



MALAWI GOVERNMENT

2017/18 BUDGET PERFORMANCE QUARTERLY REPORT (Q1)

Ministry of Finance

P.O. Box 30049

Lilongwe 3

Malawi

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Foreword

This Quarterly Budget Performance Report is premised on the performance of the National Budget implementation in the First Quarter of the 2017/18 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

FY	Financial Year
IFMIS	Intergrated Financial Management Information System
IMF	International Monetary Fund
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
VAT	Value Added Tax

Executive Summary

Revenue Performance

In the 2017/18 Financial Year, Government plans to collect a total of K992.7 billion in Domestic Revenues of which, K900.7 billion and K91.9 billion are Tax Revenues and Non-Tax Revenues, respectively. In the First Quarter of the Financial Year, total Domestic Revenues were projected to be K229.8 billion of which, K212.0 billion were Tax Revenues and K17.8 billion were Non-Tax revenue. However, the outturn for this quarter was K206.4 billion on Tax Revenue and K18.9 billion on Non – Tax Revenues, reflecting an underperformance of K4.5 billion. Tax revenues underperformed by K5.6 billion while non-tax revenues overperformed by K1.1 billion. This gives us K225.3 billion being total domestic revenue collection in the quarter under review.

Performance of Grants and Loans

In the 2017/18 Financial Year, Government projects to receive Grants amounting to K147.6 billion, of which, K55.8 billion are Program Grants, K32.5 billion are Dedicated Grants and K59.3 billion Project Grants. In the First Quarter of the Financial Year, expected disbursements from Grants were K30.4 billion, of which K15.6 billion was Dedicated Grants and K14.8 billion was to come from Project Grants. The Outturn for the First Quarter of the Financial Year is that K23.5 billion was received representing an overall underperformance of Grants by K6.9 billion.

Expenditures Performance

In the 2017/18 Financial Year, Government planned to spend K1,335.8 billion, including net lending. Out of this sum, K978.8 billion is planned for Recurrent Expenditure and K352.9 billion Development Budget Expenditure with a net lending of K4.1 billion. In the First Quarter of the Financial Year, Government planned to spend K388.4 billion including net lending, of which, K295.6 billion is Recurrent Expenditure and K90.7 billion is Development Budget Expenditure with a net lending of K2.0 billion. However, overall, Government expenditure amounted to K358.9 billion reflecting an underexpenditure of K29.5 billion against the target for the quarter.

INTRODUCTION

1.1 Background to the Report

In June 2017, the National Assembly approved a Budget of K1,335.8 billion for the 2017/18 Financial Year (FY). This Budget is expected to be financed by Domestic Resources amounting to K900.7 billion and Grants amounting to K147.6 billion.

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 First Quarter (July to September, 2017) 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 First quarter of the 2017/18 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 and assessment of receipts and expenditures for the First Quarter of the 2017/18 Financial Year was done in October, 2017. The work involved analysis of data from the Reserve Bank of Malawi, Spending Agencies, Intergrated Financial Management Information System (IFMIS) 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

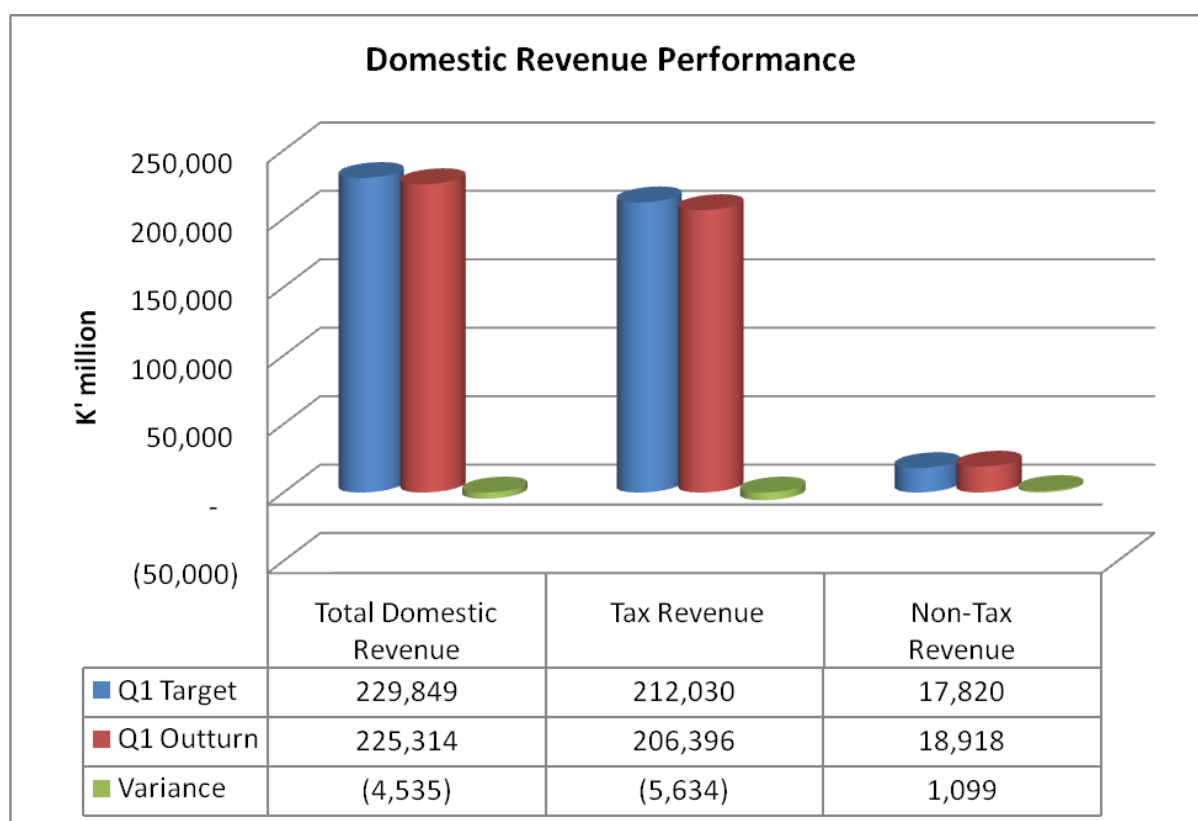
In the 2017/18 Financial Year, Government projected to collect total Domestic Revenues to the tune of K992.7 billion, of which, K900.7 billion were projected to be Tax Revenues and K91.9 billion Non-Tax Revenues (NTRs). This Chapter seeks to assess the performance of Government in Revenue collection during the first 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 first quarter of the Financial Year, total net Domestic Revenues were projected to amount to K229.8 billion of which, K212.0 billion was expected to be Tax Revenues while Non-Tax Revenues were projected at K17.8 billion.

Figure 2.1 below compares the Outturn in Domestic Revenues in the first quarter of the Financial Year against their corresponding targets. As indicated in the Figure 2.1 below, overall, Domestic Revenues underperformed by K4.5 billion as compared to its target. Total Domestic Revenues collected amounted to K225.3 billion against a target of K229.8 billion. This translates to overcollection of 1.9 percent.

Figure 2.1 Total Domestic Revenues Performance



2.3 Tax Revenue Performance

Table 2.1 below shows the performance of tax for the First quarter of the Financial Year against the projections. As the table illustrates, overall, Tax Revenues underperformed by K5.6 billion. The outturn of Tax revenue was K206.4 billion against a target of K212.0 billion. The underperformance on the Tax revenue is attributed to taxes on Income and Profits and in particular PAYE. Taxes on Goods and Services; the international trade; and other taxes (miscellaneous duties, penalties etc) also underperformed by 3.4 per cent, 12.6 percent and 17.3 per cent respectively.

Table 2.1 Tax Revenue Performance

Tax Category	Q1 Target	Q1 Outturn	Variance	% Variance
	K' Million			
Tax revenue (Net)	212,029.72	206,395.91	(5,633.82)	(2.66)
Income and profits	103,049.58	102,532.72	(516.86)	(0.50)
Individual	61,296.16	58,590.01	(2,706.15)	(4.41)
PAYE	57,231.41	53,493.12	(3,738.29)	(6.53)
Other	4,064.76	5,096.89	1,032.13	25.39
Fringe benefit	2,328.02	2,495.32	167.30	7.19
Non-resident tax and others	1,736.74	2,601.57	864.83	49.80
Corporate	21,925.03	26,066.25	4,141.22	18.89
Company assessments	5,345.90	6,808.58	1,462.68	27.36
Provisional	16,579.13	19,257.67	2,678.54	16.16
Withholding	19,828.39	17,876.46	(1,951.93)	(9.84)
Goods and services	91,659.73	88,563.59	(3,096.14)	(3.38)
VAT	69,873.68	68,726.46	(1,147.22)	(1.64)
Import	38,691.98	33,727.52	(4,964.46)	(12.83)
Domestic	31,181.71	34,998.94	3,817.24	12.24
Excise Duties	21,786.05	19,837.13	(1,948.92)	(8.95)
Import	13,271.58	11,173.04	(2,098.53)	(15.81)
Local	8,514.47	8,664.09	149.61	1.76
International trade	20,567.55	17,984.70	(2,582.84)	(12.56)
Import duty	20,231.42	17,994.89	(2,236.53)	(11.05)
Prepayment	336.12	(10.19)	(346.31)	(103.03)
Other	(3,247.13)	(2,685.10)	562.03	(17.31)
Misc. duties	227.11	741.69	514.59	226.59
Tax refunds	(5,436.66)	(5,947.23)	(510.57)	9.39
Penalties	757.39	603.28	(154.11)	(20.35)
Dividend	1,197.33	1,914.55	717.22	59.90
Turn-over tax	7.71	2.60	(5.10)	(66.22)

2.4 Performance of Non – Tax Revenues (NTRs) in the First Quarter

Table 2.2 below presents the outturn in NTRs in the first quarter of the 2017/18 Financial Year against their set targets. As indicated in the table, actual NTRs amounted to K18.9 billion compared to a target of K17.8 billion, thus an overcollection of K1.1 billion. This favourable performance is attributed the performance of the parastatal dividend and rural electrification levy. However departmental receipts performed decimally with an undercollection of 13.2 per cent in the quarter under review.

Table 2.2 Non – Tax Revenue Performance in the first quarter

NTR	QI Target	QI Outturn	Variance	% Variance
	K' Million			
Non-Tax Revenue	17,819.58	18,918.43	1,098.86	6.17
Departmental receipts	6,305.79	5,471.78	(834.01)	(13.23)
Road Levy	6,557.23	6,238.93	(318.30)	(4.85)
Parastatal dividends	-	1,068.52	1,068.52	
Rural electrification levy	3,123.21	4,478.41	1,355.20	43.39
Storage Levy	462.72	415.20	(47.52)	(10.27)
Road Tax	1,370.62	1,245.60	(125.02)	(9.12)

The Table 2.3 below presents the performance of departmental receipts per department. As shown in the table below, most institutions underperformed resulting in an overall underperformance of departmental receipts of 13.2 per cent and this needs to be supported for departments to reach full capacity.

Table 2.3 Non – Tax Revenue Performance in the first quarter by department

Ministry/Department	Approved 2017/18 Provision	Q1 Target	Q1 Outturn	Variance	Performance %
Accountant General	138,900,000	34,725,000	29,818,563	-4,906,437	85.87
Administrator General	300,000	125,000	-	-125,000	-
Agriculture	200,000,000	53,833,098	18,371,560	-35,461,537	34.13
Civil Aviation	5,300,000,000	1,366,168,507	1,322,985,525	-43,182,983	96.84
Civic Education, Culture & Community Devpment	54,217,200	14,644,000	-	-14,644,000	-
Education	900,000,000	162,178,670	67,437,426	-94,741,244	41.58
Finance	100,000,000	25,000,000	73,450	-24,926,550	0.29
Fisheries Department	20,000,000	25,711,379	415,000	-25,296,379	1.61
Forestry	-	-	392,200	392,200	
Geological Survey	16,000,000	4,000,000	5,135,750	1,135,750	128.39
Health and Population	250,000,000	62,500,000	3,482,967	-59,017,033	5.57
Immigration	9,500,000,000	2,373,750,000	2,970,430,084	596,680,084	125.14
Information	25,000,000	6,375,000	4,043,408	-2,331,592	63.43
Judiciary	40,000,000	9,950,000	14,260,000	4,310,000	143.32
Labour and Social Services	200,000,000	71,483,196	44,200,401	-27,282,794	61.83
Lands, Housing and Physical Planning	1,200,000,000	268,999,982	125,580,139	-143,419,843	46.68

Ministry/Department	Approved 2017/18 Provision	Q1 Target	Q1 Outturn	Variance	Performance %
Marine	12,500,000	3,350,000	2,550,000	-800,000	76.12
Meteorological services	1,500,000	300,000	634,000	334,000	211.33
Mines	400,000,000	120,000,000	62,776,418	-57,223,582	52.31
NSO	1,000,000	286,000	-	-286,000	-
ODPP	28,000,000	6,850,000	6,521,000	-329,000	95.20
Police	2,500,000,000	619,692,100	148,265,693	-471,426,407	23.93
Prisons	13,500,000	1,740,000	30,000	-1,710,000	1.72
Railway Services	750,000,000	500,250,000	-	-500,250,000	-
Registrar General	1,710,000,000	383,158,068	524,117,870	140,959,802	136.79
Tourism and Parks	-	-	521,700	521,700	
Trade and Industry	245,000,000	190,640,000	115,148,100	-75,491,900	60.40
Water and Irrigation	-	-	4,588,747	4,588,747	
Women and Children	22,000,000	-	-	-	
Youth, Sports	104,750,000	-	-	-	
TOTAL	23,732,667,200	6,305,710,000	5,471,780,000	833,930,000	86.78
KEY					
	Overperformance				
	Underperformance				

The underperformance is largely attributed to the undercollections in the Ministries of Agriculture, Lands, Civic Education, Education, Finance, Malawi Police Services, Malawi Prison Services and the Fisheries Department. Their collections were below 50 per cent of the target and they need to be seriously monitored in subsequent quarters to ascertain meeting their annual targets.

2.5 Conclusion

In aggregate terms, the performance of revenue collection in the first quarter of the financial year was below the set targets for tax revenues and non-tax revenues were slightly above the target. In order to improve the performance of

non tax revenues, ministries and departments should continue prioritising activities that generate revenues and the Ministry of Finance, through the Revenue Division should monitor the revenue collecting MDAs in subsequent quarters to ensure improvement in performance.

Performance of Grants

3.1 Introduction

In the 2017/18 Financial Year, the projected resource inflows from Grants amounts to K147.6 billion, of which, K55.8 billion would be realized from Program Grants, K32.5 billion from Dedicated Grants and K59.3 billion from Project Grants.

In the first quarter of the 2017/18 Financial Year, Government expected to receive K30.4 billion in form of Grants. Out of this amount, K15.6 billion from Dedicated Grants, K14.8 billion would come from Project Grants and no any inflows from Program Grants were expected. This Chapter, examines the performance of these Grants in the quarter under review.

3.2 Grants Performance in the First Quarter

Figure 3.1 presents the performance of Grants in the first quarter of the financial year. As indicated in the table, overall, Grants underperformed by K6.9 billion largely due to lower than anticipated inflows from Dedicated Grants which underperformed by K7.5 billion. On the other hand, Project Grants overperformed by K0.6 billion.

Table 3.1 Performance of Grants in the First Quarter

	First Quarter		
	K'million		
	Q1 Target	Q1 Outturn	Q1 Variance
Grants	30,411.22	23,458.85	(6,952.36)
Dedicated grants	15,587.51	8,079.64	(7,507.87)
Food security	5,806.00	7,876.55	2,070.55
EU/Norway/World Bank Recovery	-	6,740.74	6,740.74
World Bank (MDRRP)	-	6,740.74	6,740.74
Agric. SWAP	5,806.00	1,135.81	(4,670.19)
World Bank	5,806.00	1,135.81	(4,670.19)
NAC inflows	3,991.45	-	(3,991.45)
World Bank	3,628.59	-	(3,628.59)
OPC/NAC CDC Account	362.86	-	(362.86)
Education SWAP	774.20	-	(774.20)
GDC	774.20	-	(774.20)
PFEM RP Pool	5,015.86	203.09	(4,812.77)
World Bank	5,015.86	203.09	(4,812.77)
Project grants	14,823.71	15,379.22	555.51

3.4 Conclusion

As indicated above, overall, disbursement of donor resources under Grants category underperformed in the first quarter of the financial year in all categories except under project grants where development partners disbursed slightly above the target.

Expenditure Performance

4.1 Introduction

This chapter highlights the performance of expenditures in the first quarter of the 2017/18 Financial Year and explains the factors underlying the observed expenditure trends.

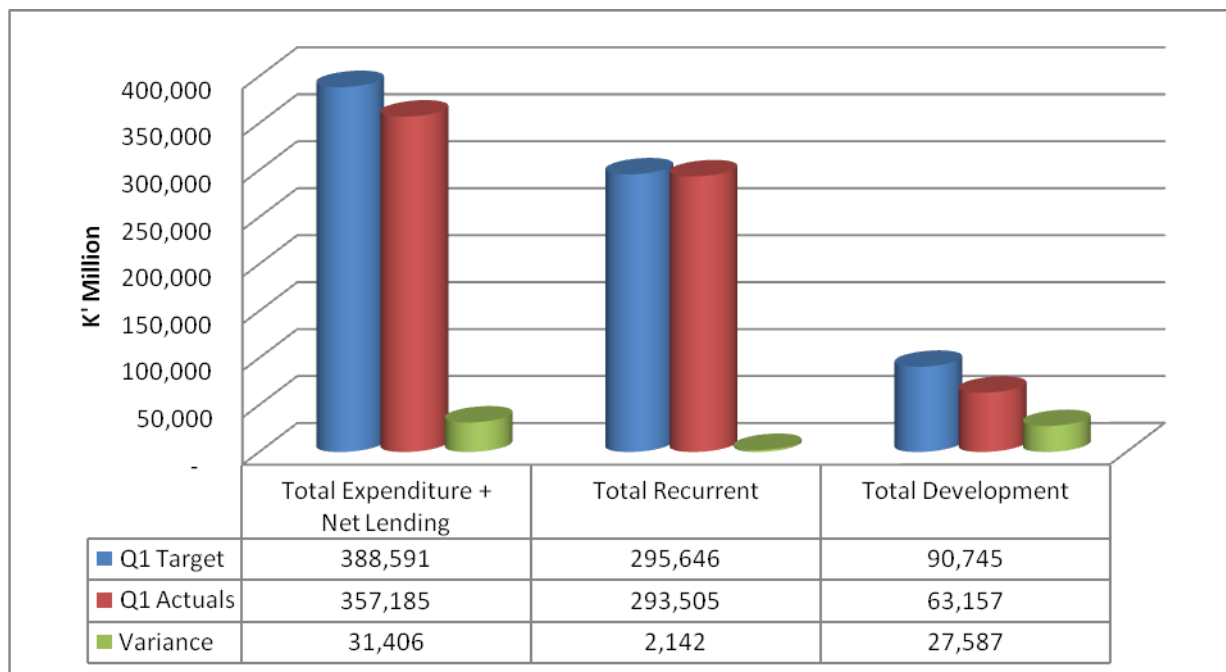
In the 2017/18 Financial Year, Government is expected to spend K1,335.8 billion including net lending. Of this sum, K978.8 billion is projected to be Recurrent Expenditures and K352.9 billion is projected to be Development Budget Expenditures. In the quarter under review, total expenditure including net lending and direct payments was projected at K388.4 billion broken down as K295.4 billion recurrent expenditure, K90.7 billion development budget Expenditure and a net lending of K2.3 billion.

For the quarter under review, out of the projected recurrent expenditure, wages and salaries were projected at K76.0 billion; Interest Payments K48.6 billion while other current expenditures including Goods and Services; and Subsidies and Transfers were projected at K171.1 billion. On the other hand, expenditures on Development budget were projected at K90.7 billion broken down as K26.1 billion domestically financed projects and K64.6 billion foreign financed projects.

4.2 Performance of Overall Expenditures

The Outturn for the first quarter of the financial year indicates that total expenditure was K358.9 billion including net lending, broken down as K293.5 billion Recurrent Expenditures and K63.2 billion development budget expenditures with a net lending of K2.2 billion. Chart 4.1 below illustrates the projected expenditures against the outturn.

Chart 4.1 Total Government expenditure in the first quarter of the 2017/18 FY



As can be shown in Chart 4.1 above, total expenditures in the quarter were below the projected amount of K388.6 billion by K31.4 billion.

4.2.1 Performance of Recurrent Budget

In general, Government projected to use K168.9 billion to ran its daily business during the quarter under review. The outturn shows that expenditures were above the target by K3.6 billion as shown in Table 5.1 below. The higher than expected expenditure is attributed to payments towards interest on foreign debt which were higher than projected.

Table 4.1 Recurrent Expenditure Breakdown

	QI Projection	QI actual	QI Variance
	K' Million		
Recurrent expenditure	295,646.16	293,504.52	(2,141.64)
Wages and salaries	76,027.63	76,107.00	79.37
Interest on debt	48,566.27	44,539.04	(4,027.23)
Foreign	3,853.37	1,131.28	(2,722.08)
Domestic	44,712.90	43,407.76	(1,305.14)
Purchases of goods and services	123,842.28	125,300.16	1,457.87
Subsidies and transfers	44,009.97	43,858.32	(151.65)
Arrears	3,200.00	3,700.00	500.00

4.2.1.1 Expenditures under Personal Emoluments (PE)

In 2017/18 Financial Year, Government is expected to spend K309.6 billion on PE. In the period under review and as indicated in Table 4.1, wages and salaries were projected at K76.0 billion. The expenditure was slightly above the projection by 0.1 per cent.

4.2.1.2 Other Recurrent Transactions (ORT)

ORT expenditure for the first quarter of the financial year was projected to amount to K219.6 billion (which is total recurrent expenditure less wages and

salaries). Actual expenditures as at the end of the quarter were K217.4 billion which was below the target by K2.2 billion representing an underperformance of 1.0 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 Chart 4.1 may have a negative impact on welfare of the citizenry. Therefore, expenditures on health, education, farm input subsidy program (FISP) 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 K435.1 billion. In the quarter under review, the target was K130.4 billion.

Table 5.2 below shows social spending performance. It can be noted from the table that in the quarter under review social spending was slightly above the target by K1.9 billion, a performance which is commendable.

Table 5.2 Social Spending

	2017/2018 Provision	Quarter 1 Projection	Quarter 1 Actual	Quarter 1 Variance
K' Million				
Health Expenditure	86,064.71	21,029.53	21,172.31	142.78
Wages	23,216.55	5,804.14	4,374.37	-1,429.77
Local Council Wages	30,903.87	7,725.97	9,147.08	1,421.11
Other Recurrent Transactions	25,233.49	6,548.73	6,906.05	357.32
Ministry of Health ORT	17,253.85	4,553.82	4,855.17	301.35
Local Assemblies ORT	7,979.64	1,994.91	2,050.88	55.97
Subvented Organisations	390.80	97.69	94.81	-2.88
Development expenditure	6,320.00	853.00	650.00	-203.00
Education Expenditure	258,632.05	66,541.89	70,405.89	3,864.00

	2017/2018 Provision	Quarter 1 Projection	Quarter 1 Actual	Quarter 1 Variance
K' Million				
Wages	20,437.64	4,975.17	3,347.19	-1,627.98
Local Councils Wages	98,086.19	24,521.55	24,521.55	-
Other Recurrent Transactions	70,234.39	19,596.74	24,778.04	5,181.30
Ministry of Education ORT	11,980.00	4,707.27	4,612.12	-95.14
Local Assemblies ORT	9,080.56	2,270.14	3,925.16	1,655.02
Subvented Organisations	49,173.83	12,619.33	16,240.76	3,621.42
Development expenditure	20,700.00	4,829.10	1,518.36	-3,310.74
National Local Government Finance Committee	11,200.00	2,800.00	2,800.00	-
Drugs for DHOs	11,200.00	2,800.00	2,800.00	-
Agriculture Expenditures	68,150.00	35,545.00	35,150.00	-395.00
Farm Input Subsidy Program	33,150.00	545.00	150.00	-395.00
Maize Purchase	35,000.00	35,000.00	35,000.00	-
Lands and Housing Expenditure	7,000.00	3,150.00	1,527.75	-1,622.25
Cement and Iron Sheets Subsidy	7,000.00	3,150.00	1,527.75	-1,622.25
Gender, Children, Disability and Social Welfare	3,561.38	1,303.12	868.48	-434.64
Wages	1,587.50	396.88	201.87	-195.01
Other Recurrent Transactions	1,850.88	895.44	633.66	-261.78
Development expenditure	123.00	10.80	32.95	22.15
Local Development Fund Expenditures	350.00	35.00	-	-35.00
Local Development Fund	350.00	35.00	-	35.00
Poverty and Disaster Management Cost Centre under the Office of the President and Cabinet	103.50	25.88	25.88	0.00
Wages	-	-	-	-
Other Recurrent Transactions	103.50	25.88	25.88	0.00
Total Social Expenditure	435,061.64	130,430.41	131,950.31	1,519.90

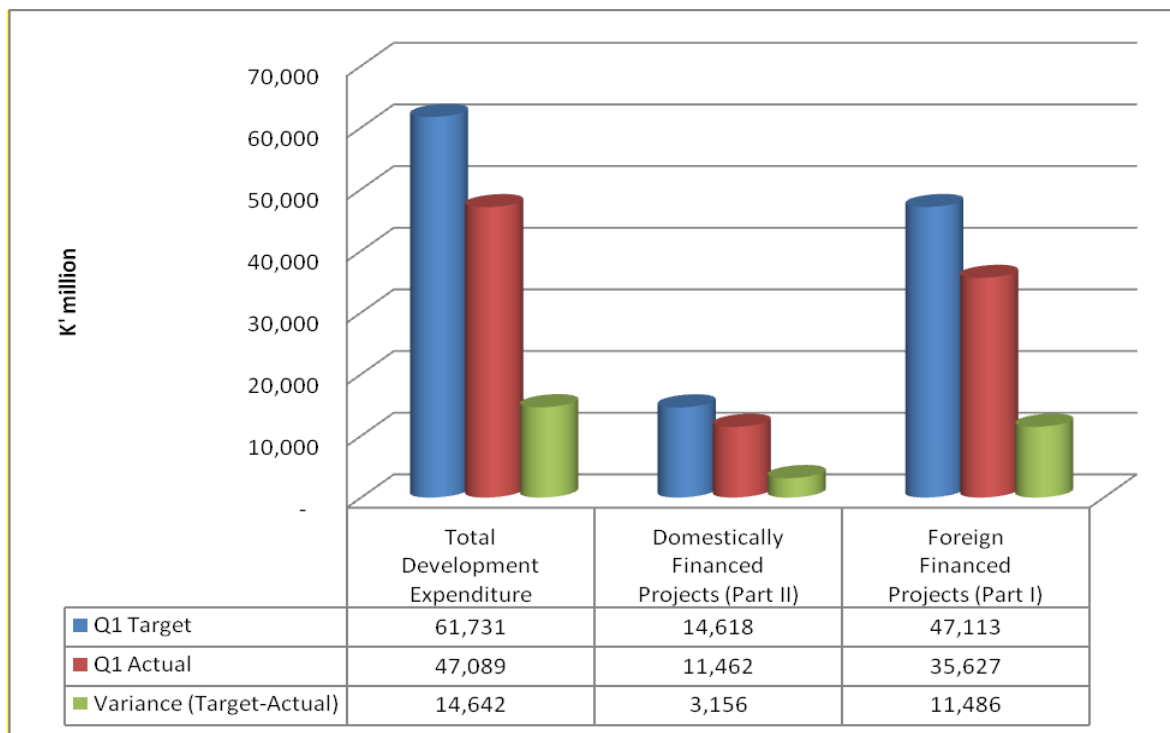
Source: Malawi Government

There is need, therefore, to maintain the first quarter momentum in the subsequent quarters in order to meet the annual target so that the poor are seen to benefit from the budget.

4.2.2 Performance of Development Budget

On Development Budget, Government planned to spend K90.7 billion in the first quarter, of which, K26.1 billion was to be financed using domestic resources (Part II) and K64.6 billion was for Foreign Financed Projects (Part I). As depicted by Chart 4.2 below, the outturn on Development Budget was that K63.2 billion was spent broken down as K42.1 billion on Part 1 and K21.1 billion on Part II. Overall, the development expenditure was below the target by K27.6 billion. The underexpenditure was on account of corresponding low inflows on both domestic revenues and grants.

Chart 5.2 Performance of the Development Budget



4.3 Conclusion

This Chapter focused on the performance of expenditures of Government in the first quarter of the 2017/18 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, this may have had a negative bearing on protected social expenditures, on the contrary social spending was slightly above the target.

Conclusion and Recommendations

The report has shown that domestic revenue collection in the first quarter of the 2017/18 Financial Year was below the target in most categories. It is therefore recommended that revenue collection institutions should continue to prioritise revenue collection activities.

Disbursement of resources under Grants underperformed in the quarter under review. This was mainly on account of low inflows under the dedicated 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. Therefore, improvements on the inflow side will

The recurrent budget overspent mainly on generic goods and services whereas the rest of the recurrent items reported underexpenditures. Despite this, social spending was slightly above the target which is commendable. It is therefore recommended that the first quarter momentum on social spending should be maintained in the subsequent quarters in order to meet the annual target so that the poor are seen to benefit from the budget.

The development budget underspent and progress is minimal in most of the projects. This is mainly due to low funding on Part II projects and lower than anticipated disbursements on Part I projects. It is therefore recommended that funding to the projects should improve in the subsequent quarters on Part II projects and Government should continue engaging development partners on Part I financing. This sets out to ensure adherence to set targets to avoid accumulation of arrears to contractors and also for smooth completion of some of the projects.