



# **MALAWI GOVERNMENT**

## **2011/12 BUDGET PERFORMANCE QUARTERLY REPORT (Q4)**

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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 2011/12 fiscal year. The report provides a detailed analysis of the Revenues; status of Grants and Loans and a critical analysis of the Expenditures of Government. The ultimate objective is to appraise all the Stakeholders on the current status of implementation of the National Budget 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 improvement are welcome and can be submitted to the Secretary to the Treasury.

## *Abbreviations and Acronyms*

IFMIS	Integrated Financial Management Information System
FY	Financial Year
IMF	International Monetary Fund
MK	Malawi Kwacha
NAC	National Aids Commission
NCIC	National Construction Industry Council
NRA	National Roads Authority
NTR	Non-tax Revenues
OPC	Office of President and Cabinet
ORT	Other Recurrent Transactions
Part I	Donor supported projects
Part II	Projects financed by domestically generated resources
PAYE	Pay As You Earn
PIL	Petroleum Importers Limited
Q1,Q2,Q3,Q4	Quarter 1, Quarter 2, Quarter 3, Quarter 4 of the Financial Year
SWAP	Sector Wide Approach
VAT	Value Added Tax

# *Executive Summary*

## **Revenue Performance**

In the 2011/12 Financial Year, Government projected to collect Domestic Revenues of K207.7 billion, of which, K180.9 billion were to be collected from Tax Revenues and K26.8 billion from Non-Tax Revenues. In the Fourth Quarter of the Financial Year, Government estimated that it would collect Domestic Revenues of K54.0 billion of which, K46.9 billion were expected to be Tax Revenues and K7.1 billion were to come from Non-Tax Revenues.

The overall collection of Domestic Revenues was K60.7 billion in the Fourth Quarter, representing an overcollection of K6.6 billion, thus 12 percent over and above the projected Revenue.

## **Performance of Inflows of Grants and Loans**

In the 2011/2012 Financial Year, Government projected to receive Grants of K51.9 billion. Of this sum, K34.7 billion are Dedicated Grants and K17.2 billion are Project resources. In the Fourth Quarter of the Financial Year, Government projected to receive K22.4 billion in Grants of which K18.0 billion were Dedicated Grants and K4.4 billion were Project Grants. Dedicated Grants and Project Grants underperformed by K11.6 billion and K0.4 billion respectively.

## **Performance of Expenditures**

In the 2011/12 Financial Year, Government planned to spend K328 billion of which, K250.6 billion are Recurrent Expenditures and K77.4 billion are Development Budget Expenditures. In the Quarter under review, Government planned to spend K89.5 billion, of which, K69.3 billion are Recurrent Expenditures and K20.2 billion are Development Budget Expenditures. The outturn however, reflects an overall overexpenditure of K6.1 billion mainly registered on Development Budget Expenditures.

## **Performance of Development Budget Projects**

Government planned to spend K20.2 billion on Development Budget Expenditures in the Fourth Quarter of the Financial Year of which, K13.4 billion was Part I Projects and K6.9 billion was Part II Projects. The outturn reflects an overexpenditure of K8.0 billion mainly on Part I Development Budget Expenditures.

# INTRODUCTION

## 1.1 Background to the Report

In June 2011, the National Assembly approved a Budget of K304 billion inclusive of Net Lending for the 2011/12 Financial Year. This Budget was to be financed by Domestic Resources amounting to K242.5 billion, representing 79 per cent and the balance of K65.2 billion representing 21 per cent from Grants. At the Mid-Year, these estimates were revised to K287.5 billion Domestic Revenues and Grants and K300 billion Total Expenditures and Net-Lending. At the re-engagement with the IMF, these estimates were further revised to K259.6 billion as Total Revenues and Grants and K328.1 billion as Total Expenditures and Net-Lending.

In order to achieve the targets set out in the Budget, Government in collaboration with the IMF developed monitorable Quarterly Revenue and Expenditure targets for the remainder of the Financial Year. This report, therefore, examines Government performance in meeting the set targets in the Fourth Quarter of the Financial Year, from January to March, 2012.

## 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;
- (iii) To present the details of Expenditures of Government in the Fourth Quarter of the Financial Year; and
- (iv) To present a detailed assessment of implementation of projects.

### **1.3 Methodology**

The review and assessment of Receipts and Expenditures for the Fourth Quarter of the Financial Year was done in July 2012. 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. Chapter Five looks at the Quarterly Fiscal Performance while Chapter 6 concludes the Report. The rest of the Report discusses detailed progress reports on the projects in the 2011/12 Fiscal Year.



## Performance of Domestic Revenues

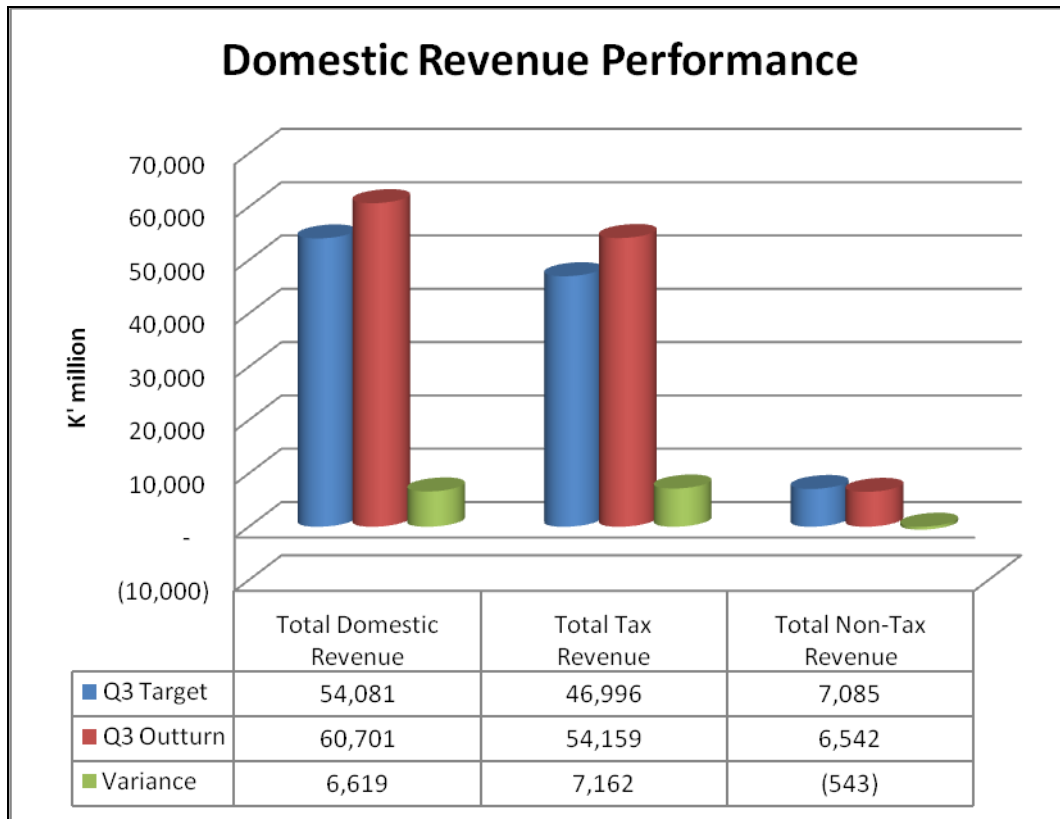
### 2.1 Introduction

In the Fourth Quarter of the 2011/12 Financial Year, total Domestic Revenues were projected to reach K54.1 billion. Tax revenues were projected to be K46.9 billion (about 87% of total Domestic Revenues for the Quarter), while Non-Tax Revenues were projected to be K7.1 billion (13% of expected Quarterly Revenues). This Chapter seeks to assess Government's performance 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 of Revenue Collection

Figure 2.1 compares the Outturn in Domestic Revenues in the Fourth Quarter against their corresponding targets. As the figure illustrates, overall, Domestic Revenues performed well as compared to the Quarterly Target, with total Domestic Revenues amounting to K60.7 billion against a target of K54.1 billion, thus an overcollection of K6.6 billion and representing 12 percent overcollection on Quarterly projection.

**Figure 2.1 Total Domestic Revenues Performance**



### 2.3 Tax Revenue Performance

In general, the net effect of underperformance and overperformance of individual Taxes shows that Tax Revenues in the Quarter under review Overperformed by K7.2 billion which is 15 per cent of the target.

**Table 2.1: Tax Revenue Performance in the Fourth Quarter**

Type of Tax	Quarter 4 Target	Quarter 4 Actual	Variance (Actual - Target)
Domestic Revenue	54,081	60,701	6,619
Tax revenue (Net)	46,996	54,159	7,163
Income and profits	26,728	26,311	(418)
Individual	12,019	13,541	1,522
PAYE	10,831	12,777	1,945
Other	1,188	764	(423)
Fringe benefit	824	519	(305)
Non-resident tax and others	363	245	156
Corporate	10,927	9,067	(1,861)
Company assessments	942	1,978	1,036
Provisional	9,985	7,089	(2,896)
Withholding	3,782	3,703	(79)
Goods and services	19,822	23,928	4,106
VAT	14,506	16,846	2,339
Domestic	7,561	8,258	697
Import	6,945	8,588	1,642
Excise Duties	5,315	7,082	1,767
Local	1,827	2,249	422
Import	3,488	4,833	1,345
International trade	5,153	5,550	398
Import duty	5,171	5,549	379
Prepayment	(18)	1	19
Other	(4,706)	(1,630)	3,077
Misc. duties	92	122	30
Tax refunds	(5,077)	(2,000)	3,077
Penalties	40	70	30
Dividend	237	176	(61)
Turn-over tax	2	2	(0)

## 2.4 Non – Tax Revenue Performance

Table 2.2 below presents the outturn in Non–Tax Revenues in the Fourth Quarter of the 2011/12 FY against their set targets. As the Table depicts, actual Non–Tax Revenues amounted to K6.5 billion compared to the target of K7.1 billion, thus an under collection of K543 million. This is due to the significant under collection in Fuel Levies, Dividends and Departmental Receipts.

**Table 2.2: Non – Tax Revenue Performance in the Fourth Quarter**

Type of Tax	Quarter 4 Target	Quarter 4 Actual	Variance (Actual - Target)
<b>Non-Tax Revenues</b>	<b>7,085</b>	<b>6,542</b>	<b>(543)</b>
Departmental receipts	2,392	1,987	(405)
Receipts from PIL for NRA	2,261	1,987	(274)
Receipts from PIL for Safety Nets	313	544	231
Parastatal Divident	781	385	(396)
Rural electrification levy	948	1,302	355
Storage Levy	391	336	(54)

### **3.5 Conclusion**

The report has revealed that generally Revenue collection in the Fourth Quarter of the 2011/12 Financial Year overperformed, mainly on account of overperformance in Tax Revenues. The overperformance in Tax Revenues is largely due to policy changes Government implemented in the Fourth Quarter of the 2011/12 Financial Year, in particular, the exchange rate adjustment and fuel pricing automaticity.

## Performance in Inflows of Grants in the Fourth Quarter of the Financial Year

### 3.1 Introduction

This Chapter examines the performance of inflows of Grants to Government in the Fourth Quarter of the 2011/12 Financial Year. It further discusses factors that explain performance displayed in the respective Grants.

In 2011/12 Fiscal Year, the Revised agreed Grants with the IMF were to the tune of K51.8 billion of which K1.7 billion were to be Program Grants, K33 billion Dedicated Grants and K17.2 billion Project Grants. In the Fourth Quarter of the Financial Year, projections were that K22.4 billion will be received of which K18.0 billion are Dedicated Grants and K4.4 billion are Project Grants

### 3.2 Performance of Overall Inflows of Grants in the Third Quarter

Overall, Grants under-performed by K11.9 billion. Out of the total projected inflows of K22.4 billion, Grants amounting to K10.5 billion were disbursed during the Quarter. Project Grants underperformed in the Quarter as shown by an unfavourable variance of K0.4 billion. As for Dedicated Grants, K6.48 billion was received against a target of K18.0 billion giving a shortfall of K11.6 billion. This is mainly on account of low inflows under NAC and the Agricultural Sector.

### **3.4 Conclusion**

The figures above clearly show that the disbursement of funds under all categories of Grants have not performed well and it all hinged on the availability of the IMF programme. It is hoped that since Government now has a program with the IMF, the disbursement from Development Partners will be able to come through without serious difficulties.

## Performance of Expenditures in the Quarter

### 4.1 Introduction

This Chapter highlights the performance of Expenditures in the Fourth Quarter of the 2011/12 Financial Year and explain the factors that underlies the observed Expenditure trends.

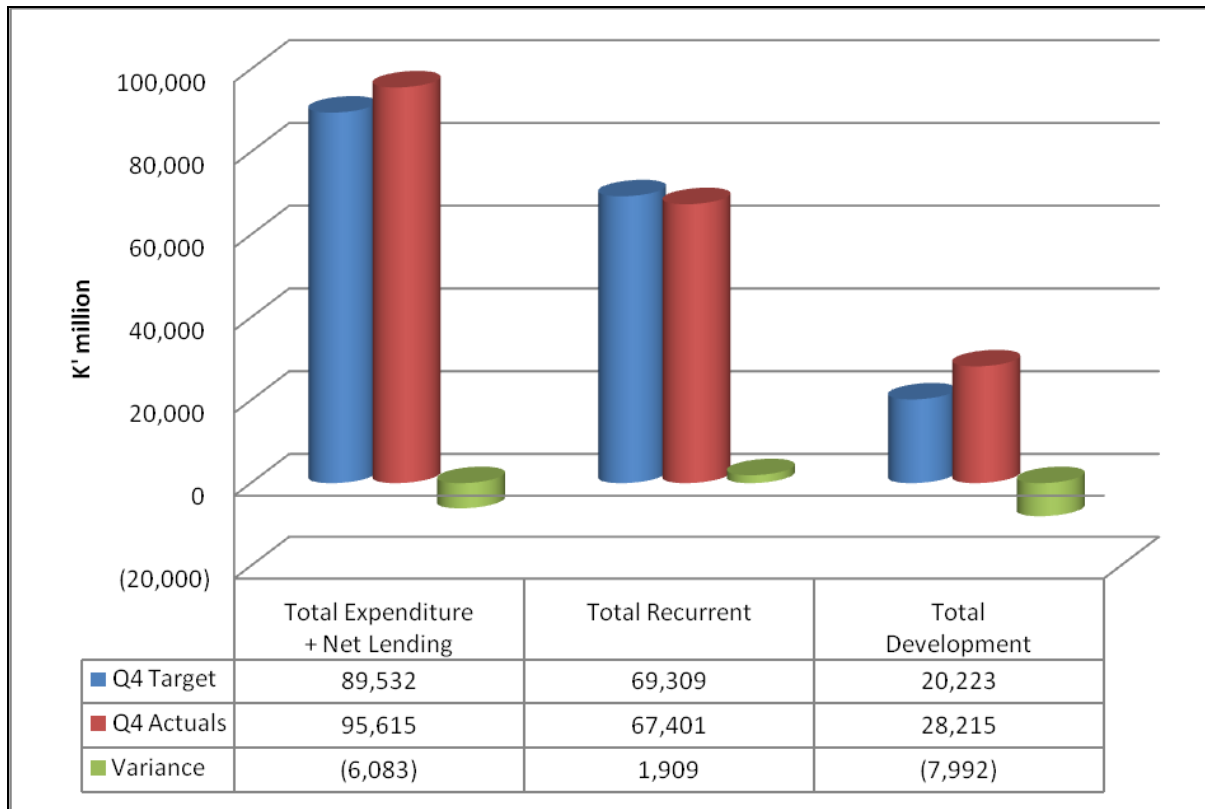
The total Expenditure, including net lending and direct payments for the Fourth Quarter of the 2011/12 Financial Year were projected at K88.5 billion. Out of this amount, the total current Expenditure was K69.3 billion. This was broken down as; Wages and Salaries projected at K20.6 billion; Interest on debt at K5.8 billion while other Current Expenditures including Goods and Services and Subsidies and Transfers were projected at K28.4 billion and K14.5 billion, respectively. Expenditures on Development Budget Projects were estimated at K20.2 billion.

### 4.2 Performance of Expenditures in the Fourth Quarter of the Financial Year

Planned Expenditures for the Fourth Quarter of the 2011/12 Financial Year were pegged at K88.5 billion of which, K69.3 billion and K20.2 billion were Recurrent and Development Budget Expenditures respectively. The Outturn for

the total Expenditures for the Quarter under review was K95.6 billion, broken down as K67.4 billion Recurrent Expenditures and K28.2 billion Development Budget Expenditure. Chart 4.1 below illustrates the projected Expenditures against the Outturn Expenditures.

**Chart 4.1 Total Government Expenditure in the Fourth Quarter of the 2011/12 FY**



As can be depicted from the Chart 4.1 above, the variance between the targetted Expenditures and actual Expenditures for the Fourth Quarter was K6.1 billion. This overexpenditure is explained by expenditure overruns mainly under the Development Budget. The Recurrent Expenditures were contained within the target of K69.3 billion.



## 4.2.1 Performance of various categories of Recurrent Expenditures in the Quarter

Table 4.1 below gives an account of various Recurrent Expenditure categories of Wages and Salaries, Interest on Debt, Goods and Services and Subsidies and Transfers in the Quarter under review. The analysis basically, hinges on the comparison between the target and the actual Expenditures and brief explanation behind the discrepancies.

*Table 4.1 Recurrent Expenditure in the Quarter*

Category	Q4 Target (K' million)	Q4 Outturn (K' million)	Variance between Target and Outturn (K' million)
<b>Recurrent Expenditure</b>	<b>69,309</b>	<b>67,247</b>	<b>2,063</b>
Wages and Salaries	20,610	20,630	(20)
Interest on Debt	5,839	5,543	296
Goods and Services	28,379	30,670	(2,291)
Transfers	14,481	10,403	4,077
Direct Payments/Reversals	-	154	(154)

### 4.2.1.1 Wages and Salaries

As noted in Table 4.1, there was little discrepancy between the target and the actual Outturn on Wages and Salaries.

### 4.2.1.2 Interest on Debt Repayment

Interest on both Foreign and Domestic Debt was below the Quarterly target by K0.3 billion. This expenditure was contained within the projected expenditures for the Quarter.

### **4.2.1.3 Transfers**

Fourth Quarter Expenditures under transfers amounted to K10.4 billion against a target of K14.5 billion leaving a positive balance of K4.1 billion.

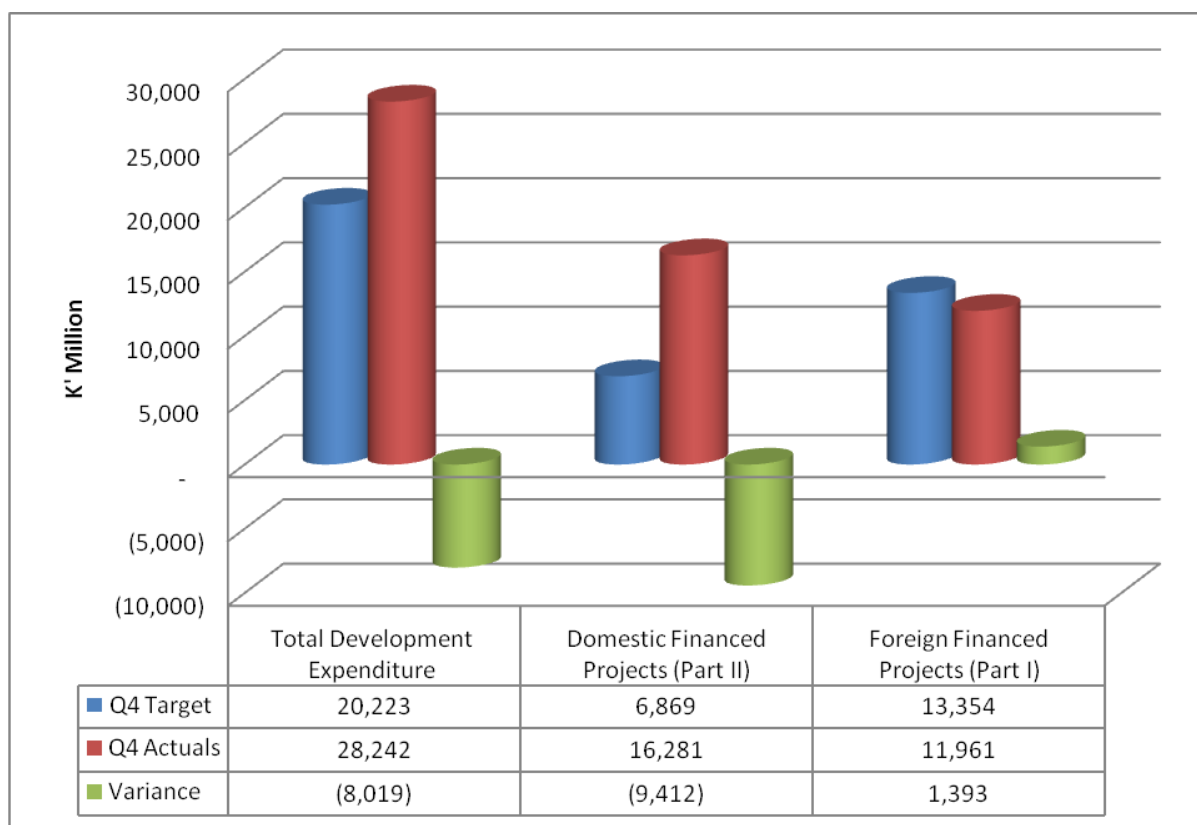
### **4.2.1.4 Goods and Services**

Expenditures on Goods and Services were above the target for the Fourth Quarter by K2.3 billion.

## **4.2.2 Performance of Development Budget Expenditures in the Quarter**

Government planned to spend K20.2 billion on Development projects in the Fourth Quarter of the Financial Year, of which, K6.9 billion was to be financed using domestic resources (Part II) and K13.3 billion was to be financed by foreign resources (Part I). As depicted by Chart 4.2 below, the outturn on Development Budget expenditure for the Quarter was K28.2 billion, implying an K8.0 billion overexpenditure which was on account of payment of outstanding invoices for project activities which had been done in the Quarter under review.

**Chart 4.2 Performance of the Development Budget**



### 4.2.3 Status of Projects in the Development Budget

Annex 1 is a compendium of all the Development Projects in the 2011/12 Financial Year as at 30<sup>th</sup> June, 2012. As it can be depicted, the status of the implementation of the Projects varies from one Project to the other.

### 4.3 Conclusion

This Chapter focused on the performance of Expenditures in the Fourth Quarter of the 2011/12 Financial Year. The Expenditures were broken down into various categories and the analysis was based on the discrepancies between the target and the actual Expenditures. Generally, the Outturn showed that there was an expenditure over run in the Development Budgets owing to payments made to clear outstanding certificates in various projects,

## Overall Fiscal Performance

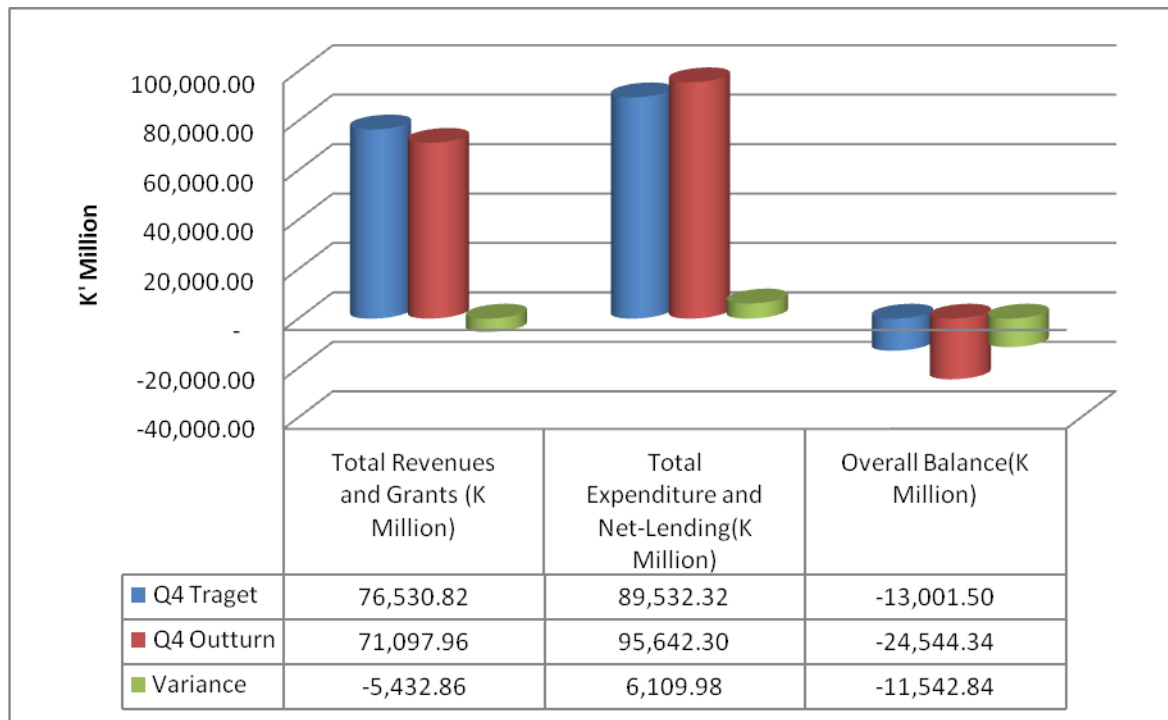
### 5.1 Introduction

This chapter summarises performance of Revenues and Expenditures in the Fourth Quarter of 2011/12 Financial Year and determined how they translated to the overall Government's fiscal performance. The Chapter also discusses the performance of Government on debt and debt repayment targets and their performance.

### 5.2 Quarterly Fiscal Position

Chart 5.1 below presents the Net Fiscal Position as at the end of the Fourth Quarter. As shown on the Chart, Total Revenues and Grants were K71.1 billion against a target of K76.5 billion thereby underperforming by K5.4 billion. Total Expenditures and Net Lending amounted to K95.6 billion against a target of K89.5 billion thereby registering an overexpenditure of K6.1 billion. As such, Government ended the Quarter with a fiscal deficit of K24.5 billion against a projected deficit of K13billion.

**Chart 5.1 Overall Balance including Grants**



## Conclusion

The outturn showed that the overall fiscal position missed the targets in the Quarter under review due to under performance of both Domestic and Foreign Resources on one hand and expenditure overruns on the other hand. Therefore, Government needs to tighten its fiscal operations going forward and ensure that all pressures in both receipts and expenditures are prudently managed and dealt-with throughout the Financial Year if Government is to prevent accumulation of debt.

# 6

## Conclusion

This report focused on the Budgetary performance for the Fourth Quarter of the 2011/12 Financial Year. The report has analysed the Revenue performance, the inflows of Grants and the performance of various categories of Expenditures.

The report has revealed that generally Revenue collection in the Fourth Quarter of the Financial Year performed satisfactorily, mainly owing to the overperformances on Tax Revenues. However, disbursement of Grants was less than optimal and as a result, this led to the overall shortfall in inflows to the Budget.

As for the Expenditures, overall, there was an expenditure overrun in the Quarter under review mainly on account of Development Budget Projects. This translated into a less than expected Fiscal Position which calls upon Government to be more vigilant in managing the Budget.