



MALAWI GOVERNMENT

2017/18 BUDGET PERFORMANCE QUARTERLY REPORT (Q3)

Ministry of Finance

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Foreword

This Quarterly Budget Performance Report is premised on the performance of the National Budget implementation in the Third 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
LDF	Local Development Fund
MoFEPD	Ministry of Finance, Economic Planning and Development
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 K980.2 billion in Domestic Revenues which was later at mid-year revised to K953.1 billion. Of the revised sum, K900.7 billion is expected from Tax Revenues and K79.4 billion from Non-Tax Revenues, respectively. In the Third Quarter of the Financial Year, total Domestic Revenues were projected to be K239.2 billion of which, K221.4 billion were Tax Revenues and K17.8 billion were Non-Tax revenue. However, the outturn for this quarter was K207.6 billion on Tax Revenue and K31.4 billion on Non-Tax Revenues, reflecting an underperformance of K268.3 million. Tax revenues underperformed by K13.8 billion while non-tax revenues overperformed by K13.6 billion. This gives us K239.0 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 which was later at mid-year revised to K177.2 billion, of which, K60.0 billion are Program Grants, K30.5 billion are Dedicated Grants and K86.3 billion Project Grants. In the Third Quarter of the Financial Year, expected disbursements from Grants were K18.8 billion, of which K3.9 billion was Dedicated Grants and K14.8 billion was to come from Project Grants. The Outturn for the Third Quarter of the Financial Year is that K14.3 billion was received representing an overall underperformance of Grants by K4.5 billion.

Expenditures Performance

In the 2017/18 Financial Year, Government planned to spend K1,323.3 billion, including net lending which was later at mid-year revised to K1,313.9 billion. Out of the revised sum, K998.1 billion is planned for Recurrent Expenditure and K311.8 billion Development Budget Expenditure with a net lending of K4.0 billion. In the Third Quarter of the Financial Year, Government planned to spend K334.3 billion, of which, K248.6 billion is Recurrent Expenditure and K83.7 billion is Development Budget Expenditure. However, overall, Government expenditure amounted to K329.8 billion reflecting an underexpenditure of K4.5 billion against the target for the quarter.

INTRODUCTION

1.1 Background to the Report

In June 2017, the National Assembly approved a Budget of K1,323.3 billion for the 2017/18 Financial Year (FY) and the budget was later revised to K1,313.9 billion. This Budget is expected to be financed by Domestic Resources amounting to K953.1 billion and Grants amounting to K177.2 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 Third Quarter (January and March, 2018) 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 Third 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;

- (iii) To present the details of the performance of Expenditures of Government; and
- (iv) To present the overall financing

1.3 Methodology

The review and assessment of receipts and expenditures for the Third Quarter of the 2017/18 Financial Year was done in April, 2018. 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 performance of Expenditures while Chapter Five looks at financing. Chapter 6 concludes the Report.

Performance of Domestic Revenues

2.1 Introduction

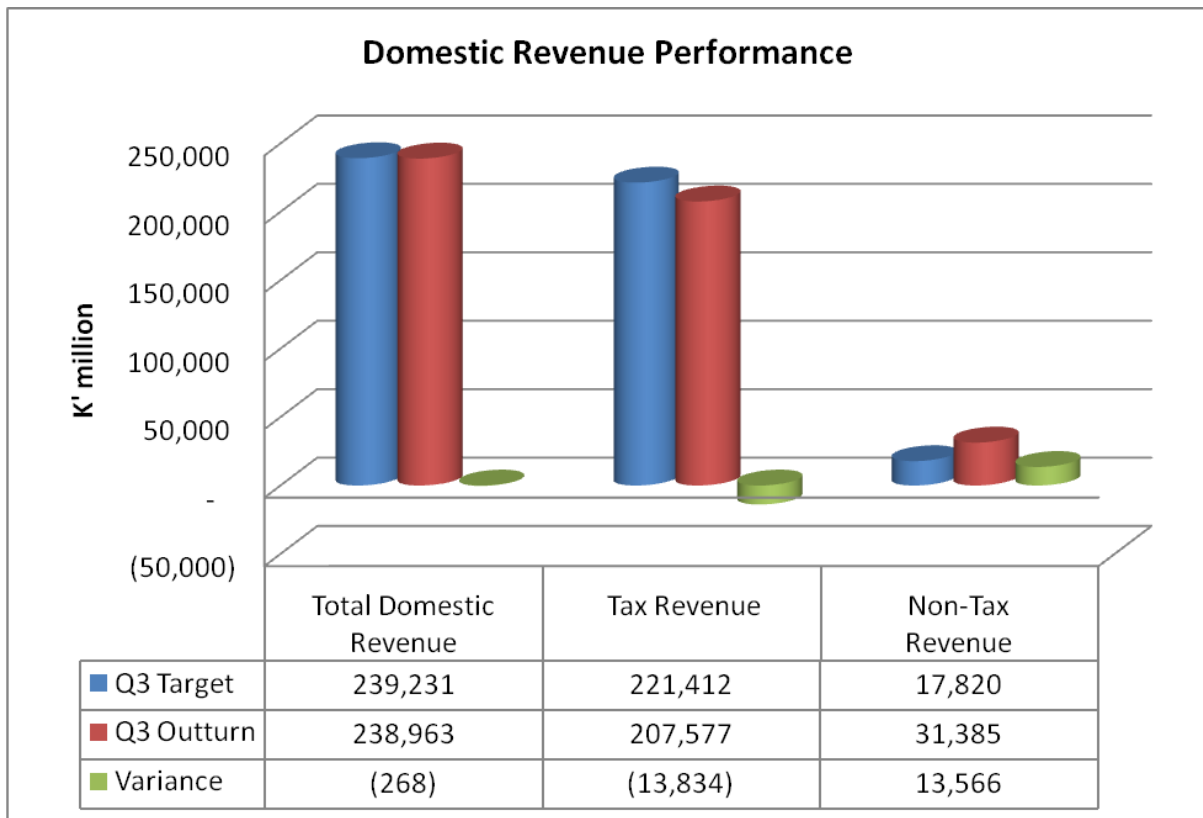
In the 2017/18 Financial Year, Government projected to collect total revised Domestic Revenues to the tune of K953.1 billion, of which, K900.7 billion were projected to be Tax Revenues and K79.4 billion Non-Tax Revenues (NTRs). This Chapter seeks to assess the performance of Government in Revenue collection 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 third quarter of the Financial Year, total net Domestic Revenues were projected to amount to K239.2 billion of which, K221.4 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 third quarter of the Financial Year against their corresponding targets. As indicated in the Figure 2.1 below, overall, Domestic Revenues underperformed by K268.3 million as compared to its target. Total Domestic Revenues collected amounted to K238.9 billion against a target of K239.2 billion. This translates to an undercollection of 0.1 percent.

Figure 2.1 Total Domestic Revenues Performance



2.3 Tax Revenue Performance

Table 2.1 below shows the performance of tax for the third quarter of the Financial Year against the projections. As the table illustrates, overall, Tax Revenues underperformed by K13.8 billion. The outturn of Tax revenue was K207.6 billion against a target of K221.4 billion. The underperformance on the Tax revenue is attributed to all taxes: Income and Profits, Taxes on Goods and Services; and International trade taxes underperformed by 1.8 per cent, 10.2 per cent and 2.9 per cent respectively.

Table 2.1 Tax Revenue Performance

	QIII Projection	QIII Actual	QIII Variance
Domestic Revenue	239,231.25	238,962.93	(268.32)
Tax revenue (Net)	221,411.68	207,577.48	(13,834.20)
Income and profits	112,295.01	110,311.53	(1,983.48)
Individual	66,608.89	65,843.73	(765.16)
PAYE	61,604.76	58,719.50	(2,885.26)
Other	5,004.13	7,124.23	2,120.09
Fringe benefit	2,667.41	2,991.10	323.69
Non-resident tax and others	2,336.72	4,133.13	1,796.41
Corporate	27,295.15	24,766.36	(2,528.79)
Company assessments	5,827.16	10,309.61	4,482.45
Provisional	21,467.99	14,456.76	(7,011.23)
Withholding	18,390.96	19,701.44	1,310.47
Goods and services	93,627.16	83,430.35	(10,196.81)
VAT	73,769.40	64,177.04	(9,592.36)
Import	37,721.29	33,620.49	(4,100.79)
Domestic	36,048.11	30,556.55	(5,491.57)
Excise Duties	19,857.76	19,253.31	(604.45)
Import	11,820.28	11,773.23	(47.05)
Local	8,037.48	7,480.07	(557.41)
International trade	19,573.24	18,999.35	(573.89)
Import duty	19,474.26	18,980.67	(493.59)
Prepayment	98.98	18.68	(80.30)
Other	(4,083.74)	(5,163.75)	(1,080.01)
Misc. duties	226.76	(255.58)	(482.34)
Tax refunds	(5,677.22)	(6,251.42)	(574.20)
Penalties	532.00	321.38	(210.62)
Dividend	832.14	1,018.04	185.90
Turn-over tax	2.59	3.84	1.25

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

Table 2.2 below presents the outturn in NTRs in the third quarter of the 2017/18 Financial Year against their set targets. As indicated in the table, actual NTRs amounted to K31.4 billion compared to a target of K17.8 billion, thus an overcollection of K8.2 billion. This favourable performance is mainly attributed to the overperformance of the departmental receipts which overperformed by 162.3 per cent. However departmental receipts missed their target by 0.7 per

cent. This is a huge improvement as compared to the second quarter performance where revenues underperformed by 29.2 per cent of its target.

Table 2.2 Non – Tax Revenue Performance in the third quarter

	QIII Projection	QIII Actual	QIII Variance
Non-Tax Revenue	17,819.58	31,385.45	13,565.87
Departmental receipts	6,305.79	16,540.39	10,234.60
Road Levy	6,557.23	6,880.21	322.98
Parastatal dividends	-	1,814.56	1,814.56
Rural electrification levy	3,123.21	4,250.87	1,127.66
Storage Levy	462.72	461.85	(0.87)
Road Tax	1,370.62	1,437.57	66.95

2.5 Conclusion

In aggregate terms, the performance of revenue collection in the third quarter of the financial year was below the set targets for tax revenues. Non-tax revenues on the other hand, performed above the set target. The tax revenues have consistently underperformed over the past nine months. There is need therefore to revisit the assumptions of the tax-revenues in order to reverse the trend. Non-tax revenues performed better in the third quarter. There is need therefore to maintain the momentum set in non-tax revenues in the quarter under review in order to meet the annual target.

Performance of Grants

3.1 Introduction

In the 2017/18 Financial Year, the projected resource inflows from revised Grants amounts to K177.2 billion, of which, K60.0 billion would be realized from Program Grants, K30.5 billion from Dedicated Grants and K86.7 billion from Project Grants.

In the third quarter of the 2017/18 Financial Year, Government expected to receive K18.8 billion in form of Grants. Out of this amount, K3.9 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 Third Quarter

Figure 3.1 presents the performance of Grants in the third quarter of the financial year. As indicated in the table, overall, Grants underperformed by K4.4 billion largely due to lower than anticipated inflows from Project Grants which underperformed by K7.5 billion. On the other hand, dedicated grants overperformed by K3.0 billion.

Table 3.1 Performance of Grants in the Third Quarter

	QIII Projection	QIII Actual	QIII Variance
GRANTS	18,756.58	14,286.84	(4,469.74)
Dedicated grants	3,932.87	6,955.21	3,022.34
Food security	-	3,686.92	3,686.92
EU/Norway/World Bank Recovery	-	3,686.92	3,686.92
World Bank (MDRRP)		2,425.48	2,425.48
World Bank (MFERP)		1,261.44	1,261.44
NAC inflows	-	3,070.97	3,070.97
World Bank	-	3,070.97	3,070.97
Education SWAP	2,525.95	-	(2,525.95)
GDC	774.20	-	(774.20)
Norway	1,751.76	-	(1,751.76)
PFEM RP Pool	1,406.91	197.31	(1,209.60)
World Bank	1,406.91	197.31	(1,209.60)
Project grants	14,823.71	7,331.62	(7,492.09)

3.4 Conclusion

As indicated above, overall, disbursement of donor resources under Grants category underperformed in the third quarter of the financial year in all categories. There is need to revisit the assumptions made on grants visavis the projects as this will directly affect the public sector investment program implementation.

Expenditure Performance

4.1 Introduction

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

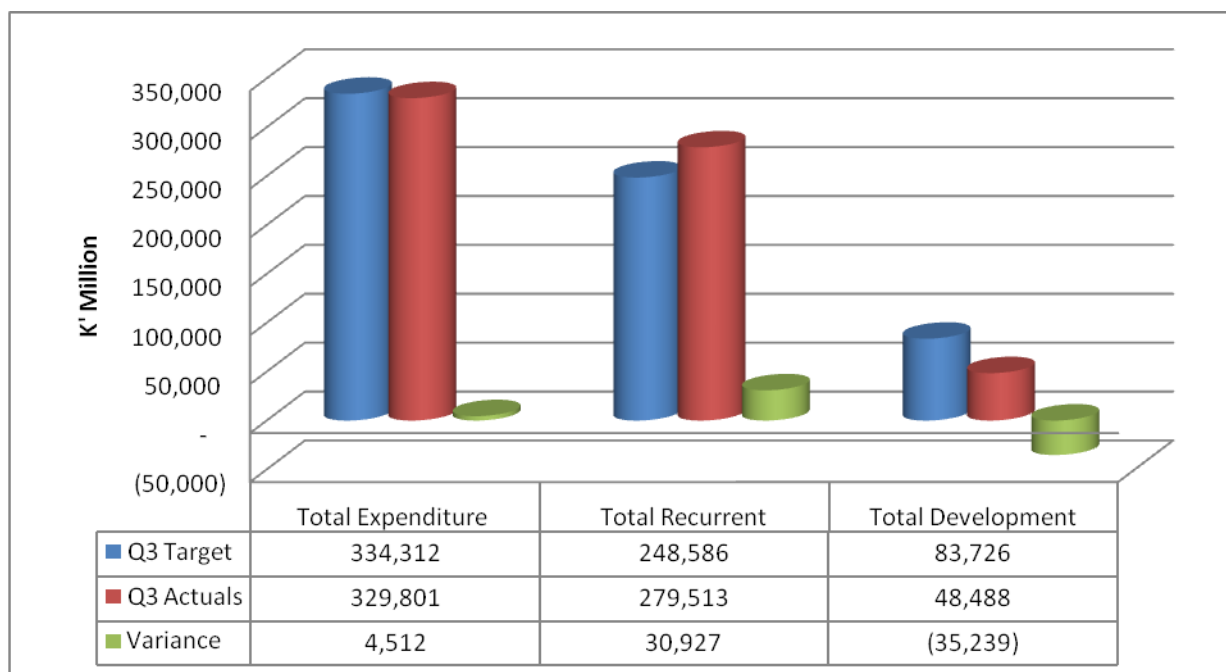
In the 2017/18 Financial Year, Government is expected to spend K1,335.8 billion including net lending. This was later revised at mid-year to K1,313.9 billion. Of this sum, K998.1 billion is projected to be Recurrent Expenditures and K311.8 billion is projected to be Development Budget Expenditures. In the quarter under review, total expenditure including net lending and direct payments was projected at K334.3 billion broken down as K332.3 billion recurrent expenditure and K83.7 billion development budget Expenditure with a net lending of K2.0 billion.

For the quarter under review, out of the projected recurrent expenditure, wages and salaries were projected at K78.4 billion; Interest Payments K62.7 billion while other current expenditures including Goods and Services; and Subsidies and Transfers were projected at K107.5 billion. On the other hand, expenditures on Development budget were projected at K83.7 billion broken down as K32.5 billion domestically financed projects and K51.2 billion foreign financed projects.

4.2 Performance of Overall Expenditures

The Outturn for the third quarter of the financial year indicates that total expenditure was K329.8 billion, broken down as K328.0 billion Recurrent Expenditures and K48.5 billion development budget expenditures. Chart 4.1 below illustrates the projected expenditures against the outturn.

Chart 4.1 Total Government expenditure in the third 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 K334.3 billion by K4.5 billion.

4.2.1 Performance of Recurrent Budget

In general, Government projected to use K248.6 billion to run its daily business during the quarter under review. The outturn shows that expenditures were above the target by K30.9 billion as shown in Table 4.1 below. The higher than expected expenditure is attributed to payments towards wages and salaries; purchase of goods and services; subsidies and transfers; and arrears which were higher than projected.

Table 4.1 Recurrent Expenditure Breakdown

	QIII Projection	QIII Actual	QIII Variance
Recurrent expenditure	248,585.93	279,512.99	30,927.06
Wages and salaries	78,369.92	81,399.13	3,029.21
Interest on debt	62,667.57	57,423.19	(5,244.38)
Foreign	3,916.68	1,882.03	(2,034.65)
Domestic	58,750.89	55,541.16	(3,209.73)
Purchases of goods and services	54,541.39	66,512.68	11,971.28
Subsidies and Transfers	53,007.06	64,942.14	11,935.08
Arrears	-	9,235.86	9,235.86

4.2.1.1 Expenditures under Personal Emoluments (PE)

In 2017/18 Financial Year, Government is expected to spend K309.6 billion on PE and revised to K315.2 billion at mid-year. In the period under review and as indicated in Table 4.1, wages and salaries were projected at K78.4 billion. The expenditure was above the projection by 3.9 per cent.

4.2.1.2 Other Recurrent Transactions (ORT)

ORT expenditure for the third quarter of the financial year was projected to amount to K170.2 billion (which is total recurrent expenditure less wages and salaries). Actual expenditures as at the end of the quarter were K198.1 billion which was above the target by K27.9 billion representing an overexpenditure of 16.4 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 any economic shocks. 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 K101.0 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 below the target by K15.7 billion which is 15 per cent of the target.

Table 5.2 Social Spending

	Quarter 3 Projection	Quarter 3 Actual	Quarter 3 Variance
	K' Million		
Health Expenditure	21,572.81	21,488.51	(84.30)
Wages	5,804.14	4,442.17	(1,361.97)
Local Council Wages	7,725.97	7,725.97	0.00
Other Recurrent	6,136.01	7,447.47	-
Ministry of Health ORT	4,141.10	5,452.56	-
Local Assemblies ORT	1,994.91	1,994.91	-
Subvented Organisations	97.69	97.69	-
Development expenditure	1,809.00	1,775.21	(33.79)

	Quarter 3 Projection	Quarter 3 Actual	Quarter 3 Variance
	K' Million		
Education Expenditure	64,177.75	49,630.95	(14,546.80)
Wages	5,512.15	3,688.44	(1,823.71)
Local Councils Wages	14,516.01	14,516.01	-
Other Recurrent	24,521.55	5,424.10	(9,097.45)
Ministry of Education ORT	2,372.23	2,681.60	309.37
Local Assemblies ORT	2,270.14	2,270.00	(0.14)
Subvented Organisations	12,195.95	10,472.50	(1,723.45)
Development expenditure	7,432.10	5,529.90	(1,902.20)
National Local Government Finance Committee	2,800.00	2,265.99	(534.01)
Drugs for DHOs	2,800.00	2,265.99	(534.01)
Agriculture Expenditures	10,115.00	9,000.00	(1,115.00)
Farm Input Subsidy Program	10,115.00	9,000.00	(1,115.00)
Lands and Housing Expenditure	1,400.00	1,829.42	429.42
Cement and Iron Sheets Subsidy	1,400.00	1,829.42	429.42
Gender, Children, Disability and Social Welfare	760.79	764.79	4.00
Wages	396.88	324.57	(72.31)
Other Recurrent	333.91	434.23	100.32
Development expenditure	30.00	5.99	(24.01)
Local Development Fund Expenditures	105.00	292.96	187.96
Local Development Fund	105.00	292.96	187.96
Poverty and Disaster Management Cost Centre under the Office of the President and Cabinet	25.88	25.88	-
Other Recurrent	25.88	25.88	-
Total Social Expenditure	100,957.22	85,298.49	(15,658.73)

Source: Malawi Government

The table above shows that development budget lines underperformed across all the sectors in the period under review. There is need therefore for deliberate effort to protect infrastructure development in the social sectors such as construction and rehabilitation of education and health infrastructure.

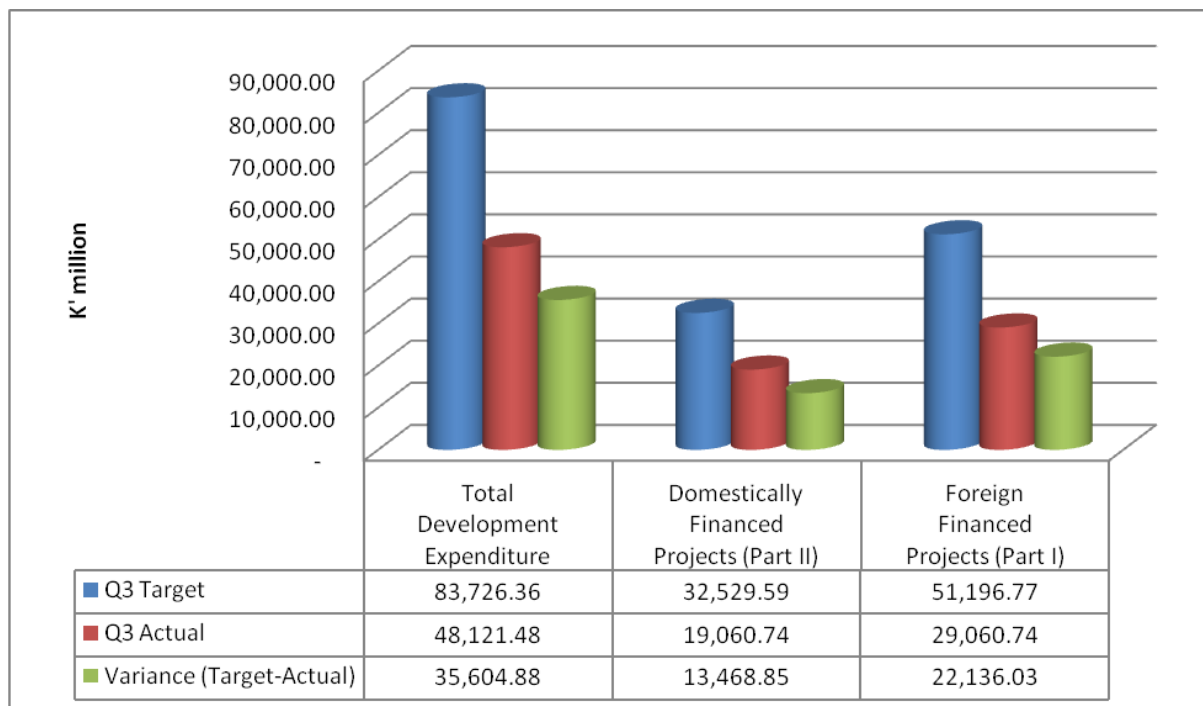
In terms of the recurrent budget, all the sectors show a commendable performance except education sector which underperformed by K14.5 billion thereby worsening the overall performance of social expenditures. The sector

should therefore be monitored and supported in the fourth quarter in order to meet the annual targets.

4.2.2 Performance of Development Budget

On Development Budget, Government planned to spend K83.7 billion in the third quarter, of which, K32.5 billion was to be financed using domestic resources (Part II) and K51.2 billion was for Foreign Financed Projects (Part I). As depicted by Chart 4.2 below, the outturn on Development Budget was that K48.1 billion was spent broken down as K29.1 billion on Part 1 and K19.1 billion on Part II. Overall, the development expenditure was below the target by K35.6 billion. The underexpenditure was on account of corresponding low inflows on both domestic revenues and grants.

Chart 4.2 Performance of the Development Budget



4.3 Conclusion

This Chapter focused on the performance of expenditures of Government in the third 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 above the target. However, development expenditure was way below the target. There is need therefore for deperate effort to ensure improvement in funding towards investment projects in the remaining quarter to avoid missing the project targets.

Overall Fiscal Performance

5.1 Introduction

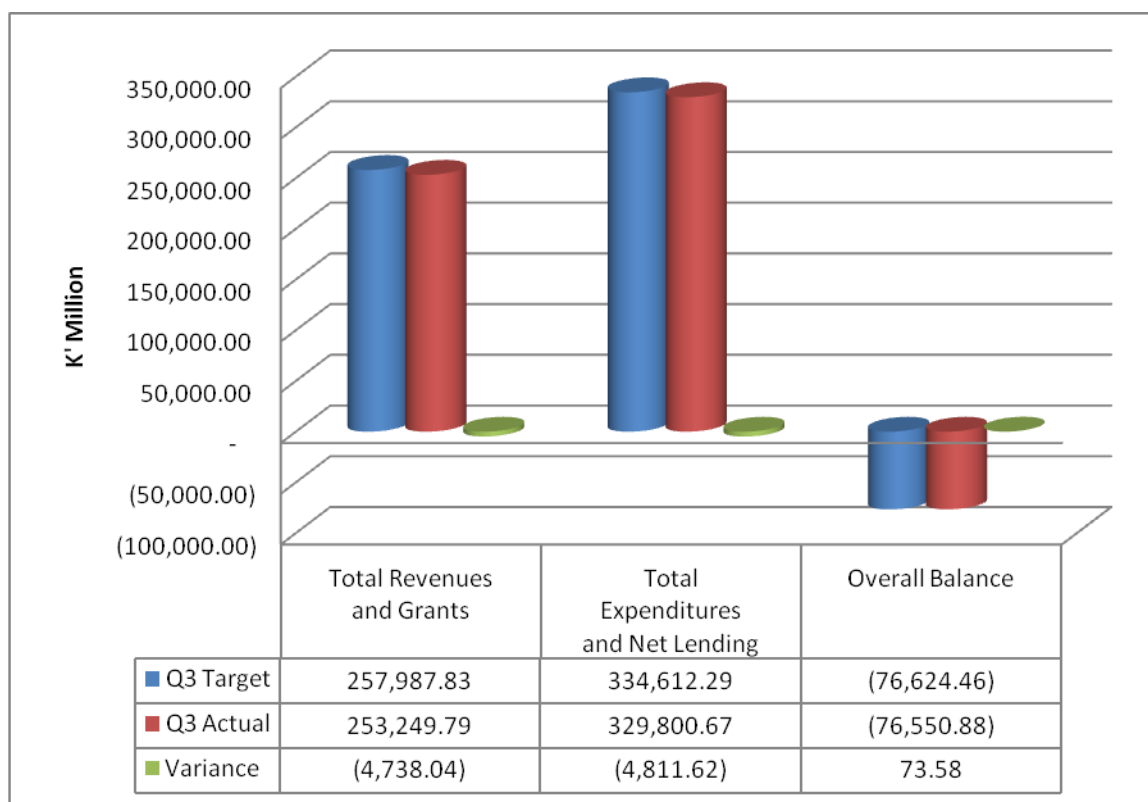
This chapter summarises performance of revenues and expenditures and determines how they translate in the overall Government's fiscal performance. The Chapter also discusses the performance of Government on debt and debt repayment against set targets.

5.2 Third Quarter Outturn on Fiscal Position

Chart 5.1 below presents the net fiscal position as at the end of the third quarter of the 2017/18 Financial Year. As shown on the chart, total revenues and grants were K253.2 billion against a target of K257.9 billion, thereby underperforming by K4.7 billion. However, the underperformance in the quarter under review is mainly notable on tax revenue and project grants with variances of K13.8 billion and K7.5 billion respectively.

On the expenditure side, total expenditure and net lending in the third quarter was K329.8 billion against a target of K334.3 billion. Recurrent expenditure registered K279.5 billion against a target of K248.9 billion while development expenditure was K48.1 billion against a target of K83.7 billion.

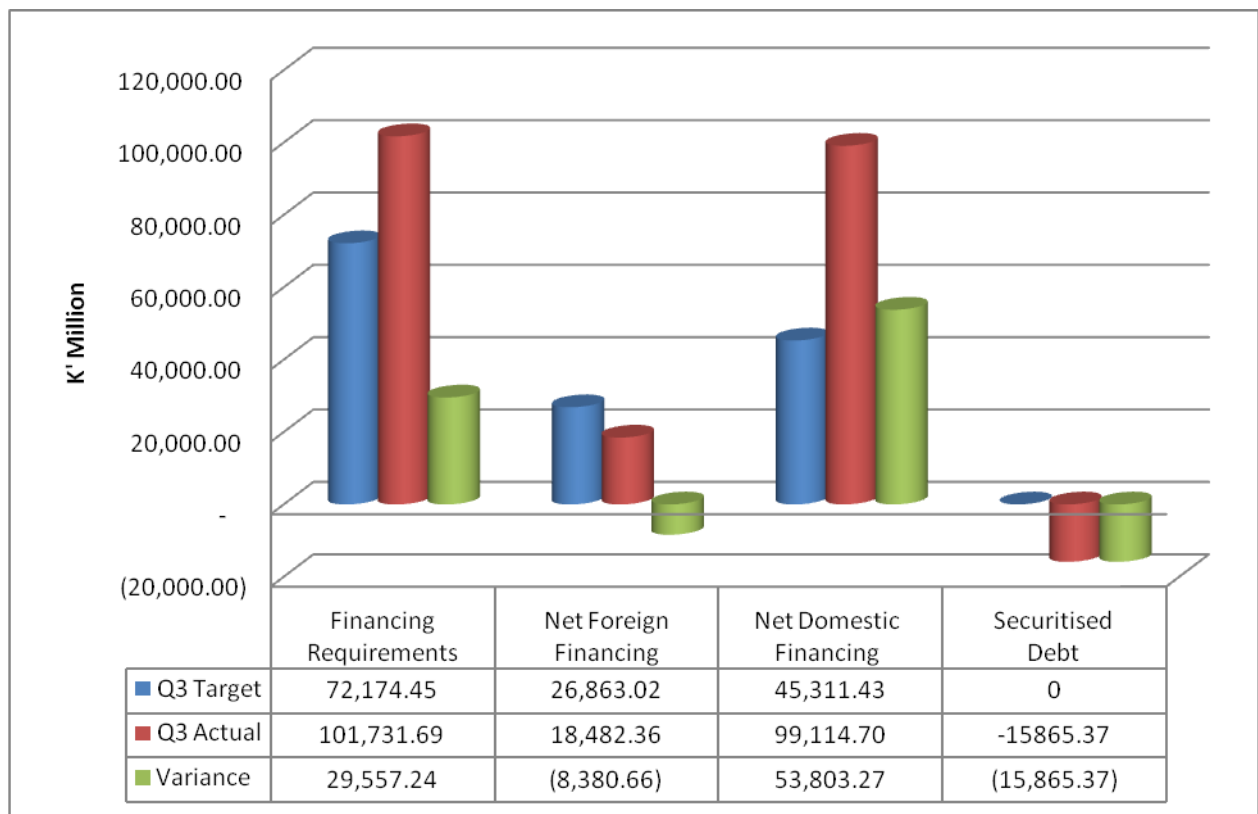
Chart 5.1 Overall Balance including Grants in Q3



5.3 Outturn on the Financing Position

Chart 5.2 below presents the outturn on debt financing for the third quarter of the financial year. As indicated in Chart 5.2 below, the Quarterly outturn on total revenue and grants as well as total expenditure and net lending resulted into an overall fiscal deficit of K76.6 billion against a target of K72.2 billion. The outturn translated into an overall borrowing position of K101.7 billion against an expectation of a K72.2 billion position in both domestic and foreign sectors. In this regard, a total of K99.1 billion was borrowed from the domestic sector of which K15.9 billion was securitised. Net domestic debt stock closed the quarter with debt stock of K496.9 billion.

Chart 5.2 Financing



Conclusion

Underperformance of nontax revenues and grants resulted into Government borrowing domestically ensure so that the critical activities are implemented as planned. Going forward Government needs to ensure that it launches a robust campaign on collection of both nontax and tax revenues to weather the negative effects of non disbursement of foreign resources.

Conclusion and Recommendations

The report has shown that domestic revenue collection in the third 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 in all categories. 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 recurrent budget overspent mainly on generic goods and services and social spending was slightly below the target. It is therefore recommended that social spending should be given special attention in the remaining quarter 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. This phenomenon is not uncommon in preceding quarters and needs to be reversed. It is therefore recommended that funding to the projects should improve in the remaining quarter 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.