



MALAWI GOVERNMENT

2012/13 BUDGET PERFORMANCE QUARTERLY REPORT (Q4)

Ministry Of Finance

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Foreword

This Quarterly Budget Performance Report is reporting on the performance of Government in implementing the National Budget in the Fourth Quarter of the 2012/13 Fiscal Year. The report provides a detailed analysis of the Revenues; status of Grants and Loans and Expenditures of Government. The objective is to appraise all Stakeholders on the current status of National Budget implementation, including risks and challenges associated with it, so that where necessary, corrective measures are instituted much earlier to salvage the situation.

The report is structured along the format of the Mid-Year Budget Review Document and the End of Year Financial report. The Ministry of Finance hopes that the information provided in this report will be valuable to various Stakeholders. Any further suggestions for improvements are welcome and can be submitted to the Secretary to the Treasury.

Abbreviations and Acronyms

ADB	African Development Bank
CAT	Company Assessments Tax
DfiD	Department for International Development
ESWAP	Education SWAP
HSWAP	Health SWAP
FY	Financial Year
FSAs	Foreign Service Allowances
IED	Import Excise Duty
IMF	International Monetary Fund
LED	Local Excise Duty
MDF	Malawi Defence Force
NAC	National Aids Commission
NRA	National Roads Authority
NTR	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
PIL	Petroleum Importers Limited
SWAP	Sector Wide Approach
VAT	Value Added Tax

Executive Summary

Revenue Performance

In 2012/13 Financial Year, Government projected to collect total Domestic Revenues to the tune of K270.4 billion which was later revised to K278.89 billion at the mid-year, of which, K243.8 billion were projected to be Tax Revenues and K35.1 billion Non-Tax Revenues. In the Fourth Quarter of the Financial Year, total Domestic Revenues were expected to be K77.1 billion of which, K67.8 billion and K9.4 billion were projected to be Tax Revenues and Non-Tax Revenues respectively. The actual outturn for Domestic Revenue for the quarter was K91.6 billion on the account of overperformance of Tax revenues of K83.3 billion. However, Non-Tax revenues underperformed by K847 million. In general, Revenues overperformed by K14.7 billion in the period under review.

Performance of Inflows of Grants and Loans

In 2012/2013 Financial Year, Government projected to receive Grants amounting to K124.5 billion. This amount was later revised to K182.5 billion. Of this sum, K80.1 billion were projected to be Program Grants, K67.1 Dedicated Grants and K35.1 billion Project Grants. In the Fourth Quarter of the Financial Year, projected receipts from Grants was pegged at K37.4 billion, of which, K19.9 billion were projected to be Programme Grants, K10.9 billion Dedicated Grants and K6.5 billion Project Grants. The Outturn for the Fourth Quarter of the Financial Year represents an overperformance of Grants by K12.9 billion. A total of around K50.4 billion of Grants were received of which

K20.9 billion were Program Grants, K21.7 billion were Dedicated Grants and K7.8 billion were Project Grants.

Performance on Expenditures

In 2012/13 Financial Year, Government planned to spend K408.4 billion which was later revised to K475.8 billion at mid year. Of this sum, K378.8 billion are projected to be Recurrent Expenditures and K97.2 billion Development Budget Expenditures. In the Fourth Quarter of the Financial Year, Government planned to spend K103.8 billion including net lending, of which, K83.1 billion are Recurrent Expenditures and K20.7 billion are Development Budget Expenditures. The outturn for the quarter represents an overall overexpenditure of K19.5 billion including net lending registered on both Recurrent and Development Budget Expenditures.

INTRODUCTION

1.1 Background to the Report

In June 2012, the National Assembly approved a Budget of K408.4 billion inclusive of Net Lending for the 2012/13 Financial Year. This Budget was expected to be financed by Domestic Resources amounting to K270.4 billion and K124.1 billion from Grants. At mid-year, the budget was recast to take on board emerging issues hence it was revised to K475.8 billion on the expenditure side and it was expected to be financed by Domestic Resources amounting to K278.8 billion and K57.9 billion from Grants.

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

This report therefore, examines the performance of Government Budget in meeting the set targets for Fourth Quarter of the Financial Year, from April to June 2013. It highlights where the 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 period under review. The 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 fourth Quarter of the Financial Year.

1.3 Methodology

The review and assessment of Receipts and Expenditures for the Fourth Quarter of the Financial Year was done in August, 2013. The work involved analysis of data from the Reserve Bank of Malawi, Expenditure Returns from the various Spending Agencies, consultations with various Stakeholders and spot checks on some of the Projects throughout the country.

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 and Chapter 5 looks at fiscal performance in general. Chapter 6 concludes the Report.

Performance of Domestic Revenues

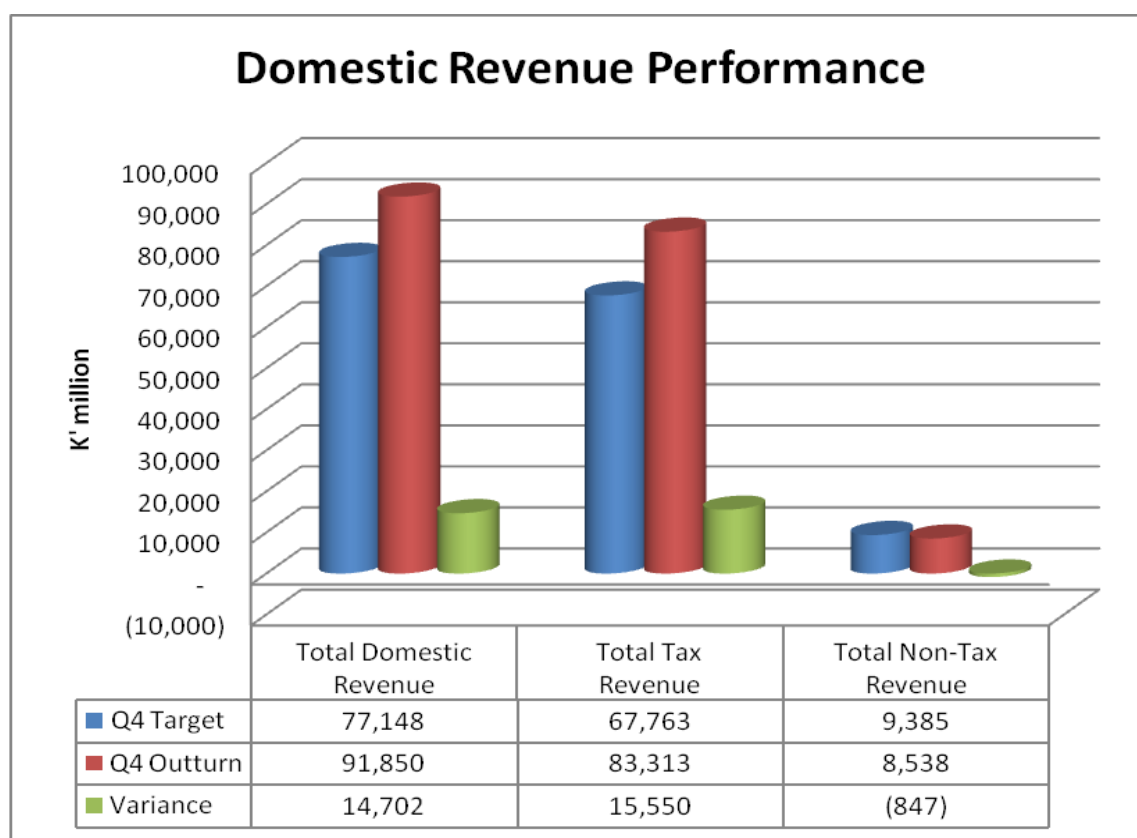
2.1 Introduction

In 2012/13 Financial Year (FY), Government projected to collect total Domestic Revenues to the tune of K270.4 billion which was later revised to K278.8 billion, of which, K243.7 billion were projected to be Tax Revenues and K35.1 billion Non-Tax Revenues (NTR). In the fourth quarter of the Financial Year, total net Domestic Revenues were projected to amount to K77.1 billion of which, K67.8 billion were expected to be Tax Revenues while Non-Tax Revenues were projected at K9.4 billion. This Chapter seeks to assess the performance of Government in Revenue collection during the Fourth 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 compares the Outturn in Domestic Revenues in the Fourth Quarter of the Financial Year against their corresponding targets. As indicated in Figure 2.1 below, overall, Domestic Revenues overperformed by K14.7 billion as compared to its target. Total Domestic Revenues amounted to K91.9 billion against a target of K77.1 billion. This translates into a 19.1 percent increase in the revenue collection against the projected amount in the fourth quarter.

Figure 2.1 Total Domestic Revenues Performance



2.3 Tax Revenue Performance in the Quarter under review

Table 2.1 below compares the Tax Revenue Outturn for the fourth quarter of the Financial Year against the projections. As the Table illustrates, overall, Tax Revenues overperformed by K15.5 billion. The projected and the outturn of Tax revenue was K67.8 billion and K83.3 billion respectively, representing 22.9 percentage overperformance against the projected revenue. The overperformance on the Tax revenue is mainly on account of Paye As You Earn (PAYE) which overperformed by K5.1 billion, Provisional Corporate Tax by K3.2 billion, and VAT on goods and services by K4.6 billion. However, low performance of Company Assessment Tax (CAT) and Local Excise Duties (LED) in the third continued in the fourth quarter. CAT and LED underperformed by K142 million

and K329 million respectively. Import Excise Duty (IED) also fell short of its target by K739 million. The net effect is still however, an overperformance of K9.8 billion on the entire Tax Revenues.

Table 2.1 Tax Revenue Performance

TAX	QIV Actual	QIV Projection	Variance
	K' Million		
Tax revenue (Net)	83,313	67,763	15,550
Income and profits	43,141	33,664	9,477
Individual	22,179	16,763	5,416
PAYE	20,849	15,740	5,109
Other	1,330	1,024	306
Fringe benefit	878	656	222
Non-resident tax and others	452	368	84
Corporate	13,721	10,639	3,081
Company assessments	2,809	2,952	(143)
Provisional	10,912	7,688	3,224
Withholding	7,241	6,261	980
Goods and services	31,594	28,035	3,560
VAT	24,114	19,487	4,627
Domestic	12,142	10,289	1,853
Import	11,972	9,198	2,774
Excise Duties	7,480	8,548	(1,068)
Local	2,349	2,678	(329)
Import	5,132	5,871	(739)
International trade	8,824	8,362	462
Import duty	8,891	8,362	529
Prepayment	(67)	-	(67)
Other	(247)	(2,297)	2,051
Misc. duties	128	162	(34)
Tax refunds	(1,008)	(2,772)	1,764
Penalties	56	56	0
Dividend	575	255	320
Turn-over tax	2	2	(0)

2.4 Performance of Non – Tax Revenues in the quarter under review

Table 2.2 below presents the outturn in NTRs in the fourth quarter of the 2012/13 Financial Year against their set targets. As indicated in the Table, actual NTRs amounted to K8.5 billion compared to their target of K9.4 billion, thus an under collection of K847 million. Departmental receipts which amounted to K3.6 billion against a target of K3.1 billion overperformed by K0.5 billion. This is on account of overperformance registered in most of the major Revenue collecting Ministries and Departments especially in the road sector. Going forward, Departments should continue to give priority activities that generate revenues. There is also need to enhance revenue monitoring to boost revenue collection.

Table 2.2 Non – Tax Revenue Performance in the fourth quarter

Department	Q4 Projection	Q4 Actual	Variance
Total Non Tax Revenues	9,384,910,000	8,537,570,000	(847,340,000)
Departmental Reciepts	3,138,130,000	3,676,800,000	538,670,000
Immigration	825,000,000	883,891,359	58,891,359
Civil Aviation	225,000,000	344,707,447	119,707,447
Road Traffic	457,630,000	722,398,225	264,768,225
Marine	5,000,000	7,544,389	2,544,389
Met. Services	500,000	2,009,000	1,509,000
Police	175,000,000	75,007,313	(99,992,687)
Geo Survey	375,000	1,219,350	844,350
Trade and Industry	337,500,000	1,087,600	(336,412,400)
Forestry	-	412,445	412,445
Agriculture	30,000,000	46,264,382	16,264,382
Youth, Sports	8,750,000	7,842,126	(907,874)
Labour & Social Services	18,750,000	16,535,500	(2,214,500)
Judiciary	7,500,000	5,207,099	(2,292,901)
Fisheries Department	3,000,000	781,630	(2,218,370)

Department	Q4 Projection	Q4 Actual	Variance
Mines	100,000,000	827,050,870	727,050,870
NSO	150,000	100,000	(50,000)
Education	200,000,000	244,345,806	44,345,806
Finance	25,000,000	-	(25,000,000)
Accountant General	30,000,000	24,525,831	(5,474,169)
Registrar General	200,000,000	273,616,125	73,616,125
Government Stores	-	1,588,300	1,588,300
ODPP	2,500,000	-	(2,500,000)
Lands & Phy. Planning	425,000,000	141,150,301	(283,849,699)
Health & Population	25,000,000	12,167,459	(12,832,541)
Information	3,750,000	5,492,359	1,742,359
Tourism & Parks	8,750,000	16,080,346	7,330,346
Water & Irrigation	12,500,000	5,483,960	(7,016,040)
Women & Children	10,000,000	6,851,300	(3,148,700)
Justice		2,490,500	2,490,500
Prisons	1,325,000	932,872	(392,128)
Administrator General	150,000	16,106	(133,894)
Fuel Levies	5,518,780,000	3,160,030,000	(2,358,750,000)
Road Levy	2,673,250,000	1,574,630,000	(1,098,620,000)
Rural Electrification Levy	2,397,780,000	1,319,360,000	(1,078,420,000)
Storage Levy	447,750,000	266,040,000	(181,710,000)
Other	728,000,000	1,700,740,000	972,740,000
Road Tax	-	700,740,000	700,740,000
Parastatal Dividends	728,000,000	-	(728,000,000)
NOCMA	-	1,000,000,000	1,000,000,000

2.5 Conclusion

In aggregate terms, revenue collection in the fourth quarter of the financial year overperformed. Non-tax revenues had been underperforming in the earlier quarters but with the stabilisation of the economic situation, non-tax revenues overperformed in the quarter under review and it is envisaged that non-tax revenues would continue to perform in the 2013/14 Financial Year.

Performance in Inflows of Grants in the Quarter

3.1 Introduction

In 2012/13 Financial Year, Grants were projected to amount to K124.5 billion. This was revised at mid-year to K182.5 billion. Of this sum, K80.1 billion was projected to be Program Grants, K67.1 billion Dedicated Grants and K35.1 billion Project resources.

In the fourth quarter of the 2012/13 Financial Year, Government projected to receive K37.4 billion Grants of which K19.9 billion were projected to be Programme Grants, K10.9 billion Dedicated Grants and K6.5 billion Project Grants. This Chapter, examines the performance of Grants in the fourth quarter of the Financial Year.

3.2 Performance in Overall Inflows of Grants in the Financial Year

Table 3.1 presents the performance of Grants in the fourth quarter of the financial year. As indicated in the table, overall, Grants overperformed by K34.0 billion. In particular, Programme, Dedicated and Project Grants overperformed by K30.5 billion, K1.7 billion, and K1.9 billion respectively.

Table 3.1: Details of Performance of Grants

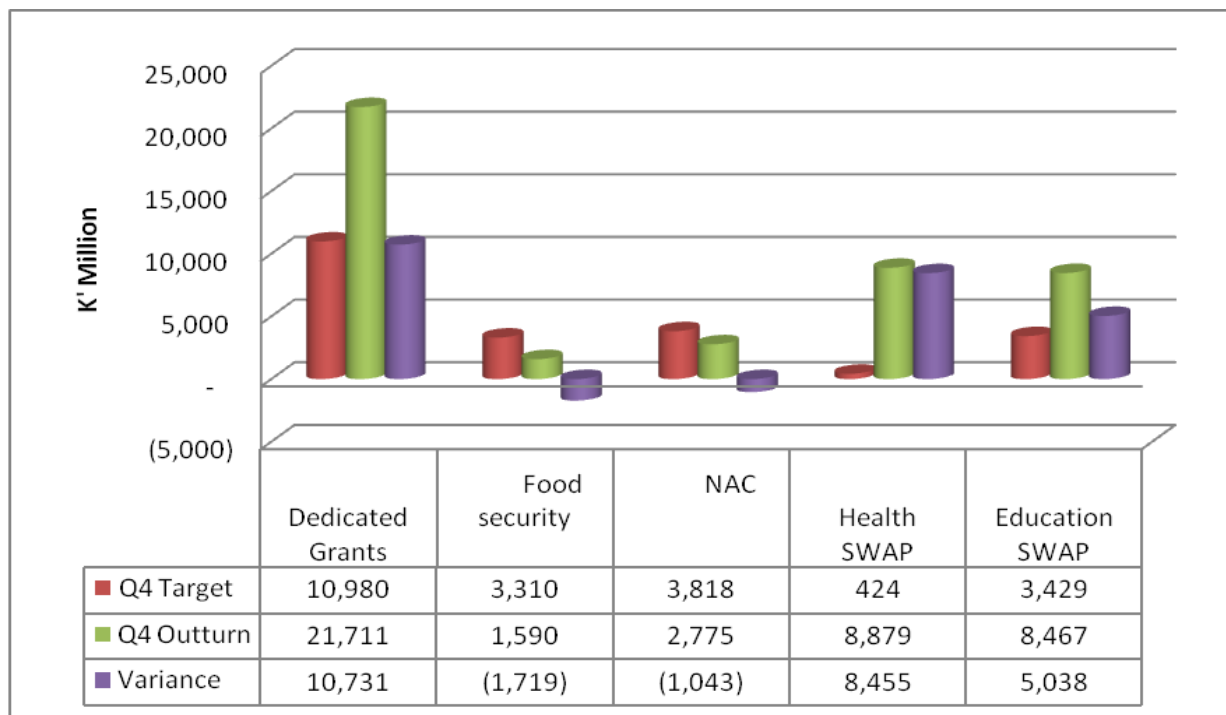
	Q4 Target	Q4 Outturn	Variance (Outturn-Target)
Grants	37,436	50,391	12,955
Program	19,940	20,925	985
Dedicated Grants	10,980	21,711	10,731
Food security	3,310	1,590	(1,719)
NAC	3,818	2,775	(1,043)
Health SWAP	424	8,879	8,455
Education SWAP	3,429	8,467	5,038
Project Grants	6,516	7,755	1,239

3.3 Performance of Dedicated Grants in the fourth quarter of the Financial Year

Chart 3.1 below presents the performance of Dedicated Grants in the quarter under review. Overall, Dedicated Grants overperformed by K10.7 billion. The overperformance is largely explained by the HSWAP and ESWAP which overperformed by K8.6 billion and K5.0 billion respectively. On the other hand, NAC and Food Security inflows missed their targets by K1.0 billion and K1.7 billion respectively.

The performance under the mentioned SWAPs was attributed to inflows from the World Bank into the Education Sector which exceeded the anticipated amount by K5.0 billion while under the Health sector, DFID disbursed K8.9 billion above the target.

Chart 3.1: Performance of Dedicated Grants for the Fourth Quarter of the 2012/13 Financial Year



3.4 Conclusion

As indicated above, overall, disbursement of Donor resources under Grants overperformed in the fourth quarter of the financial year and this is explained by favourable inflows under Education and Health SWAPs.

Performance of Expenditure in the Fourth Quarter

4.1 Introduction

This chapter highlights the performance of expenditures in the fourth quarter of the 2012/13 Financial Year and explain the factors underlying the observed expenditure trends.

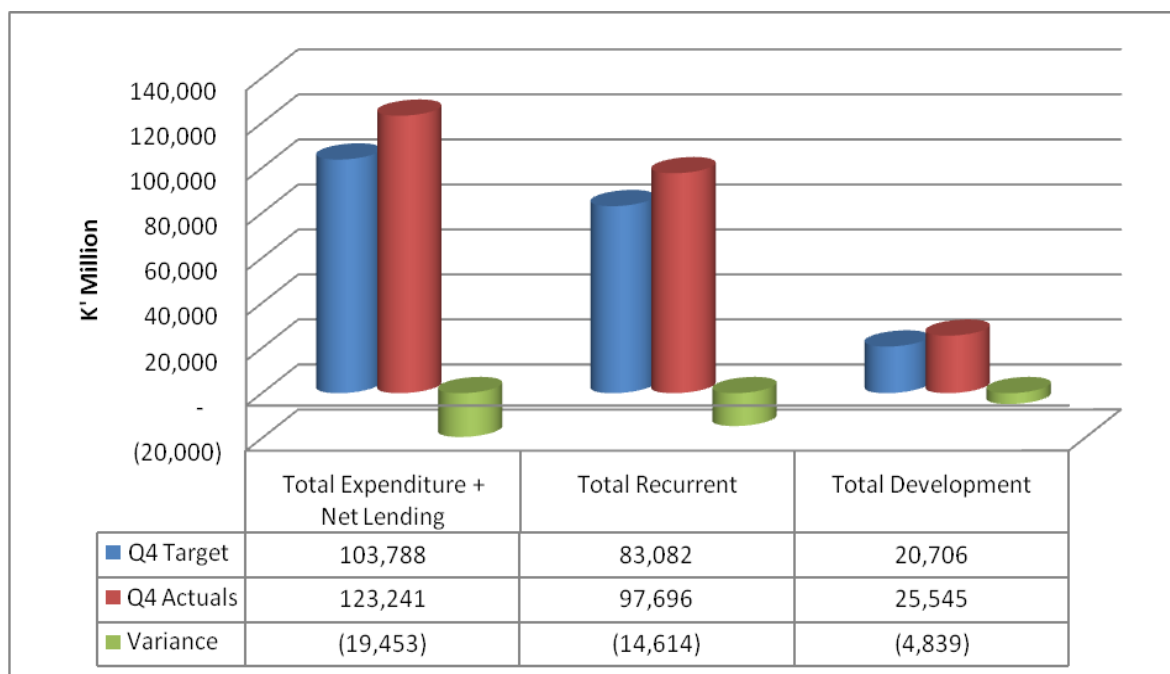
In 2012/13 Financial Year, Government was expected to spend K408.4 billion which was later revised to K475.8 billion. Of this sum, K378.7 billion are projected to be Recurrent Expenditures and K97.1 billion Development Budget Expenditures. In the quarter under review, total expenditure including net lending and direct payments was projected at K103.8 billion broken down as K83.1 billion recurrent expenditure and K20.7 billion development budget Expenditure.

Out of the projected recurrent expenditure, wages and salaries were projected at K23.8 billion; Interest Payments K7.5 billion while other current expenditures including Good and Services and Subsidies and Transfers were projected at K37.1 billion and K14.7 billion, respectively. On the other hand, expenditures on Development Budget Projects were projected at K20.7 billion broken down as K5.2 billion domestically financed projects and K15.5 billion foreign financed projects.

4.2 Performance of Overall Expenditures

The Outturn for the fourth quarter of the financial year indicate that total expenditure for the quarter was K123.2 billion including net lending, broken down as K97.7 billion Recurrent Expenditures, K25.5 billion development budget expenditures. Chart 4.1 below illustrates the projected expenditures against the outturn.

Chart 4.1 Total Government expenditure in the fourth quarter of the 2012/13 FY



As can be depicted from Chart 4.1 above, total expenditures in the quarter were above the projected amount of K103.9 billion by K19.5 billion. This overexpenditure is mainly explained by increased activities under the Health and Education SWAPs in both recurrent and development budget resulting from increased inflows under the Health SWAP. More resources were also paid towards clearing interest on domestic debt.

4.2.1 Performance of Recurrent Budget

In general, Government projected to use K83.1 billion to run its daily business during the quarter under review. However, expenditure exceeded the target by K14.6 billion as shown in Table 4.1 below

Table 4.1 Recurrent Expenditure Breakdown

Category	Q4 Target	Q4 Outturn	Variance
	K' Million		
Recurrent Expenditure	83,082	97,696	(14,614)
Wages and Salaries	23,799	28,109	(4,310)
Other Recurrent Transactions (ORT)	59,283	69,587	(10,303)
Interest on Debt	7,453	13,822	(6,369)
Foreign	1,062	2,058	(996)
Domestic	6,391	11,764	(5,373)
Goods and Services	37,146	42,286	(5,140)
Subsidies and Transfers	14,685	13,479	1,206

4.2.1.1 Expenditures under Personal Emoluments

In 2012/13 Financial Year, Government projected to spend K86.1 billion on PE which was later revised to K92.0 billion necessitated by civil service salary adjustments and exchange rate movements which affect foreign service allowances (FSA). In the period under review and as indicated in Table 4.1, wages and salaries were projected at K23.8 billion. However, the outturn for the quarter was K28.1 billion exceeding its target by K4.3 billion. This was mainly due to salary revisions across the board which was more than the anticipated amount and also due to continued movement of the exchange rate resulting in more kwacha servicing the FSAs.

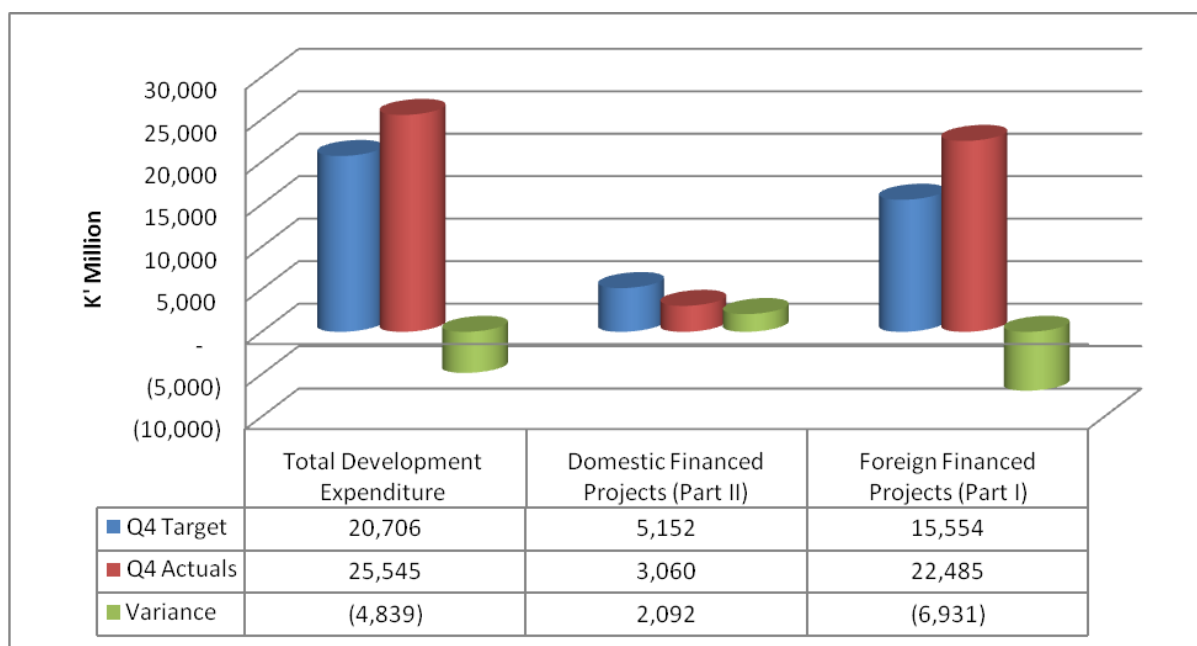
4.2.1.2 Other Recurrent Transactions (ORT)

ORT expenditure for the fourth quarter of the financial year was projected to amount to K59.3 billion (which is total recurrent expenditure less wages and salaries). Actual expenditures as at the end of the Quarter were K69.6 billion which was above the target by K10.3 billion. The overexpenditure is attributed to increased activities under the Health and Education SWAPs, domestic debt interest repayment, and preparations for the 2014 General Elections.

4.2.2 Performance of Development Budget

On Development Budget, Government planned to spend K20.7 billion in the fourth quarter, of which, K5.2 billion was to be financed using domestic resources (Part II) and K15.5 billion was for Foreign Financed Projects (Part I). As depicted by Chart 4.2 below, the outturn on Development Budget was that K25.5 billion was spent implying an overexpenditure of K4.8 billion. The overexpenditure was on account of favourable donor inflows especially under Health and Education SWAPs and that translated into increased activities under the Development Budget Projects.

Chart 4.2 Performance of the Development Budget



4.3 Conclusion

This Chapter focused on the performance of expenditures of Government in the fourth quarter of the 2012/13 Financial Year. The expenditures were broken down into various categories and the analysis was based on the discrepancies between the target and the actual expenditure. Generally, the outturn showed that expenditure was above the target by 18.7 per cent. Analysis by budget type also showed consistency in both recurrent and development budgets. This has been attributed to favourable donor inflows in the education and health sectors resulting into increased activities. However, it is envisaged that Government would maintain its fiscal stance in the 2013/14 FY in order to contain the expenditures within the approved appropriations.

Conclusion and Recommendations

The report has shown that revenue collection in the fourth quarter of the 2013/14 Financial Year was above the target and this was mainly due to the overperformance of both Non-Tax and Tax Revenues. Non-Tax Revenues performance improved in the quarter as compared to the other quarters. It is therefore recommended that revenue collection bodies especially those collecting non-tax revenues should continue to give priority to revenue enhancing activities to maintain the good performance recorded in the quarter.

Disbursement of resources under Grants also overperformed in the fourth quarter. This was mainly on account of increased inflows under Education and Health SWAPs.

On the Expenditure side, Government expenditure was above the target for the Quarter. Though this is attributed to more than anticipated donor inflows, it also points to flaws in cashflow forecasting. Therefore, strengthening of cashflow forecasting is highly recommended to avoid such overruns.