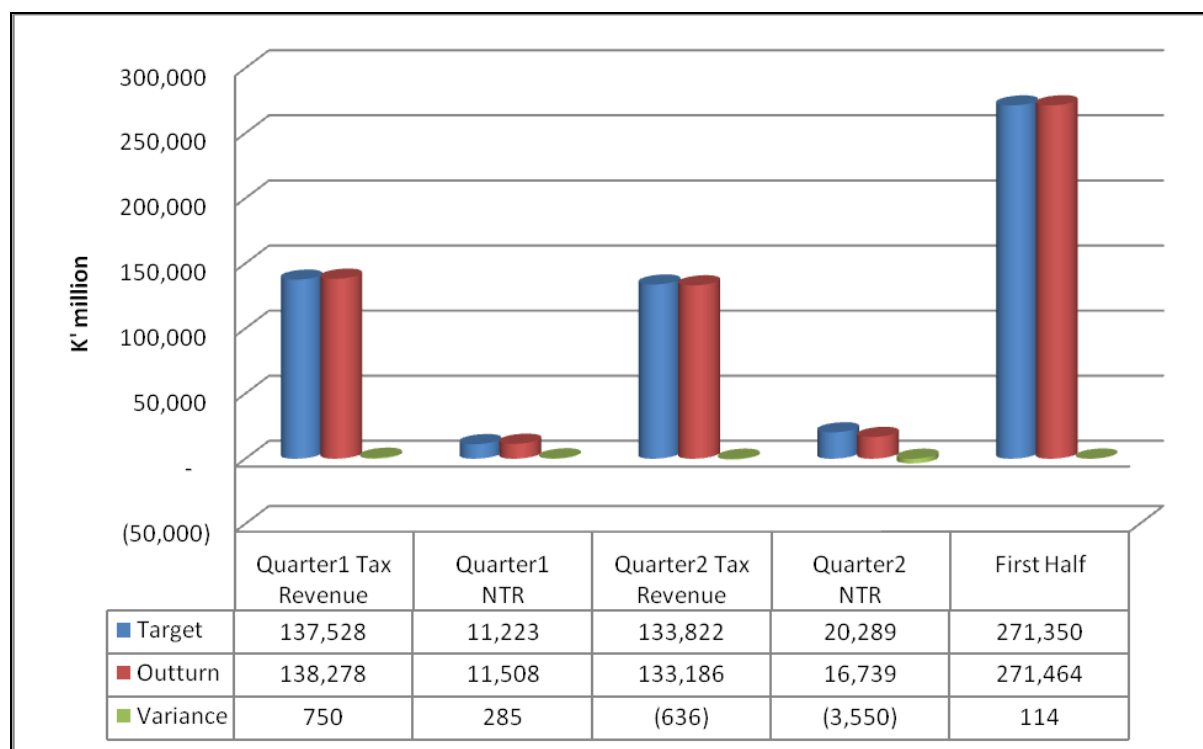
	Q2 Proj	Q2 actual	Variance	%
	(K' million)			Collection
Non-Tax Revenue	20,289.12	16,738.86	(3,550.26)	(17.50)
Departmental receipts	4,595.63	4,277.88	(317.75)	(6.91)
Road Levy	5,097.96	5,304.69	206.73	4.06
Parastatal dividends	4,000.00	3,054.40	(945.60)	(23.64)
Rural electrification levy	4,007.90	2,551.51	(1,456.39)	(36.34)
Storage Levy	610.63	388.68	(221.96)	(36.35)
Road Tax	1,977.00	1,161.71	(815.29)	(41.24)

2.5 General Revenue Trend

This subsection looks at the performance of revenues in the first half to determine possibilities in the remaining half of the 2015/16 Financial Year.

Figure 2.2 below gives a snapshot of the first half performance:

Performance of revenues in the First Half



As it can be seen in Figure 2.2, despite decimal performance of revenues in the second, the overall performance of revenues in the first half was slightly above the target due to the overperformance in the first quarter. The target for the second half is two-fold higher than the target for the first half, it is therefore imperative to seriously monitor the trend in subsequent quarters and support the revenue collecting bodies to avoid missing the annual target.

2.6 Conclusion

In aggregate terms, revenue collection in the second quarter of the financial year was below the set targets. Ministries and Departments should continue prioritising activities that generate revenues. All revenue monitoring agents are also expected to enhance their operations to boost revenue collection.

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 second quarter of the 2015/16 Financial Year, Government expected to receive K38.9 billion in form of Grants. Out of this amount, K22.0 billion is expected to be Dedicated Grants and K16.9 billion would come from Project Grants. Nothing was expected from Program Grants in this quarter. This Chapter, examines the performance of these Grants in the period under review.

3.2 Grants Performance in the Financial Year

Table 3.1 presents the performance of Grants in the second quarter of the financial year. As indicated, overall, Grants underperformed by K32.7 billion. In particular, Dedicated and Project Grants underperformed by K15.9 billion and K16.7 billion respectively. Overall, disbursements under grants were K6.3 billion against a target of K38.9 billion representing an underperformance of 16.2 percent.

Table 3.1 Performance of Grants in the Second Quarter

	Q2 Target	Q2 Actual	variance
	K' Million		
Grants	38,971.20	6,292.19	(32,679.00)
Program		-	-
Dedicated grants	22,002.68	6,098.19	(15,904.48)
Food security	17,445.35	4,026.86	(13,418.49)
<i>EU/Norway/World Bank Recovery</i>	6,300.00	-	(6,300.00)
<i>World Bank (Drought recovery-MASAF)</i>	6,300.00	-	(6,300.00)
Agric. SWAP	10,966.60	3,845.91	(7,120.69)
<i>FICA</i>	1,006.23	1,657.18	650.95
<i>Norway</i>	2,263.01	-	(2,263.01)
<i>EU</i>	5,039.13	-	(5,039.13)
<i>Ireland</i>	2,658.23	2,188.73	(469.50)
Maize seed/fertiliser subsidy	178.75	180.95	2.20
<i>Multi donor trust fund</i>	178.75	180.95	2.20
Health SWAP	82.50	230.91	148.41
<i>UNFPA</i>	82.50	230.91	148.41
Road Sector Support	130.00	-	(130.00)
<i>EU</i>	130.00	-	(130.00)
PFEM RP Pool	2,008.16	-	(2,008.16)
<i>DFID</i>	375.22	-	(375.22)
<i>Ireland</i>	151.90	-	(151.90)
<i>EU</i>	1,300.00	-	(1,300.00)
<i>NORWAY</i>	181.04	-	(181.04)
World Bank Recovery Resources	8,636.67	1,840.42	(840.42)
<i>Rehab of Edu, Health and Water Infrs</i>	1,000.00	-	-
<i>PWP</i>	6,300.00	-	(6,300.00)
<i>Road Maintenance</i>	1,000.00	1,840.42	(840.42)
<i>Reconstruction for PIU and DODMA</i>	336.67	-	(75.00)
Project grants	16,968.52	194.00	(16,774.52)

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 engage the development partners to honour their commitment.

Expenditure Performance

4.1 Introduction

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

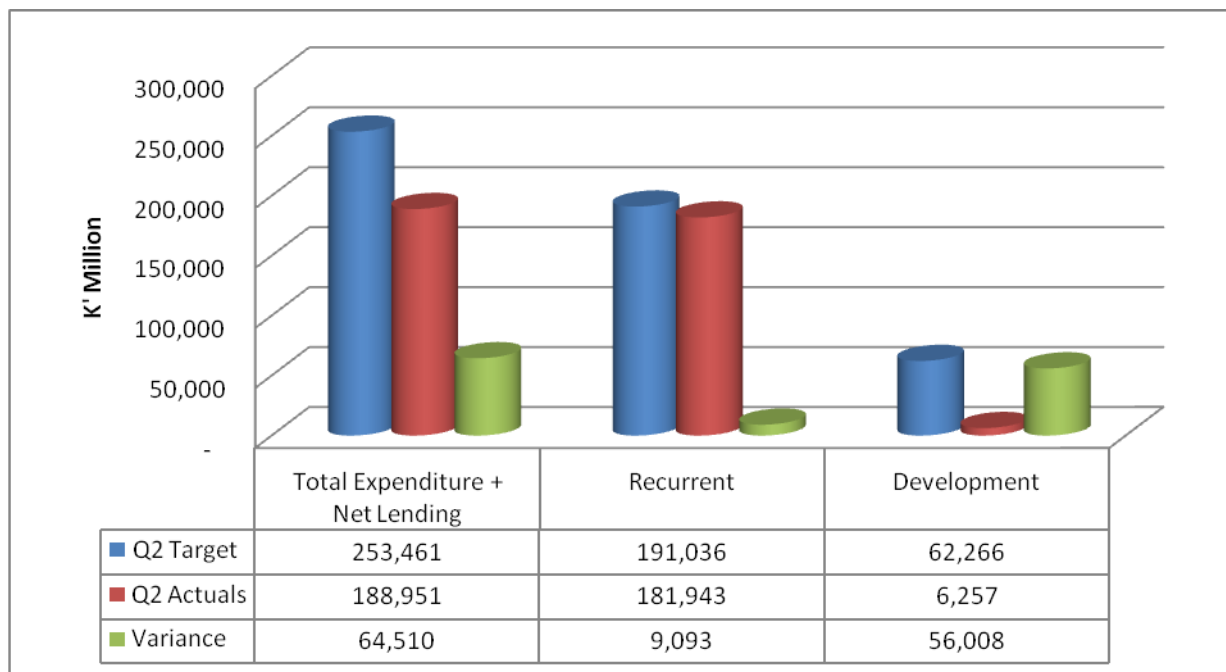
In the 2015/16 Financial Year, Government is expected to spend K930 billion including net lending. Of this sum, K705.9 billion are projected to be Recurrent Expenditures and K224.1 billion Development Budget Expenditures. In the quarter under review, total expenditure including net lending and direct payments was projected at K253.5 billion broken down as K191.2 billion recurrent expenditure, K62.3 billion development budget Expenditure.

For the quarter under review, out of the projected recurrent expenditure, wages and salaries were projected at K57.5 billion; Interest Payments K26.3 billion while other current expenditures including Goods and Services; and Subsidies and Transfers were projected at K45.3 billion and K62.0 billion, respectively. On the other hand, expenditures on Development Projects budget were projected at K62.3 billion broken down as K5.6 billion domestically financed projects and K56.7 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 K188.9 billion including net lending, broken down as K181.9 billion as Recurrent Expenditures and K6.3 billion as development budget expenditures with a net lending of K0.8 billion. Chart 4.1 below illustrates the projected expenditures against the outturn.

Chart 4.1 Total Government expenditure in the second quarter of the 2015/16 FY



As can be shown in Chart 4.1 above, total expenditures in the quarter were below the projected amount of K253.5 billion by K64.5 billion. This reflects a 74.5 per cent quarterly expenditure performance.

4.2.1 Performance of Recurrent Budget

In general, Government projected to use K191.0 billion to ran its daily business during the quarter under review. The outturn shows that expenditures were below the target by K9.0 billion as shown in Table 4.1 below. Payments towards subsidies explain much of the underexpenditure as there has been low expenditures under Farm Input Subsidy Programme (FISP).

Table 4.1 Recurrent Expenditure Breakdown

	Quarter 2 Projection	Quarter 2 Actual	Variance
Recurrent expenditure	191,036.25	181,943.36	(9,092.89)
Wages and salaries	57,455.00	56,228.74	(1,226.26)
Interest on debt	26,276.77	28,825.64	2,548.86
<i>Foreign</i>	2,994.70	3,678.86	684.16
<i>Domestic</i>	23,282.07	25,146.78	1,864.71
Purchases of goods and services	45,294.81	54,486.80	9,191.99
Subsidies and transfers	62,009.67	42,402.19	(19,607.48)

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 above, wages and salaries were projected at K57.5 billion. The expenditure was contained within the projected amount with some savings of K1.2 billion.

4.2.1.2 Other Recurrent Transactions (ORT)

ORT expenditure for the second quarter of the financial year was projected to amount to K133.6 billion (which is total recurrent expenditure less wages and salaries). Actual expenditures as at the end of the quarter were K125.7 billion

which was below the target by K7.9 billion representing an underperformance of 5.9 per cent.

4.2.1.3 Social Spending

The under performance on the recurrent expenditure by Government as depicted in Table 4.1 may have a great impact on welfare. This section tries to analyse the performance in terms of social spending which is a cushion against economic adversities especially on the poor following the current economic status. In the quarter under review, social spending was planned at K95.1 billion, but the outturn was below the target by about 30.1 per cent, as only K65.6 billion was spent. The underexpenditure is mainly explained by underperformance of subvented organisations under education and Farm Input Programme (FISP) which underperformed by 90.4 percent and 54.6 percent, respectively. The FISP under performance is attributed to delays in finalising contracts hence late invoicing.

However, performance in other social sectors spending programmes were within the targets meaning that the poor have been taken care of. Table 5.2 below provides the details in social spending.

Table 5.2 Social Spending

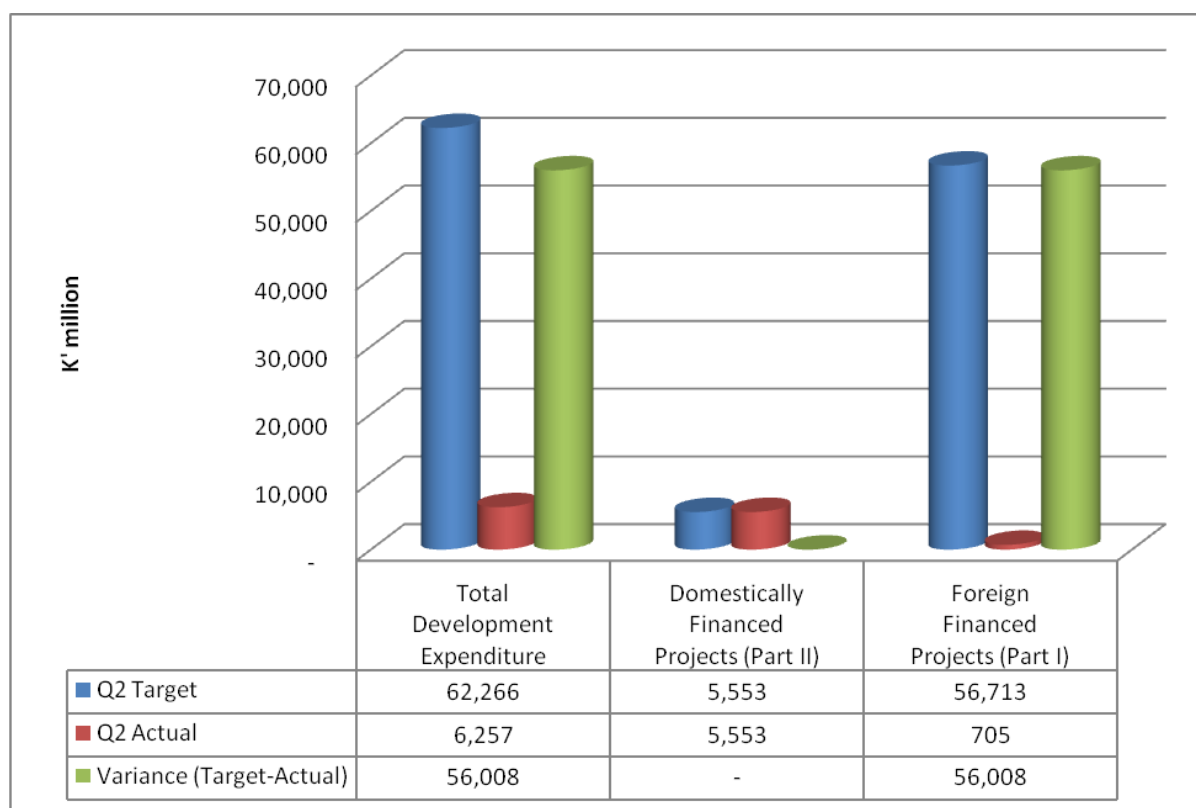
	Q2 Projection	Q2 Actual K' Million	Variance
Health Expenditure	20,152.00	17,757.60	-2,394.40
Wages	10,976.00	12,383.36	1,407.36
Other Recurrent Transactions	6,556.00	4,504.24	-2,051.76
Ministry of Health ORT	4,950.00	3,030.24	-1,919.76
Local Assemblies ORT	1,360.00	1,424.00	64.00
Subvented Organisations	246.00	50.00	-196.00
Development expenditure	2,620.00	870.00	-1,750.00
			-
Education Expenditure	39,550.00	30,775.18	-8,774.82
Wages	21,492.00	22,924.25	1,432.25
Other Recurrent Transactions	17,398.00	7,319.97	-10,078.03
Ministry of Education ORT	3,631.00	3,062.97	-568.03
Local Assemblies ORT	2,979.00	3,219.00	240.00
Subvented Organisations	10,788.00	1,038.00	-9,750.00
Development expenditure	660.00	530.96	-129.04
			-
Agriculture Expenditures	33,700.00	15,300.00	-18,400.00
Farm Input Subsidy Program	33,700.00	15,300.00	-18,400.00
			-
Lands and Housing Expenditures	1,000.00	1,000.00	-
Cement and Iron Sheets Subsidy	1,000.00	1,000.00	-
			-
Gender, Children, Disability and Social Welfare	524.00	643.75	119.75
Wages	304.00	385.96	81.96
Other Recurrent Transactions	178.00	221.79	43.79
Development expenditure	42.00	36.00	-6.00
			-
Local Development Fund Expenditures	109.00	90.00	-19.00
Local Development Fund	109.00	90.00	-19.00
			-
Poverty and Disaster Management Expenditures	23.00	41.67	18.67
Wages	23.00	41.67	18.67
Other Recurrent Transactions ¹	-	-	-
			-
Total Social Expenditure	95,058.00	65,608.20	29,449.80

¹ The whole ORT provision for Poverty and Disaster Management was funded in Quarter 1

4.2.2 Performance of Development Budget

On Development Budget, Government planned to spend K62.3 billion in the second quarter, of which, K5.6 billion was to be financed using domestic resources (Part II) and K56.7.0 billion was for Foreign Financed Projects (Part I). As depicted by Chart 4.2 below, the outturn on Development Budget was that total of K6.3 billion was spent implying an underexpenditure of K56.0 billion. The underexpenditure was on account of lower than anticipated inflows under both dedicated and project grants for the Part 1. Expenditure on domestically financed projects was as projected at K5.6 billion.

Chart 5.2 Performance of the Development Budget



This underexpenditure on the development budget has serious ramifications on contractual obligations especially under the infrastructure development projects. Consequently, this would result in cost escalation for the projects due to claims on idle time and some projects will not be completed on time.

4.3 Conclusion

This Chapter focused on the performance of expenditures of Government in the second 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 especially on the development component. If the status quo is maintain projects will not complete in time and may lead to escalation of costs.

Conclusion and Recommendations

The report has shown that revenue collection in the second quarter of the 2015/16 Financial Year was below the target in all categories. It is therefore recommended that revenue collection institutions especially those collecting non-tax revenues should continue to give priority to revenue enhancing activities in the remaining quarters to circumvent and make-up for the underperformance in the previous quarters.

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. This state of affairs was also evident under social expenditures. There is need to improve in remaining quarters especially on social spending as this is the life line for the poor.

The development budget underspent and progress is minimal in most of the projects. This is mainly due to low funding on both Part I. It is therefore recommended that Government should continue engaging the development partners to improve on disbursements towards Part I projects.