



MALAWI GOVERNMENT

2014/15 BUDGET PERFORMANCE QUARTERLY REPORT (Q3)

Ministry of Finance, Economic Planning and Development,

P.O. Box 30049

Lilongwe 3

Malawi

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Foreword

This Quarterly Budget Performance Report is on the performance of the Government in implementing the National Budget in the Third Quarter of the 2014/15 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 the 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, Economic Planning and Development 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

ESWAP	Education SWAP
HSWAP	Health SWAP
FY	Financial Year
IMF	International Monetary Fund
NAC	National Aids Commission
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
PFEM-RP	Public Finance and Economic Management Reform Programme
SWAP	Sector Wide Approach
VAT	Value Added Tax

Executive Summary

Revenue Performance

In the 2014/15 Financial Year, the Government projects to collect total Domestic Revenues of K530.7 billion, of which K475.5 billion and K55.2 billion are Tax Revenue and Non-Tax Revenue, respectively. In the Third Quarter of the Financial Year, total Domestic Revenue was projected to be K138.2 billion, of which K124.7 billion was Tax Revenue and K13.5 billion was Non-Tax revenue. However, the outturn for this quarter was K114.1 billion on Tax Revenue and K9.1 billion on Non – Tax Revenue, reflecting an overall underperformance of K14.9 billion on total Domestic Revenue.

Performance of Grants and Loans

In the 2014/15 Financial Year, the Government projects to receive Grants amounting to K110.3 billion, of which K35.5 billion are Dedicated Grants and K71.8 billion are Project Grants. In the Third Quarter of the Financial Year, expected receipts from Grants were K53.3 billion, of which K8.0 billion, K29.7 billion and K15.6 billion

were Program, Dedicated and Project Grants, respectively. The outturn for the Third Quarter of the Financial Year represents an overall underperformance of Grants by K40.0 billion. A total of K13.3 billion, out of the projected K53.3 billion, was received in the quarter under review representing an underperformance of 75 percent.

Performance of Expenditure

In the 2014/15 Financial Year, the Government planned to spend K748.1 billion, including net lending. Out of this sum, K549.9 billion is planned for Recurrent Expenditure, K196.1 billion for Development Budget Expenditure, while K2.0 billion is net lending. In the Third Quarter of the Financial Year, the Government planned to spend K194.2 billion including net lending, of which, K134.6 billion is Recurrent Expenditure and K58.3 billion is Development Budget Expenditure with a net lending of K1.2 billion. The Outturn for the Third Quarter shows underexpenditure of K18.2 billion. As a total of K175.9 billion was spent. However, the recurrent expenditure recorded overexpenditure of K21.2 billion whereas the Development Budget recorded an underexpenditure of K38.1 billion

INTRODUCTION

1.1 Background to the Report

In September 2014, the National Assembly approved a Budget of K748.1 billion for the 2014/15 Financial Year (FY). This Budget is expected to be financed by Domestic Resources amounting to K530.7 billion and foreign resources amounting K110.3 billion from Grants and Loans

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

This report therefore, examines the performance of the Government Budget in meeting the set targets for the Third Quarter (January to March, 2015) of the Financial Year. It highlights where discrepancies between the projected and the outturn figures have occurred, and provides possible explanations for such discrepancies.

1.2 Key Objectives of the Report

The main objective of this report is to present the performance of the Government in implementing the National Budget in the third

quarter of the 2014/15 Financial Year. Specific objectives of the report include:

- (i) To present the status of Domestic Revenue;
- (ii) To report on the performance of Grants and Loans from Development Partners; and
- (iii) To present the details of Expenditure of the Government.

1.3 Methodology

The review and assessment of Revenue and Expenditure for the Third Quarter of the Financial Year was done in April, 2014. The work involved an analysis of data from the Reserve Bank of Malawi and Spending Agencies, as well as consultations with various stakeholders. This was substantiated with reports from field visits.

1.4 Layout of the Report

The first chapter of the report 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 5 concludes the Report.

Performance of Domestic Revenues

2.1 Introduction

This chapter assesses the performance of the Government in Revenue collection during the third 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.

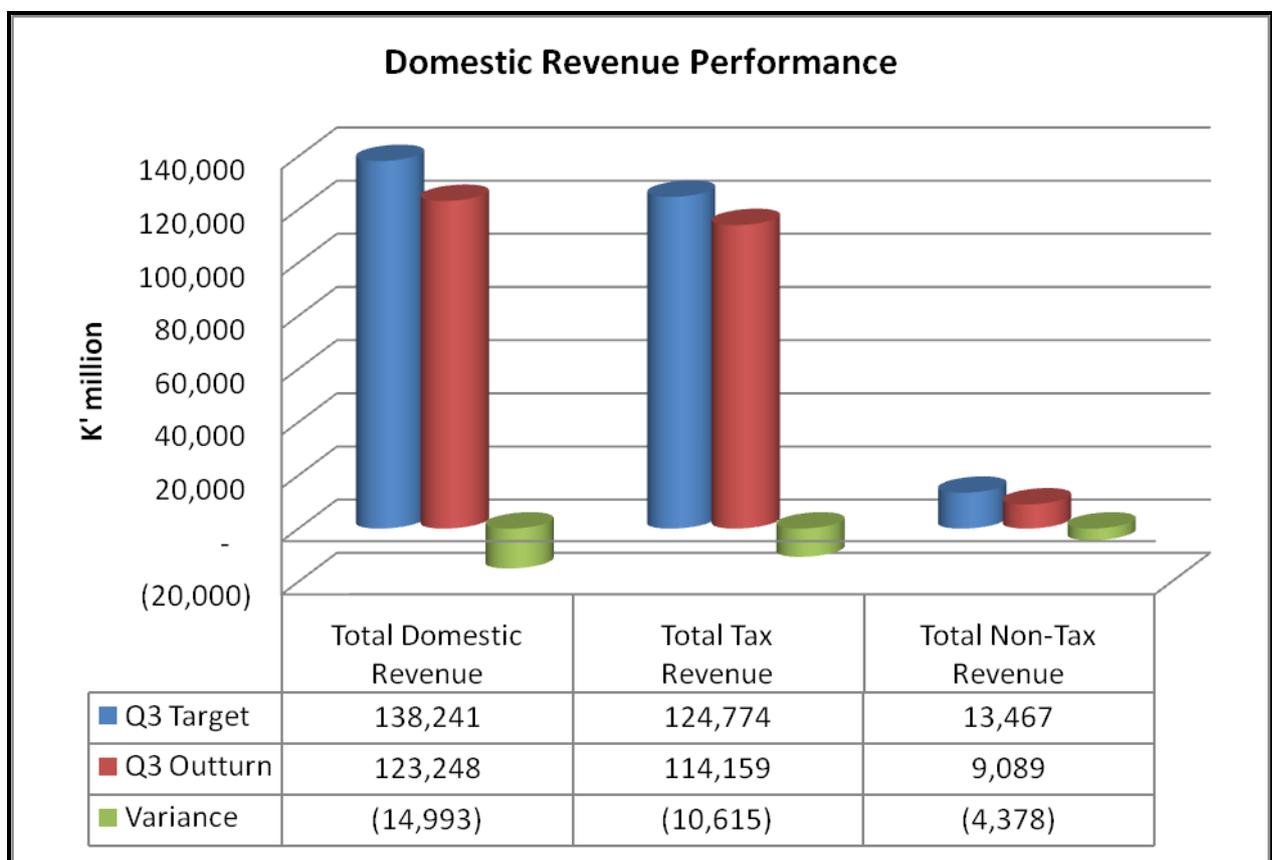
2.2 Overall Performance in Revenue Collection

In the 2014/15 Financial Year, the Government projected to collect total Domestic Revenue to the tune of K530.7 billion, of which K475.5 billion was projected to be Tax Revenue and K55.2 billion to be Non-Tax Revenue (NTR).

In the third Quarter of the Financial Year, total net Domestic Revenue was projected to amount to K138.2 billion, of which K124.7 billion was expected to be Tax Revenue while Non-Tax Revenue was projected at K13.5 billion.

Interms of performance during the period under review, total Domestic Revenue amounted to K123.2 billion, against a target of K138.2 billion. This translates to an undercollection of K14.9 billion which is 10.9 percent of the target. Figure 2.1 below presents the Domestic Revenue performance during the period under review.

Figure 2.1 Total Domestic Revenues Performance



2.3 Tax Revenue Performance in the third Quarter

Total Tax Revenue amounted to K114.2 billion against a projection of K124.8 billion representing 8.5 per cent underperformance.

Table 2.1 below presents the Tax Revenue outturn for the third Quarter of the Financial Year against the projections on categories of Tax Revenues. The underperformance on the Tax Revenue is mainly on account of taxes on goods and services, which underperformed by K3.7 billion.

Table 2.1 Tax Revenue Performance

	QIII Actual	QIII Proj	Variance
	K' Million		
Tax revenue (Net)	114,159	124,774	(10,615)
Income and profits	63,370	62,352	1,018
Goods and services	41,613	51,683	(10,071)
International trade	9,622	12,407	(2,785)
Other	(446)	(1,668)	1,223

2.4 Performance of Non – Tax Revenue (NTR) in the third Quarter

In the third Quarter of the 2014/15 Financial Year, actual NTR amounted to K9.1 billion against a target of K13.5 billion, representing an under collection of K4.4 billion which is 32 per cent of the target as depicted in Table 2.2 below:

Table 2.2 NTR Performance in the Third Quarter

	QIII Actual	QIII Proj	Variance
	K' million		
Non-Tax Revenue	9,089	13,467	(4,378)
Departmental receipts	2,288	3,839	(1,550)
Road Levy	2,217	3,009	(792)
Parastatal dividends	1,025	2,000	(975)
Rural electrification levy	2,259	3,317	(1,057)
Storage Levy	325	403	(78)
Road Tax	975	899	75

The undercollection is mainly explained by dismal performance of departmental receipts which recorded an undercollection of 40 per cent in the quarter under review. This is mainly due to reduced activity levels in revenue collecting institutions emanating from tight fiscal stance.

The fuel levies also performed poorly due to reduced consumption of petroleum products resulting in underperformance of road levy, rural electrification levy and the storage levy by 26 per cent, 32 per cent and 19 per cent respectively.

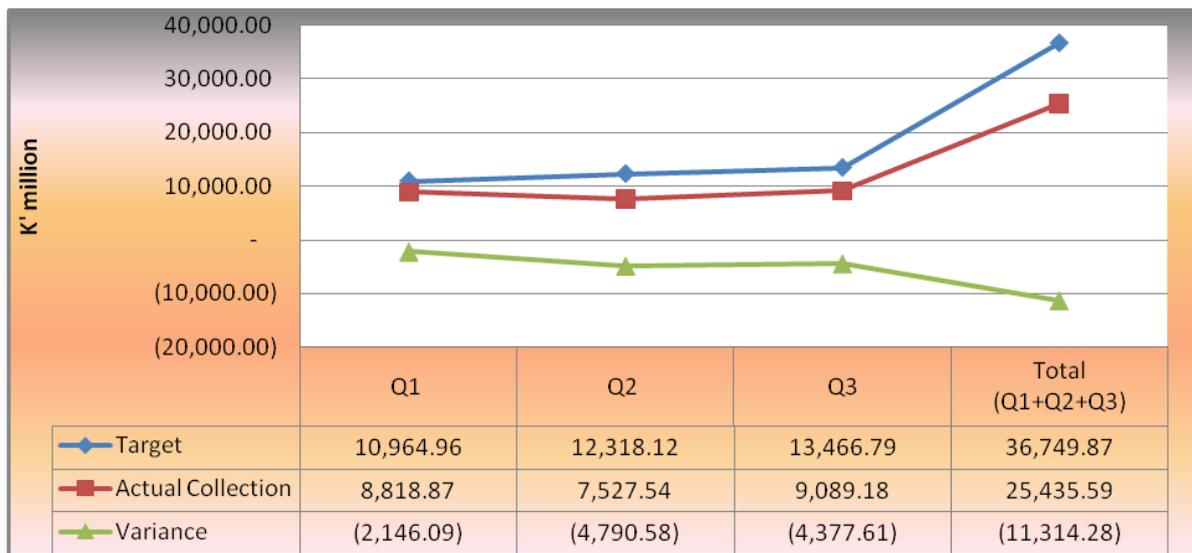
2.5 Overall NTR Performance for by the third quarter

This subsection consolidates the performance of NTR in the nine months elapsed.

Cummlulatively, NTR was expected to amount to K36.7 billion by Q3. However, K25.4 billion was collected, falling short of the target by K11.3 billion.

Figure 2.2 consolidates NTR activities as of 30th March 2015 to determine its likely impact on the remaining reporting period in the 2014/15 Financial Year.

Figure 2.2 NTR Performance in the first half



The variance between projected collections and actual collection continued to worsen over the quarters with a slight improvement in the third quarter. However, the improvement in third quarter could not offset the undercollections in the preceding quarters. Cummulatively, NTRs have underperformed by K11.3 billion.

The annual projection for NTRs is K55.2 billion and only 50 per cent has been collected so far. It is very unlikely that remaining 50 per cent would be collected in the remaining quarter of the 2014/15 Financial Year.

2.5 Conclusion

In aggregate terms, revenue collection in the Third Quarter of the Financial Year underperformed in all categories. Foward looking,

Government, Ministries, Departments and Agencies should continue prioritising activities that generate revenues. In addition, adequate funding should be made available to revenue generating institutions to invigorate revenue generating activities.

Performance of Grants

3.1 Introduction

This chapter examines the performance of Grants in the quarter under review.

In the 2014/15 Financial Year, the projected resource inflows from Grants amounts to K110.3 billion, of which K38.5 billion and K71.8 billion are Dedicated and Project Grants, respectively.

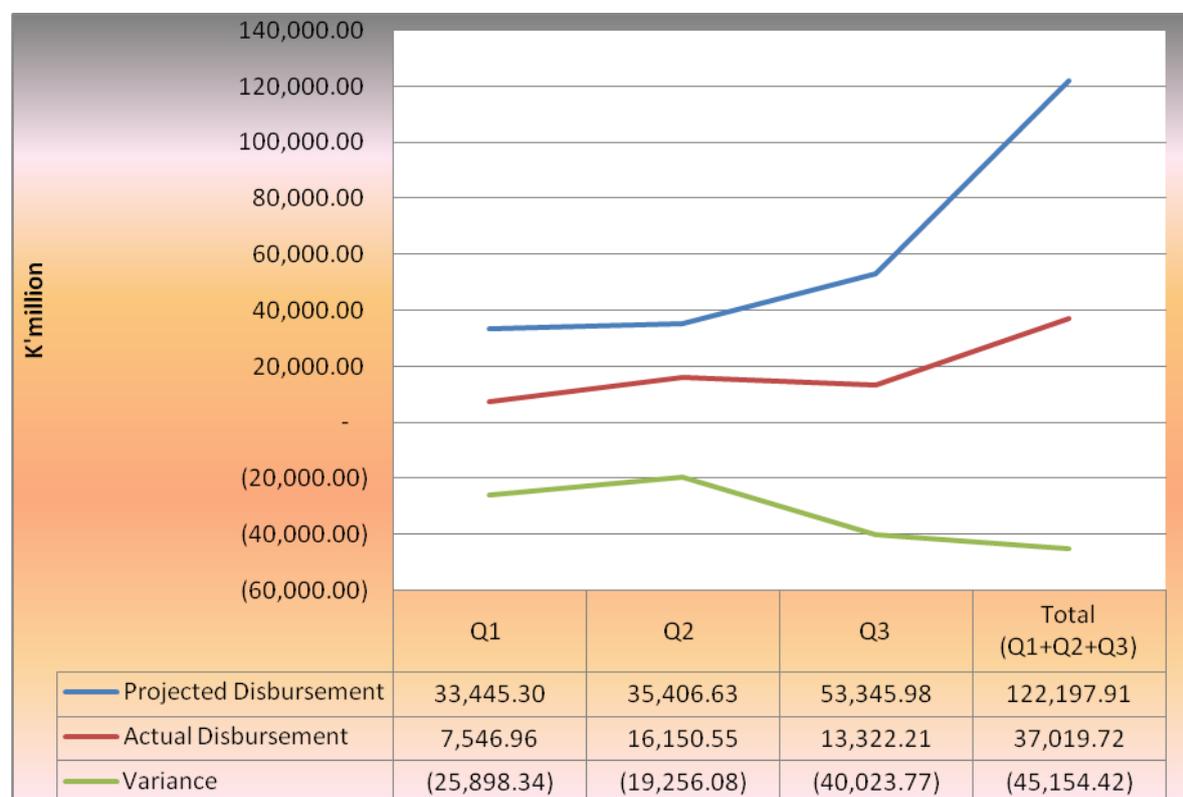
3.2 Performance in Overall Inflows of Grants in the Financial Year

In the Third Quarter of the 2014/15 Financial Year, Government expected to receive K53.3 billion in form of Grants. Out of this amount, K8.0 billion were expected to be Program Grants, K29.7 billion to be Dedicated Grants and K15.6 billion to be Project Grants.

A total of K13.3 billion was received against a projected amount of K53.3 billion resulting into an underperformed by K40.0 billion. In particular, Dedicated and Project Grants underperformed by K27.3 billion and K4.7 billion, respectively and nothing was disbursed under Program Grants.

Chart 3.1 below presents the performance of Grants during the period under review.

Chart 3.1: Performance of Grants



It can be noted from the Chart 3.1 above that disbursements under grants improved in the second quarter but worsened again in the quarter under review and the gap between the projection and the actual disbursement continued to widen.

3.4 Conclusion

The overall, disbursement of donor resources under Grants underperformed in all categories and it is very unlikely that the annual target will be met.

Performance of Expenditure

4.1 Introduction

This chapter highlights the performance of expenditure in the third Quarter of the 2014/15 Financial Year. The expenditure is categorised by Personal Emoluments (PE), Other Recurrent Transaction (ORT) and Development. The explanations on the factors underlying the observed expenditure trends are also given.

In the 2014/15 Financial Year, Government is expected to spend K748.1 billion, including net lending. Of this sum, K537.9 billion is projected to be Recurrent Expenditure and K196.1 billion to be Development Expenditure. In the period under review, total expenditure including net lending was projected at K194.2 billion broken down as K135.8 billion as Recurrent Expenditure including net lending and K58.3 billion as Development Expenditure.

For the quarter under review, out of the projected Recurrent Expenditure, Wages and Salaries were projected at K35.8 billion; Interest Payments at K6.2 billion, while Other Recurrent Expenditure was projected at K92.6 billion broken down as K38.7 billion as Goods and Services and K53.9 billion Subsidies and Transfers. On

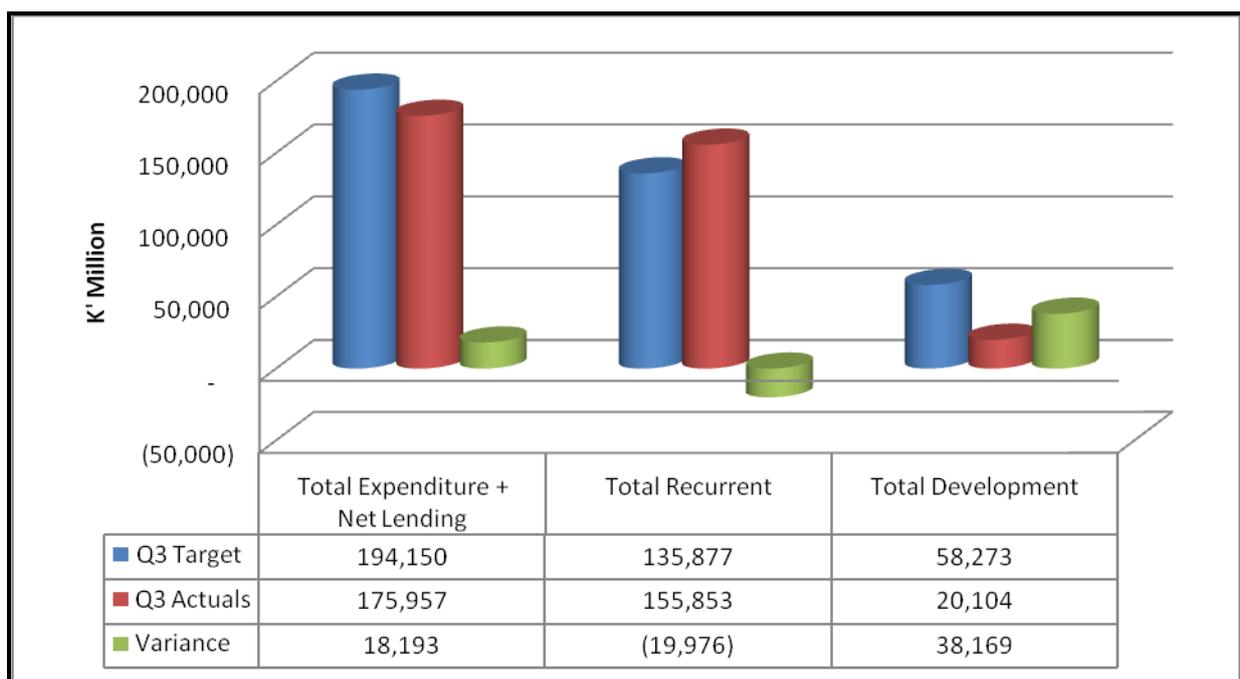
the other hand, expenditures on the Development Budget were projected at K58.3 billion, broken down as K10.4 billion for domestically financed projects and K47.8 billion for foreign financed projects.

4.2 Performance of Overall Expenditures

The outturn for the third quarter of the financial year indicates that total expenditure amounted to K175.9 billion including net lending, broken down as K155.8 billion for Recurrent Expenditure, and K20.1 billion for Development Expenditures. Chart 4.1 below illustrates the projected expenditure against the outturn.

Figure Chart4.1 are being used interchangeably. Perhaps we need to choose one.

Total Government expenditure in the third quarter of the 2014/15 FY



As can be shown in Chart 4.1 above, Total Expenditure in the quarter was less than the projected amount of K194.2 billion by K18.2 billion.

4.2.1 Performance of the Recurrent Budget

In general, the Government projected to use K135.8 billion including net lending to run its daily business during the quarter under review. The outturn shows that actual expenditure was above the target as shown in Table 4.1 below.

Table 4.1 Recurrent Expenditure Breakdown

	QIII Actual	QIII Projection	Variance
	K' million		
Recurrent expenditure	155,853	134,645	21,209
Wages and salaries	53,036	35,833	17,203
Interest on debt	27,911	6,200	21,711
Foreign	2,882	6,200	(3,318)
Domestic	25,029	-	25,029
Goods and services	36,162	38,653	(2,490)
Subsidies and transfers	37,386	53,959	(16,573)
Arrears	1,358		1,358
Net Lending	-	1,233	(1,233)

4.2.1.1 Expenditure under Personal Emoluments

In the 2014/15 Financial Year, the Government is expected to spend K163.3 billion on PE. In the period under review and as indicated in Table 4.1, Wages and Salaries were projected at K35.8 billion. The actual expenditure on this amounted to K53.0

billion and was above the projection by K17.2 billion. This negative variance is due to salary adjustments which were implemented with effect from October 2014.

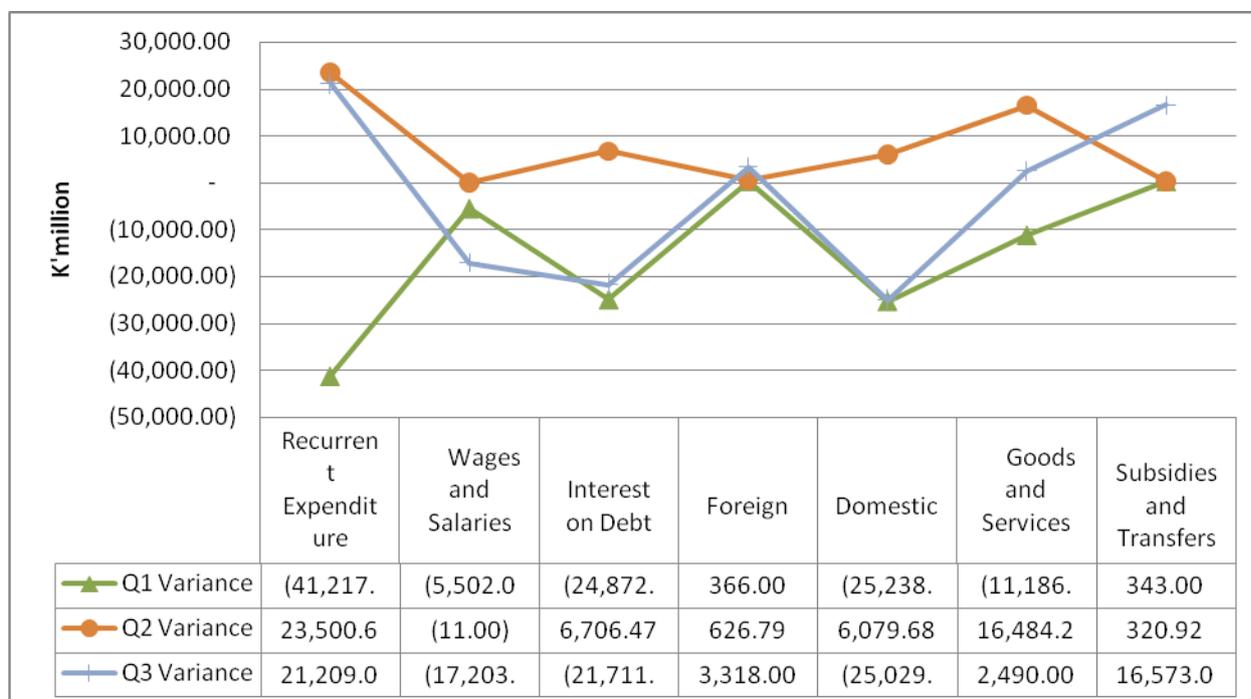
4.2.1.2 Other Recurrent Transactions

ORT expenditure for the Third Quarter of the Financial Year was projected to amount to K98.8 billion (which is Total Recurrent Expenditure less Wages and Salaries). Actual expenditure as at the end of the Quarter was K102.8 billion, which was above the target by K4.0 billion.

Major contributor to the ORT overexpenditure was Interest on Debt and Arrears which overspent by K21.7 billion. However, there were less than anticipated claims against Subsidies and Transfers resulting into underexpenditure of K16.6 billion. This cushioned the overruns in the other ORT categories.

Chart 4.2 depicts trends of the ORT by comparing variances in the three quarters elapsed. In general, the variance between the projected Recurrent Expenditures and the actual expenditure continued to reduce in the Third Quarter as compared to the preceding quarters. If this trend is maintained, it is very likely that the Government will contain its expenditures within annual target in aggregate terms.

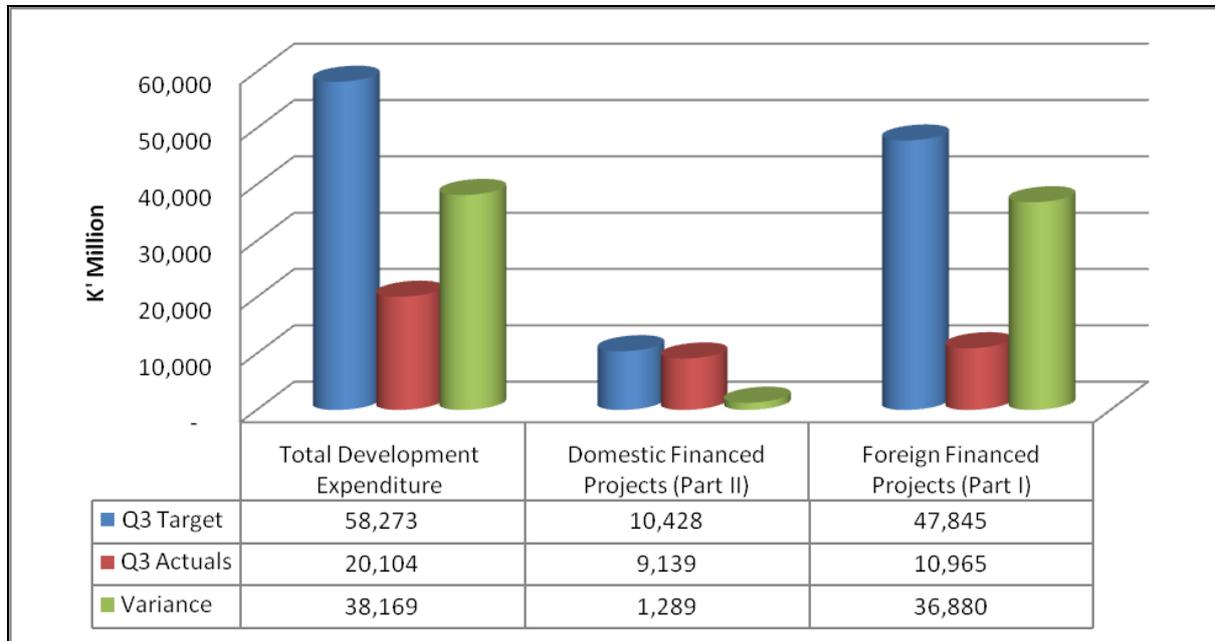
Chart 4.2 Deviations from the Targets



4.2.2 Performance of the Development Budget

On the Development Budget, the Government planned to spend K58.3 billion in the Third Quarter, of which K10.4 billion was to be financed using domestic resources (Part II) and K47.8 billion was for foreign financed projects (Part I). As depicted by Chart 4.3 below, total expenditure on the Development Budget amounted to K20.1 billion, implying an underexpenditure of K38.2 billion. The underexpenditure was on account of corresponding low inflows under Grants.

Chart 4.3 Performance of the Development Budget



This underexpenditure on the Development Budget has serious ramifications on contractual obligations especially under infrastructure development projects. Consequently, this will push the cost of the projects upwards due to charges on idle time and interest.

4.3 Conclusion

This chapter focused on the performance of expenditure of the Government in the Third Quarter of the 2014/15 Financial Year. The expenditure was broken down into various categories, and the analysis was based on the discrepancies between the target and the actual expenditure in each category. Generally, the outturn shows that expenditure was contained within the targets.

This has been attributed to lower than anticipated inflows from development partners and domestic collections, which resulted in expenditure restraint.

5

Conclusion

This report has shown that Revenue collection in the Third Quarter of the 2014/15 Financial Year was below the target in all categories. The shortfall was largely attributable to the underperformance of Non-Tax Revenue and taxes on goods and services.

The disbursement of resources under Grants underperformed in the quarter under review. This was mainly on account of low inflows under all categories of grants

On the Expenditure side, Government Expenditure was below the target for the Quarter. The departure from the target was significant, which may translate to low levels of services provided. If the status quo is not reversed, the output targets may not be achieved during this financial year. Reversing this trend largely requires that more development assistance should be provided and that more Domestic Revenue should be collected.

The Development Budget underspent, and progress is quite minimal in most of the projects.