



# MALAWI GOVERNMENT

## 2016/17 BUDGET PERFORMANCE QUARTERLY REPORT (Q2)

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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 2016/17 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*

DFID	Department for International Development (UK)
FISP	Farm Input Subsidy Program
FY	Financial Year
IFMIS	Intergrated Financial Management Information System
MDAs	Ministries, Departments and Agencies
NTRs	Non-tax Revenues
ORT	Other Recurrent Transactions
Part I	Donor supported projects
Part II	Projects financed by domestically generated resources
PE	Personnel Emoluments

# *Executive Summary*

## **Revenue Performance**

In the 2016/17 Financial Year, Government plans to collect a total of K789.3 billion in Domestic Revenues of which, K714.8 billion and K74.5 billion are Tax Revenues and Non-Tax Revenues, respectively. In the Second Quarter of the Financial Year, total Domestic Revenues were projected to be K189.5 billion of which, K167.4 billion were Tax Revenues and K22.1 billion were Non-Tax revenue. However, the outturn for this quarter was K194.1 billion on Tax Revenue and K30.7 billion on Non – Tax Revenues, reflecting a favourable performance of K35.3 billion. Tax revenues overperformed by K26.7 billion while non-tax revenues overperformed by K8.6 billion. Overall, total domestic revenue collection in the quarter under review was K224.8 billion.

## **Performance of Grants and Loans**

In the 2016/17 Financial Year, Government projects to receive Grants amounting to K194.7 billion, of which, K13.6 billion are Program Grants, K53.8 billion are Dedicated Grants and K127.3 billion Project Grants. In the Second Quarter of the Financial Year, expected disbursements from Grants were K51.3 billion, of which K19.6 billion was Dedicated Grants and K31.7 billion was to come from Project Grants. The total disbursement for the Second Quarter of the Financial Year was K13.7 billion which is below the target by K37.6 billion.

## **Expenditures Performance**

In the 2016/17 Financial Year, Government planned to spend K1.164.3 billion, including net lending. Out of this sum, K843.4 billion is planned for Recurrent Expenditure and K317.4 billion Development Budget Expenditure with a net lending of K3.5 billion. In the Second Quarter of the Financial Year, Government planned to spend K291.5 billion including net lending, of which, K218.9 billion was Recurrent Expenditure and K71.6 billion was Development Expenditure with a net lending of K1.0 billion. However, overall, Government expenditure amounted to K243.9 billion reflecting an underexpenditure of K47.6 billion against the target for the quarter.

# INTRODUCTION

## 1.1 Background to the Report

In June 2016, the National Assembly approved a Budget of K1,164.3 billion for the 2016/17 Financial Year (FY). This Budget is expected to be financed by Domestic Resources amounting to K714.8 billion and K194.7 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, 2016) 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 2016/17 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 of receipts and expenditures for the Second Quarter of the 2016/17 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), expenditure returns from the Ministries, departments and agencies (MDAs) 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

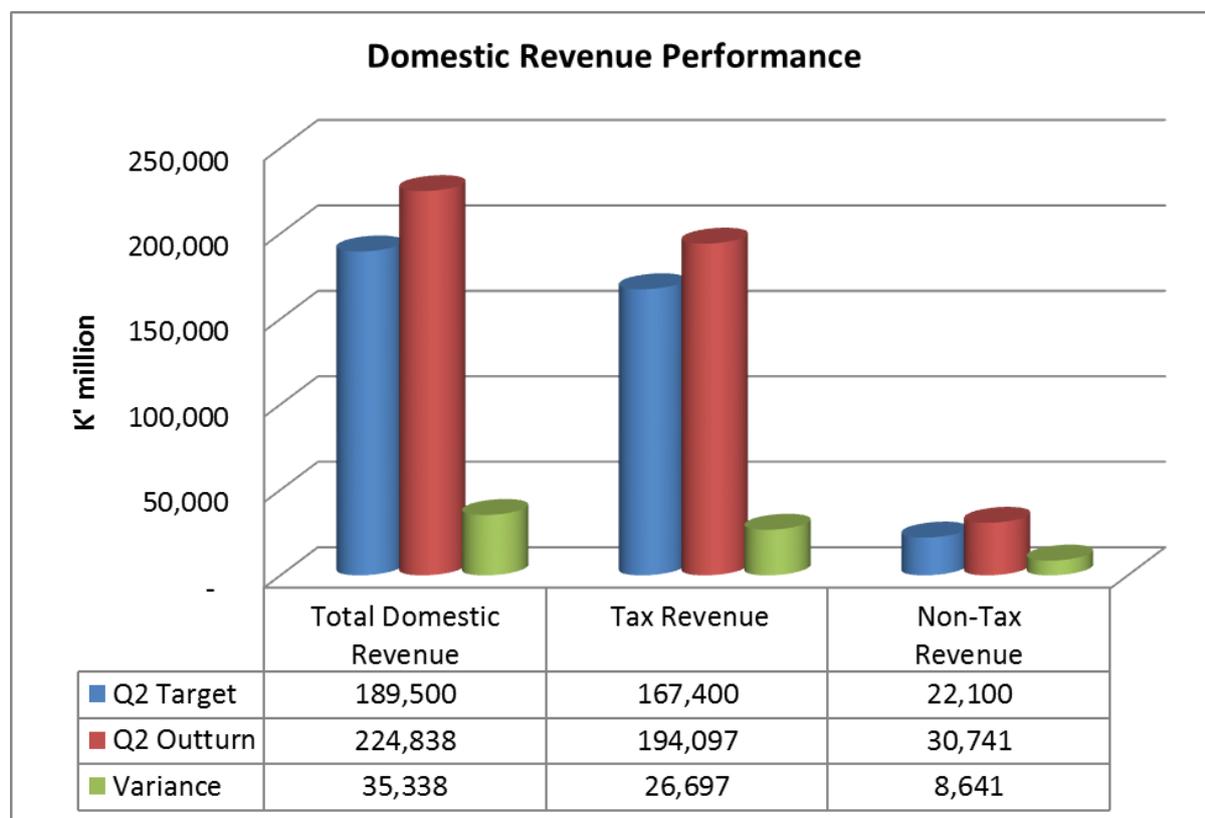
In the 2016/17 Financial Year, Government projected to collect total Domestic Revenues to the tune of K789.3 billion, of which, K714.8 billion were projected to be Tax Revenues and K74.5 billion Non-Tax Revenues (NTRs). This Chapter seeks to assess the performance of Government in revenue collection 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 K189.5 billion of which, K167.4 billion was expected to be Tax Revenues while Non-Tax Revenues were projected at K22.1 billion.

Figure 2.1 below presents the Outturn in Domestic Revenues in the second quarter of the Financial Year against their corresponding targets. As indicated in the figure, total Domestic Revenues collection amounted to K224.8 billion against a target of K189.5 billion. This translates to overcollection of K35.3 billion representing 18.6 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. The outturn of Tax revenue was K194.1 billion against a target of K167.4 billion. The revenue collected was above the target by K26.7 billion. This over collection among other reasons is on account of increased economic activities that took place around the festive season and capital gains remittances by Carlsberg among others.

**Table 2.1 Tax Revenue Performance**

	QII Projection	QII Outturn	Variance	% Variance
	K' Million			
<b>Tax revenue (Net)</b>	<b>167,400.00</b>	<b>194,096.78</b>	<b>26,696.78</b>	<b>15.9</b>
Income and profits	84,400.00	100,174.19	17,774.19	18.7
Goods and services	70,800.00	77,595.73	6,795.73	9.6
International trade	13,800.00	18,454.70	4,654.70	33.7
Other	(1,600.00)	(2,127.84)	(527.84)	32.9

## 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 2016/17 Financial Year against their set targets. As indicated in the table, actual NTRs amounted to K30.7 billion compared to their target of K22.1 billion, thus an over collection of K8.6 billion. This favourable performance is attributed the performance of the rural electrification levy, the road levy and road tax. However, the performance of parastatal dividends was below the projection of K11.6 billion by K8.8 billion. This is mainly because the parastatals placed the dividend against October-December 2016 performance in second quarter, when the actual dividend declaration is expected in the third quarter.

**Table 2.2 Non – Tax Revenue Performance in the second quarter**

	QII Proj	QII actual	Variance	% Collection
	(K' million)			
<b>Non-Tax Revenue</b>	<b>22,100.50</b>	<b>30,741.35</b>	<b>8,640.85</b>	<b>39.10</b>
Departmental receipts	4,513.38	4,550.19	36.81	0.82
Road Levy	4,644.00	5,670.53	1,026.53	22.10
Rural electrification levy	-	4,724.67	4,724.67	-
Storage Levy	330.75	384.33	53.58	16.20
Road Tax	992.24	1,153.37	161.13	16.24
Treasury Funds	-	114.14	114.14	-
Parastatal Dividends	11,620.13	2,819.22	(8,800.91)	(75.74)
Privatisation Proceeds	-	11,324.90	11,324.90	-

## **2.5 Conclusion**

In aggregate terms, the performance of revenue collection in the second quarter of the financial year was above the set target for both tax and non-tax revenues. MDAs should continue intensify their efforts in revenue collection in order to meet the annual targets. Parastatals that did not meet their target in the period under review should also intensify their revenue collection efforts in the subsequent quarters to make up for the low performance

## Performance of Grants

### 3.1 Introduction

In the 2016/17 Financial Year, the projected resource inflows from Grants amounts to K194.7 billion, of which, K13.6 billion would be realized from Program Grants, K53.8 billion from Dedicated Grants and K127.3 billion from Project Grants.

In the second quarter of the 2016/17 Financial Year, Government expected to receive K51.3 billion in form of Grants. Out of this amount, K19.6 billion was expected to be Dedicated Grants and K31.7 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

Table 3.1 presents the performance of Grants in the second quarter of the financial year. As indicated in the table, overall, Grants underperformed by K37.6 billion. All categories of grants underperformed in the period under review.

**Table 3.1 Performance of Grants in the Second Quarter**

Grant	Second Quarter		
	Target	Outturn	Variance
<b>Grants</b>	<b>51,295.30</b>	<b>13,739.66</b>	<b>(37,555.64)</b>
<b>Dedicated grants</b>	<b>19,600.00</b>	<b>9,734.34</b>	<b>(9,865.66)</b>
Food security	14,842.93	9,734.34	(5,108.59)
Agric. SWAP	14,842.93	9,734.34	(5,108.59)
World Bank	4,545.60	4,248.00	(297.60)
Norway	2,848.07	943.34	(1,904.73)
Ireland	2,906.26	-	(2,906.26)
ASWAP pool	4,543.00	4,543.00	-
NAC inflows	3,769.00		(3,769.00)
World Bank	3,769.00	-	(3,769.00)
Health SWAP	988.07	-	(988.07)
DFID	988.07	-	(988.07)
<b>Project grants</b>	<b>31,695.30</b>	<b>4,005.32</b>	<b>(27,689.98)</b>

### 3.4 Conclusion

As indicated above, overall, disbursement of donor resources under Grants category underperformed in the second quarter of the financial year in both Dedicated and Project Grants. Government should continue engaging development partners in subsequent quarters to ensure smooth inflows of donor disbursements.

## Expenditure Performance

### 4.1 Introduction

This chapter highlights the performance of expenditures in the second quarter of the 2016/17 Financial Year and explains the factors underlying the observed expenditure trends.

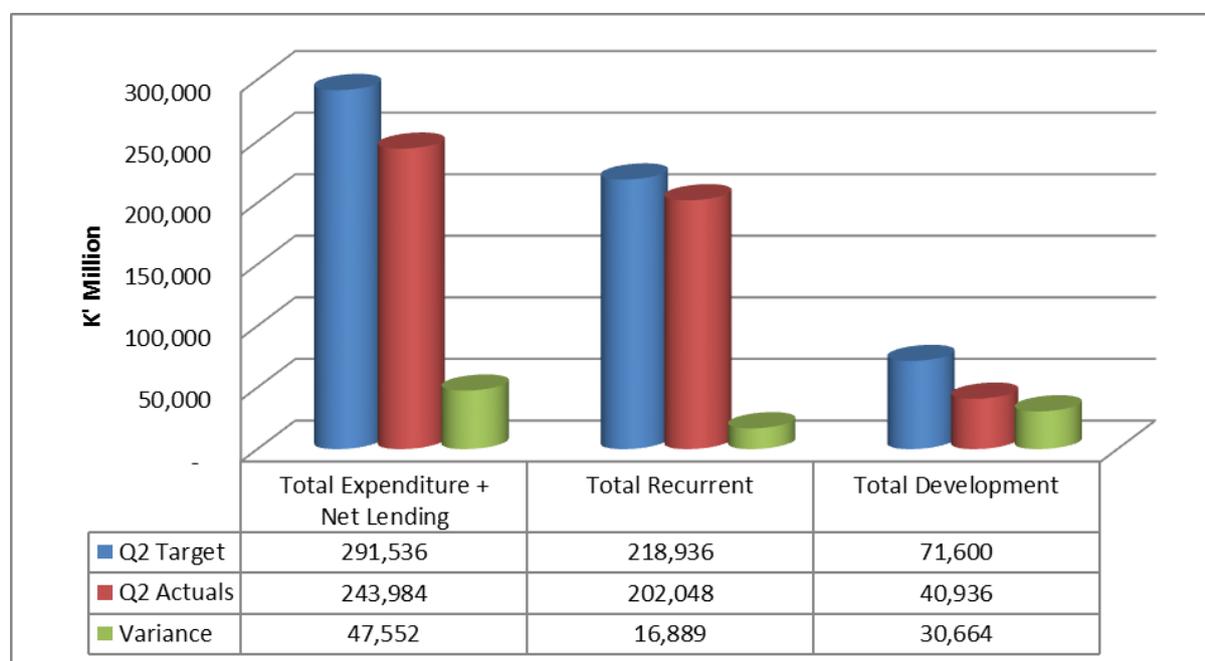
In the 2016/17 Financial Year, Government is expected to spend K1,164.3 billion including net lending. Of this sum, K843.4 billion is projected to be Recurrent Expenditures and K317.4 billion is projected to be Development Budget Expenditures. In the quarter under review, total expenditure including net lending and direct payments was projected at K291.5 billion of which as K218.9 billion was for recurrent expenditure, while K71.6 billion was for development expenditure.

For the quarter under review, out of the projected recurrent expenditure, wages and salaries were projected at K60.6 billion; Interest Payments K32.0 billion while other current expenditures including Goods and Services; and Subsidies and Transfers were projected at K71.5 billion and K53.8 billion, respectively. On the other hand, expenditures on Development were projected at K71.6 billion broken down as K7.9 billion for domestically financed projects and K63.7 billion for foreign financed projects.

## 4.2 Performance of Overall Expenditures

The Outturn for the second quarter of the financial year indicates that total expenditure was K243.9 billion including net lending, broken down as K202.0 billion for recurrent expenditures and K40.9 billion for development expenditures with a net lending of K1.0 billion. Figure 4.1 below illustrates the projected expenditures against the outturn.

*Figure 4.1 Total Government expenditure in the second quarter of the 2016/17 FY*



As can be shown in Figure 4.1 above, total expenditures in the quarter were below the projected amount of K291.5 billion by K47.6 billion.

### 4.2.1 Performance of Recurrent Budget

In general, Government projected to use K218.9 billion to ran its daily business during the quarter under review. The outturn shows that expenditures were

below the target by K16.8 billion as shown in Table 4.1 below. The under performance emanates from lower than anticipated claims under the agricultural input subsidies under other purchases of goods and services budget line.

**Table 4.1 Recurrent Expenditure Breakdown**

	Quarter 2 Target	Quarter 2 Outturn	Variance
	K' Million		
Recurrent expenditure	218,936.32	202,047.78	(16,888.55)
Wages and salaries	60,679.60	64,512.56	3,832.95
Interest on debt	32,000.00	32,382.10	382.10
Foreign	3,000.00	2,196.98	(803.02)
Domestic	29,000.00	30,185.12	1,185.12
Other purchases of goods and services	71,539.85	71,239.39	(300.47)
Subsidies and transfers	53,816.87	32,638.73	(21,178.14)
Transfers to MRA	5,316.25	6,027.11	710.86
Pensions and gratuities	12,400.62	12,400.62	-
Fertilizer, seed and Iron sheets subsidy	25,000.00	2,336.00	(22,664.00)
Subvention	11,100.00	11,875.00	775.00
Arrears	900.00	1,275.00	375.00

#### **4.2.1.1 Expenditures under Personal Emoluments (PE)**

In 2016/17 Financial Year, Government is expected to spend K272.3 billion on PE. In the period under review and as indicated in Table 4.1, wages and salaries were projected at K60.7 billion but the outturn shows that the expenditures were above the target by K3.8 billion which is 6.3 per cent over expenditure.

#### **4.2.1.2 Other Recurrent Transactions (ORT)**

ORT expenditure for the second quarter of the financial year was projected to amount to K158.3 billion (which is total recurrent expenditure less wages and salaries). Actual expenditures as at the end of the quarter were K137.5 billion

which was below the target by K20.7 billion representing an over performance of 13.1 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 Figure 4.1 may have a negative impact on people's welfare. Therefore, expenditures on health, education, farm input subsidy program (FISP), gender 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 K381.6 billion. In the quarter under review, the target was K109.6 billion.

Table 5.2 below shows social spending performance. It can be noted that in the quarter under review social spending was below the target by K33.3 billion which is 30.4 per cent of the target. The underperformance emanates from dismal performance of agricultural expenditures. There were fewer than expected claims against the Fertilizer Input Subsidy Program (FISP).

**Table 5.2 Social Spending**

Sector	2016/2017 Provision	Quarter 2 Projection	Quarter 2 Actual	Quarter 2 Variance	2016/2017 Actual	2016/17 Variance
	K'Million					
<b>Health Expenditure</b>	<b>76,772.08</b>	<b>19,430.32</b>	<b>19,100.79</b>	<b>(329.53)</b>	<b>39,627.39</b>	<b>(37,144.69)</b>
Wages	49,081.62	12,270.41	13,244.98	974.57	27,195.18	(21,886.44)
Other Recurrent	24,154.74	6,113.50	5,553.07	(560.43)	11,389.59	(12,765.15)
Ministry of Health ORT	16,316.99	4,154.06	3,884.96	(269.10)	7,865.46	(8,451.53)
Local Resources	16,316.99	4,154.06	3,884.96	(269.10)	7,865.46	(8,451.53)
NAC	11,307.00	2,826.75		(2,826.75)	-	(11,307.00)
Health Fund	2,169.92	542.48		(542.48)	-	(2,169.92)
Local Assemblies ORT	7,837.75	1,959.44	1,668.11	(291.33)	3,524.13	(4,313.62)

Sector	2016/2017 Provision	Quarter 2 Projection	Quarter 2 Actual	Quarter 2 Variance	2016/2017 Actual	2016/17 Variance
	K'Million					
Subvented Organisations	305.00	76.25	52.74	(23.51)	84.82	(220.18)
Development expenditure	3,230.72	970.16	250.00	(720.16)	957.80	(2,272.92)
<b>Education Expenditure</b>	<b>219,015.39</b>	<b>54,223.48</b>	<b>52,116.79</b>	<b>(2,106.69)</b>	<b>116,615.56</b>	<b>(102,399.83)</b>
Wages	108,379.29	26,263.92	26,023.55	(240.37)	55,611.09	(52,768.20)
Other Recurrent	65,586.10	16,409.56	15,535.39	(874.17)	36,254.87	(29,331.23)
Ministry of Education ORT	15,509.00	3,890.28	3,729.62	(160.66)	8,736.64	(6,772.36)
Local Assemblies ORT	9,077.10	2,269.28	1,663.72	(605.56)	3,633.72	(5,443.38)
Subvented Organisations	41,000.00	10,250.00	10,142.05	(107.95)	23,884.51	(17,115.49)
Development expenditure	4,050.00	1,300.00	415.80	(884.20)	865.09	(3,184.91)
<b>National Local Government Finance Committee</b>	<b>10,200.00</b>	<b>2,550.00</b>	<b>2,550.00</b>	<b>-</b>	<b>5,100.00</b>	<b>(5,100.00)</b>
Drugs for DHOs	10,200.00	2,550.00	2,550.00	-	5,100.00	(5,100.00)
<b>Agriculture Expenditures</b>	<b>62,650.00</b>	<b>30,830.00</b>	<b>336.00</b>	<b>(30,494.00)</b>	<b>22,466.00</b>	<b>(40,184.00)</b>
Farm Input Subsidy Program	33,150.00	23,580.00	336.00	(23,244.00)	466.00	(32,684.00)
Maize Purchase	29,500.00	7,250.00	-	(7,250.00)	22,000.00	(7,500.00)
<b>Lands and Housing Expenditure</b>	<b>8,400.00</b>	<b>1,500.00</b>	<b>1,500.00</b>	<b>-</b>	<b>3,000.00</b>	<b>(5,400.00)</b>
Cement and Iron Sheets Subsidy	8,400.00	1,500.00	1,500.00	-	3,000.00	(5,400.00)
<b>Gender, Children, Disability and Social Welfare</b>	<b>3,161.29</b>	<b>719.40</b>	<b>669.56</b>	<b>(49.84)</b>	<b>1,505.18</b>	<b>(1,656.11)</b>
Wages	1,406.29	351.57	441.16	89.59	827.33	(578.96)
Other Recurrent	1,495.00	295.63	228.40	(67.23)	619.85	(875.15)
Development expenditure	260.00	72.20	-	(72.20)	58.00	(202.00)
<b>Local Development Fund Expenditures</b>	<b>1,300.00</b>	<b>354.80</b>	<b>-</b>	<b>(354.80)</b>	<b>300.00</b>	<b>(1,000.00)</b>
Local Development Fund	1,300.00	354.80	-	(354.80)	300.00	(1,000.00)
<b>Poverty and Disaster Management</b>	<b>115.21</b>	<b>28.80</b>	<b>20.56</b>	<b>(8.24)</b>	<b>59.04</b>	<b>(56.17)</b>
Wages	45.21	11.30	11.30	-	32.28	(12.93)
Other Recurrent	70.00	17.50	9.26	(8.24)	26.76	(43.24)
<b>Total Social Expenditure</b>	<b>381,613.97</b>	<b>109,636.80</b>	<b>76,293.70</b>	<b>(33,343.10)</b>	<b>188,673.17</b>	<b>(192,940.80)</b>

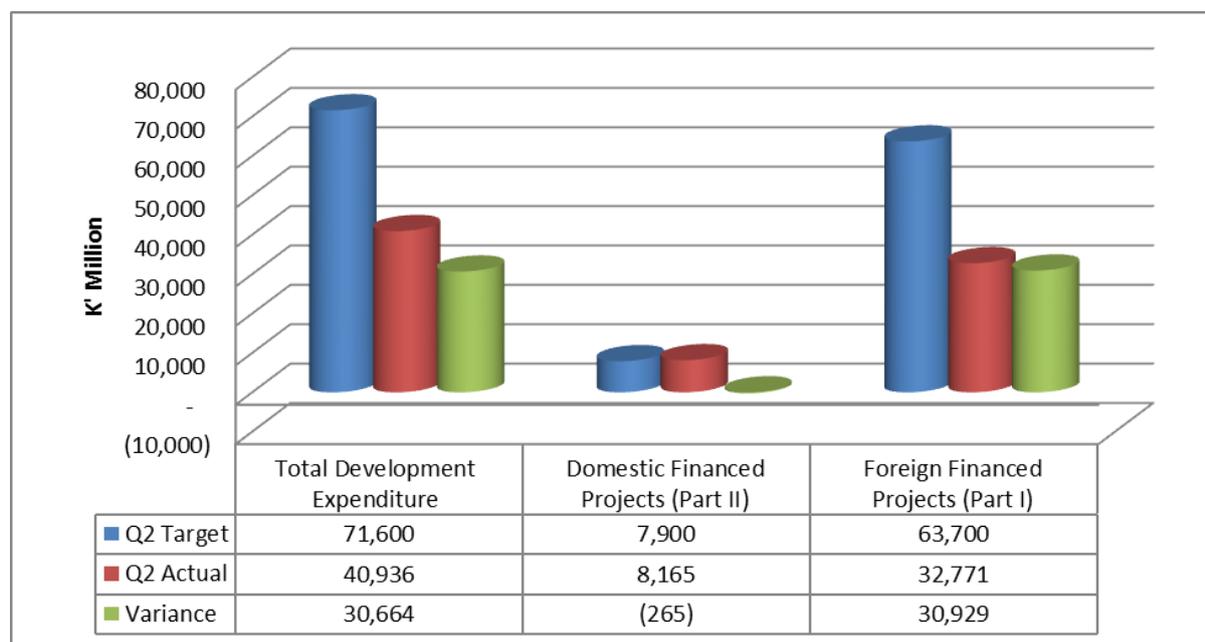
Despite dismal performance of social expenditures during the period under review, progressive performance indicates that a total of K188.7 billion has been spent against an annual provision of K381.6 billion which is about 49 per

cent of the annual target. The trend is expected to improve further in third quarter as more claims from suppliers under FISP are expected to be made.

#### 4.2.2 Performance of Development Budget

On Development Budget, Government planned to spend K71.6 billion in the second quarter, of which, K7.9 billion was to be financed using domestic resources (Part II) and K63.7 billion was for Foreign Financed Projects (Part I). As depicted by Figure 4.2 below, expenditure on Development was within the projected target. It amounted to K40.9 billion against a target of K71.6 billion, representing an underperformance of K30.7 billion. This is mainly on account of lower expenditure on Part I projects which was K30.9 billion below the target.

*Figure 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 2016/17 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. However, there is need to improve on the development budget since the deviation is significant especially on Part I projects and projects may not be completed in time if the status quo is maintained in subsequent quarters. Government should therefore engage development partners to improve on disbursements towards project grants.

## Conclusion and Recommendations

The report has shown that domestic revenue collection in the second quarter of the 2016/17 Financial Year was above the target in both Tax and Non-tax revenues. Maintaining the current trend in the remaining quarters is recommended in order to offset the underperformance of other inflow lines.

Disbursement of resources under Grants was significantly below the set targets in the quarter under review. It is recommended that Government should continue engaging the development partners to improve on disbursement in the remaining half of the financial year.

On the expenditure side, Government expenditure was below the target for the Quarter under review largely owing to lower than anticipated claims against FISP on the recurrent side and the underperformance of grants which significantly affected the implementation of projects on the development side.