



Malawi Government

GUIDELINES FOR THE PREPARATION OF THE 2013/14 BUDGET

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INTRODUCTION

1.1 BACKGROUND/INTRODUCTION

The Public Finance Management Act (PFMA) 2003, requires that every year, Government through the Ministry of Finance prepares a National Budget to run from 1st July to 30th June each year. As a document, the National Budget is a financial plan through which Government delivers public goods and services to the Malawian economy in the short term to achieve its social economic development programs consistent with the medium and to long term development priorities.

Stakeholders in the National Budget are numerous. They include implementers such as: Ministries, Departments, and Subvented Organisations; Development Partners, who provide Technical and Financial Assistance; Private Sector Organisations, the engine of growth; Civil Society Organisations and Non Governmental Organisations, partners in social economic development; and the general public and all other beneficiaries. Furthermore, the implementation of the budget affects all the sectors of the economy in one way or another through well established linkages. As part of the formulation and consolidation of the Budget, and to ensure consistency and coherence in the preparation process, the Ministry of Finance annually prepares and circulates Budget Guidelines which contain the principles, procedures and technical instructions for the preparation of the National Budget. These Guidelines are prepared annually because measures and benchmarks vary from time to time. This document is one such instrument and is intended to provide detailed instructions and principles for the preparation of the 2013/14 Budget.

In terms of structure of the document, it has been organized as follows; the first section is the introduction to this document; the second looks at the fundamental considerations when preparing the National Budget; the third section focuses on practical advice for preparing the 2012/13 budget; the fourth outlines the key expected outputs and timings; and the fifth concludes this document. Annexes set out the workplan for Budget Preparation and a guidance note for completing the Output Based Budget Template.

FUNDAMENTAL CONSIDERATIONS TO THE PREPARATION OF THE NATIONAL BUDGET

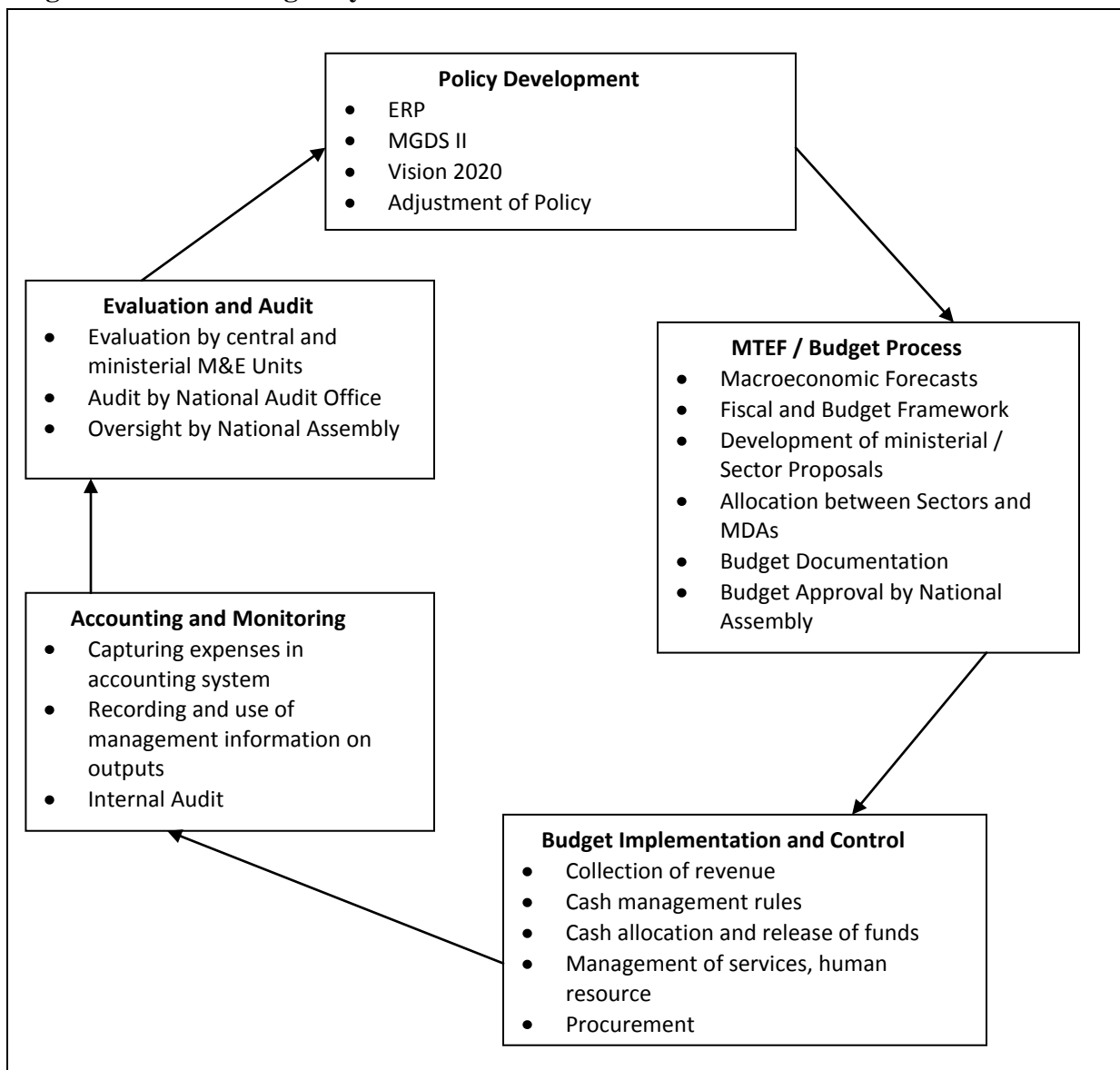
2.1 OVERVIEW

Three fundamental tenets are taken into consideration during the preparation of the national Budget. The first is the macroeconomic context within which the Budget is formulated and this includes the internal and external equilibriums; and also on past, present and future macroeconomic projections and trajectories. The second is the interface of the Budget to the medium to long term development priorities, in this case, the Economic Recovery Plan, the Malawi Growth and Development Strategy (MGDS) II and the Vision 2020. Lastly, the balance between Recurrent and Development Budget Expenditures in the National Budget is another important aspect during Budget Formulation. All three are inexplicitly linked within the Medium Term Expenditure Framework (MTEF) Budget Cycle.

2.2 THE MTEF BUDGET CYCLE

The MTEF approach to budgeting places Government policies and priorities at the heart of Budget Planning. It provides a realistic budgetary resource ceiling against which to prioritize the allocation of resources consistent with policy objectives. It also requires effective mechanisms for the monitoring of budgetary inputs, outputs and outcomes and for feedback of monitoring information into the subsequent planning cycle (**Figure 1** below).

Figure 1: MTEF Budget Cycle



2.3 THE MACROECONOMIC CONTEXT

Macroeconomic fundamentals, internal and external, are central to the preparation of the national Budget in any country. This is the case because national budgets are not implemented in isolation, rather, in a dynamic medium of social and economic changes. Key macroeconomic fundamentals that are always taken into account when preparing national budgets include, but not limited to: the Gross Domestic Product (GDP), Inflation, Domestic and Foreign Debts, Foreign Exchange rates, Bank Lending rates and several other fiscal and Monetary Policy Benchmarks and Targets.

Regarding GDP, considerations are both on historical and future trends locally and internationally. At local level, developments in economic outlook to the region and global economies are of paramount importance when preparing national budgets because of the influences developments in such economies have on domestic economies. Similarly, under historical and future trends; past, present and future GDP growth rates always influences the national Budget, positively or negatively. The 2013/14 National Budget will take into account trends in the national GDP growth rates as well as trends in the Sub-Saharan African Region and the Global Economy.

On domestic and foreign debt, Malawi is guided by the Debt and Aid Policies as well as the Development Assistance Strategy (DAS). This is used by Government to guide the way debt is contracted, retired, repaid and managed in Malawi. In addition, any agreements signed with key development partners and organizations such as the International Monetary Fund (IMF) may contain benchmarks that have to be met.

The 2013/14 Budget will ensure that all these macroeconomic fundamentals and objectives are taken into account when preparing the Macro Fiscal Projections for the Budget.

2.4 ALIGNMENT TO THE MEDIUM AND LONG-TERM PRIORITIES AND PROGRAMS

There are three key development strategy documents that guide the formulation and implementation of the National Budget Cycle (Figure 1): the Economic Recovery Plan, the Malawi Growth and Development Strategy (MGDS) II and the Vision 2020. The ERP is short to medium term plan of action for recovering the economy and instilling macroeconomic statistics. The MGDS sets out the medium term priorities for achieving Malawi's medium to long-term ambitions and aspirations outlined in the Vision 2020.

With regard to the ERP, in 2012, Malawi was facing a number of serious challenges such as shortage of foreign reserves, scarcity of fuel and essential drugs in hospitals. Some industries were operating below capacity due to inadequate imported raw materials and others literary closed down. Consequently, economic performance slowed down, and at the same time, both inflation and interest rates began to experience a steady rise. To forestall these problems and begin to stabilize the economy, Government formulated and started implementing the Economic Recovery Plan (ERP) to turn around the economy. The recovery plan identifies areas for intervention in the immediate, short and medium term. Some of the immediate measures included the devaluation of the currency, the setting of a market determined exchange rate, restoration of bilateral and multilateral relations and the repealing of punitive laws. Social economic policy reforms were also scaled up to mitigate against the impact of some of the economic reforms on the vulnerable groups of the society.

The ERP has also identified drivers for economic recovery including Energy, Tourism, Mining, Agriculture, Transport Infrastructure and Information and Communication Technology (ICT) sectors. To this effect, priority projects and activities from within the medium term Malawi Growth and Development Strategy II have been isolated to achieve the much needed recovery. MGDS II remains the overarching single reference document for the country's development agenda. However, there was a need to focus on few priorities that are pro-growth, quick wins, and are highly effective. These will continue to be implemented as part of the 2013-14 Budget.

The MGDS II is essentially an overarching strategy for developing the country and the National Budget is an instrument by which the policy is implemented. The MGDS II identified the following nine key priority areas:

- (i) Agriculture and Food Security;
- (ii) The Green Belt Irrigation and Water Development;
- (iii) Education, Science and Technology;
- (iv) Transport Infrastructure and Nsanje World Inland Port Development;
- (v) Climate Change, Natural Resources and Environment Management;
- (vi) Integrated Rural Development;
- (vii) Public Health, Sanitation and HIV/AIDS Management;
- (viii) Youth Development and Empowerment;
- (ix) Energy, Mining and Industrial Development.

As the MGDS is a product of thorough and extensive consultation process, it is only logical that the national budget is fully aligned to the MGDS. Furthermore, since the MGDS is fully costed based on parameters used in formulating the national Budget, the alignment of the MGDS to the National Budget is not simply a mere coincidence, rather a necessary vehicle through which annual MGDS targets and goals are met.

The 2013/14 Budget will strive to ensure that it is fully aligned to the MGDS and underpinned by the reforms within it. In this respect, all Spending Agencies in the national Budget will need to demonstrate how their expenditures are aligned and linked to the MGDS. This has been facilitated by an exercise to code the MGDS II activities in line with the eleven MGDS priority areas and aligned them to the Budget. A coded matrix is used within the Government Chart of Accounts so as to align budget provisions (expenditures) to outputs in order to implement the overall objectives of Government. Spending Agencies will also be required to clarify how their expenditures are contributing to the strategies, outcomes, outputs and activities of the MGDS.

The Vision 2020 states that “By the year 2020, Malawi as a God-fearing nation will be secure, democratically mature, environmentally sustainable, self reliant with equal opportunities for and active participation by all, having social services, vibrant cultural and religious values and being a technologically driven middle-income economy”. This will be realised through the implementation of the Annual Budgets, ERP and MDGS II.

2.5 ALIGNMENT TO THE PSIP

The Public Sector Investment Program (PSIP) is an instrument through which Investment in Development Programs in Malawi is delivered and coordinated. The PSIP is a five-year rolling plan that outlines the development priorities in infrastructure development of the country. The preparation of the PSIP document is both aligned to the MGDS and the Vision 2020 and is formulated out of wide consultation and appraisal. In preparing the 2013/14 Budget, therefore, the PSIP will be used to determine the projects to be financed by the Government Budget and the resources for each project.

2.6 ALIGNMENT WITH SUSTAINABILITY GUIDELINES

The contribution from prudent use of natural resources, environmental management and climate resilience is crucial in order for Malawi to achieve national sustainable development. There is need to ensure that all projects comply with environmental sustainability guidelines. This has immense potential to provide significant benefits from sustainable resource use and management and climate proofing of the economy and presents a rare opportunity for improved livelihoods of present and future generations of Malawians

For the 2013/2014 Budget preparation, it is imperative that Budget Agencies ensure environment and climate change priorities are appropriately reflected in the Budget submissions in accordance with the environment and climate change mainstreaming guidelines in the following areas:

- All activities that exploit or use the environment and natural resources should Budget for awareness and monitoring their sector sustainable utilisation through policies and legislations;

- Use of environment and natural resources as a vehicle for poverty alleviation as an entry point for communities to appreciate their environment better;
- All Ministries to Budget for Environmental Impact Monitoring of their activities and to establish Focal Points on Environment and Climate Change in Ministries; and
- Ministries and Departments should ensure their role in monitoring of the sustainability indicators in the MGDS II is clearly indicated. Budgets should reflect environment sustainability.

Additionally, all new capital intensive projects will be required to conduct Environmental Impact Assessment (EIA) as part of their planning and ensure that budgets are allocated for mitigation measures in the Environmental Management Plan. Technical support will be available through sector focal persons whose contacts are the Director of Environment Affairs Dept (kamphatso1@gmail.com or mail to the Principal Secretary, Ministry of Environment and Climate Change Management, P/Bag 394, Lilongwe 3 or telephone 01771100.(yntupanyama@gmail.com)

2.7 GENDER RESPONSIVE BUDGETING (GRB)

Gender Responsive budgeting is a tool to monitor if policy commitments related to poverty reduction and gender equality are reflected in budget allocations. Gender responsive budgets are not separate budgets for women but instead, general budgets that are planned, approved, executed, monitored and audited in a gender- sensitive way.

The 2013/14 budget gives priority to mainstreaming gender in budgeting process. The emphasis is on ensuring that budgets of Ministries and Departments match the needs of women and men, girls and boys which are inherent in their specific gender roles, responsibilities and constraints. In this regard, the Ministries and Departments are advised to address the needs of females and males in the activities, output and budget of each programme and sub- programme as a priority and make sure that sufficient resources are allocated to the described gender inequality areas.

The Ministries and Departments are reminded that the objective of this exercise is not to allocate more money to women or men but rather to ensure that the needs or challenges of females or males are known in the first place and resources are provided to address them in each programme. Therefore, the starting point is to understand the gender situation of the sector and proceed to address the issues therein. The Ministry of Gender, Children and Social welfare is available to work with the sectors in the preparation of 2013/14 budgets.

PREPARATION OF THE 2013/14 BUDGET

3.1 INTRODUCTION

This section provides more details on what to consider when formulating the Budget submission for vote by vote.

3.2 MINISTERIAL MTEF/BUDGET PROCESS

The MDAs are involved in the bottom-up expenditure review and planning as a build-up to determination of Ministerial and Sectoral Strategies:

Step 1: Review the Ministry's / Department's programmes against its functions and objectives to establish their relevance.

Step 2: Bottom-up expenditure analysis of past expenditure and performance for the preparation of programme spending proposals and performance targets.

Step 3: Resource allocation proposals which match resource availability with spending needs through a process of trade-offs.

Step 4: Finalizing Resource Allocations in line with sector proposals and MGDS II and drafting the detailed Budget estimates in consultation with the Ministry of Finance for submission and approval by Parliament.

3.3 CEILINGS

The overall resource envelope, or ceiling, is derived from the Macroeconomic Framework for the coming financial year and two outer years. From this overall ceiling, Ministerial (and Sectoral where relevant) ceilings are determined by the Ministry of Finance, guided by the

ERP, MGDS II, PSIP and Budget performance data. These ceilings are reviewed each year based on the current estimates of the overall resource envelope, and indicative ceilings are communicated to MDAs. Ideally, these ceilings should not change much from year to year to provide resource predictability for MDAs over the medium term. If the economic environment remains the same, then ceilings must not change much from year to year. This means that Institutions can start to formulate their budget plans in advance of receiving the indicative ceilings from the Ministry of Finance. Once the indicative ceilings have been communicated, it is required that MDAs submit their Budget Estimates in line with the ceilings provided. Where more resources are required, trade-offs must be made in line with priorities and past performance.

Budget Hearings are a chance for the Ministry of Finance to analyse Institutions' Budgets, they are not a chance for MDAs to apply for more resources; it is expected that final ceilings will reflect indicative ceilings, unless (i) more or less resources become available as per the most recent macroeconomic estimates, and/or (ii) due to a strategic decision to reallocate resources between Ministries or Programmes.

3.4 RECURRENT BUDGET

Recurrent Budget consists of all expenditures that Government incurs on procurement of goods and services. They are consumption in nature. Recurrent budget consists of two main categories; Personal Emoluments and Other Recurrent Transactions

3.4.1 PERSONAL EMOLUMENT

The submission for Personal Emoluments should be based on the staff on the ground at the end of the financial year, and should include the 3 per cent annual increment. Any requests to fill vacant positions should be made **both** to the Treasury and to the Department of Human Resources Management and Development (DHRMD), who will indicate early in the 2013/14 financial year, how much recruitment and promotions, can take place. Controlling officers are therefore being reminded to obtain the approval from DHRMD before proceeding with

filling of any vacant positions on their establishment as Treasury will not provide any additional resources for positions that are filled without approval.

In the case that a vote has arrears for Personal Emoluments, these should be clearly worked out and indicated separately when the Budget submission is made.

Government has so far put in place a number of reforms aimed at controlling the size of the wage bill. These include:

i) **Payment through banks.** Government rolled out the policy of paying Public Servants through their Bank Accounts;

ii) **Rationalize the Public Service.** The OPC through Department of Human Resources Management and Development continue to undertake a rationalization of the Public Service with a view to improve efficiency while at the same time ensuring cost saving.

iii) **Regular and intensive monitoring of the payroll.** Despite the controls on the payroll, periodic head counts will be done regularly to reduce wage bill fluctuations.

iv) **Payment for Salary Arrears will be on special request.** It has come to the notice of Treasury that most wage bill fluctuations are being explained by arrears. Most of these arrears are from other financial years other than the current. In such cases, it becomes difficult to manage the wagebill. Going forward, Treasury will demand that a request for funding to pay salary arrears must not be reflected on GP5 Form but must be requested separately. These salary arrears must be only those that have been properly planned and budgeted for like those falling due within a financial year and must be audited accordingly if the arrears are from previous financial years before making the request for funding. All other salary arrears that were not budgeted for must be reported to the DHRMD for appropriate action. Where these arrears exist, Ministries and Departments are encouraged to bring these figures to the attention of the Ministry of Finance during Budget Hearings to allow Treasury to make budget provisions for these arrears once the audit has taken place.

3.4.2 OTHER RECURRENT TRANSACTIONS (ORT)

As usual, all Recurrent Expenditures of the Budget must be aligned to specific Government activities and given detailed costing in the budget template. A number of measures to help

control expenditures remain in place from previous financial years and Ministries and Departments should bear these in mind when formulating their budgets. These measures include:

A. PROCUREMENT OF GOODS

i) Central Government Stores is continuing building its capacity to become the sole Supplier of commonly-used items in Government such as stationery and other items.

These items will be available at relatively low prices. All procurement by Ministries and Department from the Central Government Stores will be on cash basis so as to avoid accumulation of arrears.

In the event that Central Government Stores does not have the relevant items, the procedure for obtaining a waiver is as follows:

- a. Institutions will go through the usual process involving the IPC before requesting items from Central Government Stores;
- b. When Central Government Stores does not have the relevant item, it will request the concerned Institution to get three quotations for the item from private suppliers;
- c. The Institution to get these quotes via the usual IPC process; and
- d. Central Government Stores will review the quotations and provide a “No Objection” waiver which will enable the Institution to undertake the procurement.

This process can take a minimum of a day, depending on whether the quotations are provided in time.

ii) Government is implementing comprehensive reforms to the Drug Supply Chain.

Government has recapitalized the Central Medical Stores so that they are a sole supplier of drugs and medical supplies for all public sector. Central Medical Stores is now an autonomous Trust and there is consultancy support to strengthen capacity in the drugs supply chain management. All procurement of these medical supplies by Central Hospitals and District Hospitals should be on cash on delivery basis to avoid accumulation of arrears. In

future, payments to Central Medical Stores will be done centrally either by the Ministry of Health or the Ministry of Finance within the allocations of the hospitals. In this way, we will ensure the integrity of the supply chain; prevent purchases from vendors and the accumulation of arrears and improve the quality of health care in the country.

All procurement by Government Ministries will be on a cash basis. Where cash terms are not possible for good reasons, authority must be obtained from the Secretary to the Treasury. Such authority shall be in writing and a copy thereof submitted to the office of the Chief Secretary to the Government.

B. PROCUREMENT OF SERVICES

i) **Utilities.** Government is continuing with the policy of installing prepaid meters across all Government buildings and premises. On one hand, this will ensure that expenditures are reduced while on the other hand, revenues of Utility Companies will be improved. Apart from the telephone and electricity services which can easily be turned into pre paid arrangements, a follow up with Water Boards is in the process so that pre paid water meters are also installed. All Government Offices must switch off all electrical appliances such as computers when not in use. During day time, use of natural light is encouraged and all lights in Government offices must be switched off at night and during weekends. All these need to be taken into account as Budgets are being prepared.

ii) **Use of Government Print:** All printing services in Government will be provided by Government Print. Where Government Print is unable to provide the services, an authority can be sought from the Chief Secretary to use private printers.

iii) **Consultancies in the ORT Budget:** Government continues to discourage Consultancies in the ORT budget. Where Consultants are still being used, the focus should be on transferring skills and knowledge to local staff so that the Government becomes self-sufficient.

iv) **Arrears in the ORT budget:** In the Public Finance Management Act, it is illegal to commit Government where there are no resources. It is the understanding of Treasury therefore that there are no arrears accruing to any Government service. The strict following

of this PFM Act provision is greatly encouraged at all times. MDAs are strongly being encouraged to use the commitment module in IFMIS for all transactions.

C. CONTROL OF TRAVEL RELATED EXPENDITURES

i) **Government is in the process of restructuring PVHO and have its capacity enhanced in the management and maintenance of Motor Vehicles in the medium to long term.**

OPC will be making appropriate announcements with further detail on the implementation of this measure in due course. In accordance to OPC Circular No. 15/15/1 on 7th December 2012, each Ministry/Department shall be allowed a maximum of three pool vehicles and should budget for maintenance accordingly.

ii) **Internal Travel.** Government will continue to enforce the internal travel restrictions set out in the OPC Circular No. 15/15/1 issued on 25th March 2011 and 5th May 2011.

iii) **Hotel Charges.** Government will continue with payment of subsistence allowances to officers who are working overnight out of their duty stations in accordance to the current regulations. Payment to hotels for accommodation will only be made for the number of nights the officer spends at that particular hotel and in which case the officer is not expected to claim allowances as the hotel payment will be full board. Where there are credit balances accruing to Government, they must be put into the name of a Government Ministry or Department and must at all times be followed up. No cash exchanges should be done by any Government official as this is illegal and anyone found practising this will be prosecuted.

iv) **External Travel Allowances.** Government will continue with the current policy of limiting the number of trips per year to 6 and the maximum number of days per trip will remain at 10. Government also limited the number of ministerial delegations to meetings to a maximum of 3 people including the Minister. Prior authorisation should be sought for any variations outside these set guidelines. It is important to note existence of moratorium on external travel using Government resources.

D. COMPENSATIONS FOR CLAIMS AGAINST GOVERNMENT

Government will continue to scrutinize claims for compensation for the three types of compensations Government receives namely; Compensations for Courts Cases; Compensations for Development and

Workers Compensations. This is done through two committees, namely; one that deals with claims above K10, 000,000 and the other that scrutinizes claims below K10, 000,000.

For Court Cases, the Committees will continue to review and determine whether the causes of the claims are as a result of avoidable or unavoidable causes. For claim arising from the avoidable causes, the concerned Institutions will be requested to shoulder the costs of the compensations. Treasury will only consider settling Claims which arise as a result of unavoidable causes. Controlling Officers must therefore ensure at all times that avoidable issues in Contracts are properly and effectively dealt with before they are taken to court. Where a Government Institution has been taken to court, the Controlling Officer must provide the necessary support to the Government Lawyers in the Ministry of Justice and Constitutional Affairs to ensure that cases are determined in favour of Government.

For Workers Compensations, Government will continue to examine the determination of payments to be made to Government workers who might have been injured or died whilst on duty through the relevant Workers Tribunal.

For compensation claims for sites earmarked for Government infrastructure development, Government will ensure that realistic amounts for reallocation are requested and paid. Therefore, there must be transparency and accountability during the assessments and when payments for the damages and loss of property are determined; they must be properly channeled to the right claimants.

Government institutions shall be responsible for the settlement of compensation claims where the Attorney General has failed to provide defense due to failure by the Institution to provide any or providing inadequate documentation. Ministries shall further be liable for settlement of claims arising from failure to honour contractual obligations. In accordance with the law, officers whose willful or negligent conduct leads to Government incurring liability, loss or damage shall be surcharged for such liability, loss or damage.

3.5 DEVELOPMENT BUDGET

Ministries should ensure that all development projects implemented under them are included during the process of preparing the budget. Government is taking a number of measures to ensure effective use of the development expenditures.

Only projects in the Public Investment Programme (PSIP) will be included in the Budget;

3.5.1 Control Measures for Development Budget

There are a number of expenditure control measures relating to the Development Budget that Ministries and Departments need to consider. These are:

- i) **The backlog of current projects** is to be cleared before new projects are contracted.
- ii) **All new contracts are to be awarded after detailed designs and engineering works are completed** together with their costing and implementation timelines. Treasury will also make sure that before projects are approved, resources are available in the budget for their full implementation. Ministries and Departments should be aware that often contractors on construction projects will ask for a 20 per cent advance payment and factor this into account when preparing their development budget. In addition, institutions should be aware that there can be a long time period for most construction projects between the design stage and the construction phase. Planning and cashflow of projects should be realistic and take this into account.
- iii) **Government Projects:** Before contracts are signed, the contracts must be approved by the ODPP, the Ministry of Finance, Ministry of Economic Planning and Development, and the Ministry of Justice and Constitutional Affairs.
- iv) **Completion of Project:** infrastructure projects especially roads and buildings require that a final payment known as retention fee be made one year after the completion of construction works to signal that the project has been satisfactorily done. Where such a payment needs to be included in the Budget, it should be included under the Ministry of Lands and Housing's ORT, except for roads projects where the payment should be included under the Ministry of Transport and Public Works.
- v) **Contract review:** There is a Contracts Unit in the OPC headed by a Director with technical experts. This is responsible for the review and vetting of bids for government contracts so that the quality of work contracted is improved and does not leave Government at a disadvantage.
- vi) Funding for Development Part 2 projects will continue to be done upon receipt of certificates showing completion of work. For projects at design stage, funding may be made based upon a cashflow agreed with the relevant Desk Officer and the Cash

Management Section in the Ministry of Finance.

- vii) Future maintenance and operations costs of completed development projects should be established and included in the PE and ORT provision for subsequent years in the Medium-Term Expenditure Framework (e.g. cost of teachers and classroom materials for schools, cost of nurses and medical equipment for hospitals, etc).

Part 1 Projects

The Part 1 Funding Ceiling is determined only by the amount of funding available from donors. The indicative ceilings sent to votes by MoF include a figure for Part 1 resources, but this should not be considered binding. If donors wish to increase the amount that they provide for projects, or wish to fund additional projects that meet the criteria for inclusion in the Budget, this should be reported to Treasury together with the relevant supporting documentation for inclusion.

Not all foreign funded projects are eligible for reporting in the budget. Only projects that fulfill **both** of the following criteria should be reported:

- The project is managed by a Government agency, not by a donor or NGO;
- The funds for the project are handled by a Government agency, i.e. they are disbursed to Government and then spent according to the project objectives.

Certain donors may not have any projects that fit these criteria, such as USAID and JICA, except if they provide pooled funding.

Counterpart funds must be included in the Ministry's budget submission. Any counterpart (Part 2) funding required under project agreements must be included in the submission to the Ministry of Finance.

Projects not eligible for inclusion in the budget should still be reported. Any foreign funded projects deemed ineligible for the budget should still be reported to the Ministry of Finance. Total funding for the period of the project, funding expected for 2013/14, implementing

agency and donor should all be recorded and submitted. This information will be used to produce a Summary of Projects Managed Outside of Government Systems, a companion document to the budget, circulated to Parliament for their information.

There is no ceiling for support outside the budget. All such support should be recorded and submitted to the Ministry of Finance. However, this is not a preferred modality of delivering development support. As such, Government policy is to request that as much future support as possible should be channeled through Government systems and be reported on the budget.

3.6 SUBVENTED ORGANISATIONS

A medium-term goal of Government is that the size of transfers made to subvented organisations is substantially reduced. It is the aim of Government that all subventions become self-sustaining, with commercially-oriented organisations becoming more profitable to remit dividends and with socially-oriented organisations raising sufficient revenue through user fees and charges.

Where Government currently provides a subvention to an organisation, all expenditure control measures apply, whether on Personal Emolument, Other Recurrent Transactions, or the Development Budget.

Where subvented institutions are starting a development project, this project should appear in the Budget under the institution's parent Ministry. Such institutions must work closely with their parent Ministry when preparing their Budget to ensure that all necessary information is provided and included in the Budget.

3.7 REVENUE

The Ministry of Finance is requesting all revenue collecting Ministries and Departments to complete revenue templates. This is particularly important as Government continues to rely on domestically-generated revenues to cover recurrent expenditure.

The 2013/14 revenue targets will be arrived at in consultation with the revenue collecting

Ministries/Departments. It will therefore be an obligation on each Ministry and Department to collect the agreed amount.

It is therefore incumbent upon all Ministries and Departments to implement the revenue enhancement measures which were agreed with the Revenue Policy Division of this Ministry to ensure that their respective revenue targets are met. Those Ministries and Departments that have not yet submitted their revenue enhancement measures for 2013/14 Financial Year should submit as soon as possible. Ministries/Departments are also being urged to make provisions in their ORT budgets for revenue collection as no additional funding will be available for the revenue enhancement measures.

During implementation of the 2013/14 budget, Ministry of Finance would like to urge all Ministries and Departments to observe proper accountability and revenue management practices. The Ministry will continue to monitor all revenue collecting institutions to ensure that this is strictly adhered to.

Based on the revenue targets, Ministries/Departments are required to prepare their revenue Budgets broken down for each cost centre and to sub item level.

3.8 CASH FLOWS

Ministries are required to provide indications of the expected monthly breakdown of all expenditures by Cost Centre to improve cash management. These cashflow estimates should originate from the work plans of Ministries.

While for personal emoluments and certain items like office supplies, expenditures may be expected to be evenly distributed throughout the year; expenditure on other items such as the Farm Input Subsidy Programme may be seasonal and development projects are often focused over a particular part of the year. Failure to indicate that expenditure will be concentrated over a short period can lead to acute cash flow difficulties for the government. There has been a trend in recent years for Ministries to spend more in the first half of the financial year than in the second. Government will continue to focus on spreading expenditure as evenly as possible throughout the financial year. Exceptions can be made for some programs, such as

for the Farm Input Subsidy Programme, but Ministries and Departments should strive to create a cashflow that is balanced throughout the year. Where a cashflow is not balanced, explanations will need to be provided to Desk Officers in the Ministry of Finance who will be checking for this upon submission.

Indications of the predicted monthly breakdown of expenditures should help to improve the coordination of expenditures and revenue. Failure to provide monthly breakdowns of cash requirements will be treated as non-submission.

Ministries will submit cashflows together with their budget templates. This will ensure timely submission and enables the Ministry of Finance to consult with relevant Ministries on cashflow adjustments where necessary.

3.9 GENERAL ISSUES TO BE NOTED

A. CONTRACTUAL AGREEMENTS AND INELIGIBLE EXPENDITURES

Ministries and Departments that have contractual agreements with Development Partners are expected to utilise resources based on agreed activities. Expenditures incurred on non-eligible activities affect Government as no reimbursements are made to Government in cases where Government has pre-financed the Ministry.

Going forward, when donors refuse to disburse to a Ministry due to spending on ineligible items, Government will reduce funding to the Ministry by the same margin. This is to prevent other Ministries and Departments from bearing the cost of the misused funds. It is incumbent upon the responsible Ministry, therefore, to exercise caution in utilising resources based on the agreement.

B. DECENTRALISATION

The 2013/14 financial year will continue with the decentralisation process. Ministries and Departments will continue to devolve activities to districts as scheduled. Concerned

Ministries and Departments are therefore urged to closely work with Councils to ensure that adequate resources are provided for the devolved functions. Councils will prepare Budgets for the devolved functions based on the accompanying resources.

Ministries and Departments will be required to ensure that quality and standards are maintained in the provision of goods and services in the Councils. You are encouraged to consult Ministry of Local Government and Rural Development and the National Local Government Finance Committee for further information and technical support on decentralisation. In addition, it is requested that members of the National Local Government Finance Committee are present at Budget hearings of key institutions such as Health and Education.

3.10 REFORMS

Following the reforms introduced in the previous years, the main focus of the year is consolidation with only minor changes to processes. The 2013/14 Budget will take forward previous changes and others that have been initiated over the recent years and ensure that these are firmly embedded as part of the budget process.

The main areas on which this budget will focus, therefore, are:

- a) The Output-Based Budget; and
- b) The Medium-Term Expenditure Framework.

A. The Output-Based Budget. The method of preparing the output-based budget introduced for 2011-12 shall be continued this year, with only very minor changes. Greater emphasis is placed on ensuring outputs are correctly defined, delivered and monitored, and ultimately, linked to desired outcomes. Detailed information on how to use the Output-Based Budget template is in the annex and on the accompanying CD-ROM.

B. The Medium-Term Expenditure Framework (MTEF). MTEF is a transparent planning and budget formulation process that attempts to improve the decision making process so as to link the Government's policies, priorities and requirements within limited resource

constraints. The key features of the MTEF approach are: (i) a medium term perspective to Budget planning, (ii) an explicit linkage between policy priorities and resource allocations, and (iii) an emphasis on the efficient use of limited public resources.

Many of Government's programmes and projects will not be completed within one financial year, and so it is more appropriate to consider a multi-year period. Setting out the three-year ceilings at programme and sub-programme level improves the predictability of resources for programmes, and improves accountability by showing the priorities of Government over the medium term.

As was the case last year, institutions are therefore requested to allocate ceilings to their programmes and sub-programmes for the three forthcoming years.

For example, for Ministry of Tourism, Wildlife and Culture, the allocations might be:

	2013/14 Estimate	2014/15 Projection	2015/16 Projection
03. Tourism and Cultural Development	3,084.02	1,452.71	1,713.20
01. Tourism Industry Development	683.82	147.51	201.81
02. Wildlife Management and Conservation	1,307.82	327.82	347.21
03. Cultural Preservation and Promotion	1,092.38	977.38	1,164.18
17. Public Administration	130.90	145.90	135.51
02. Minister's Office	14.94	18.94	17.09
03. Management and Support Services	90.30	97.30	93.54
04. HR Development and Management	25.66	29.66	24.88

When setting the MTEF allocations for programmes and subprogrammes, votes will need to take into account their medium-term strategic plans and programmes of work, ensuring that changes to resource allocations between programmes and projects reflect the ,medium term strategic direction of the Institution's strategy. Estimates are required to be as realistic as

feasibly possible at this stage, as they are not likely to be revised substantially in future years (reducing the predictability of resources that the MTEF framework provides).

If projects are completed within the MTEF period, any ensuing recurrent cost must be factored into the budget. For example, once a hospital is built, the Ministry of Health will have to accommodate the new recurrent costs of staff, drugs and other hospital supplies in the budget.

The Templates

The other templates have not been changed from the format of the past two years. Votes will receive one template for their Personal Emoluments, one for the Other Recurrent Transactions, one for the Development expenditure and one for the Revenue Budget if the Institution collects revenues.

The Budget templates are completed mostly using codes that are selected from drop-down lists. Descriptions will be generated automatically. This ensures that codes are not duplicated and reduces data entry. Lists of codes (for Votes, Cost Centres, Donors, Projects, Items and Activities) can be found in the templates.

Ministries will continue to be restricted to programmes that are appropriate for their mission. Only very minor changes have been made to sub-programmes and sub-sub-programmes, often at the request of line Ministries themselves. The list of the programmes by Ministry is available in the templates.

Beginning in the 2013-14 financial year, Ministries will be restricted to the MGDS II outputs and activities that were identified by their Institution during the MGDS II coding and consultations organised by the Ministry of Finance, in liaison with the Ministry of Economic Planning and Development and the Accountant General's Department.

KEY OUTPUTS AND TIMINGS

The key outputs expected from the process of preparing the 2013/14 Budget are:

- (i) PE Excel Template;
- (ii) ORT Excel Template, including cashflow worksheet;
- (iii) Development Excel Template, including cashflow worksheet;
- (iv) Revenue Excel Template; and
- (v) Output Based Budget Submission. Along with monitoring reports from the current year, this document will be the basis of Budget Hearings.

Submission of the above templates must be done by **28th March 2013**.

As per last year's process, cashflows are to be submitted at the same time as the other templates.

Annex 1 provides a complete breakdown of the schedule of Budget Preparation, including the target dates.

CONCLUSION

In conclusion, the National Budget is the single most important instrument through which the Malawi Government delivers its social and economic programs to the citizens of Malawi. In this regard, Government continues to implement reforms that are aimed at ensuring that resources are efficiently allocated to activities that have maximum impact for delivery of the development mandate for the Nation.

Annex 1

WORKPLAN FOR BUDGET PREPARATION

Activity	Date
Budget Briefing Workshops and Circulation of Budget Guidelines	2 nd to 10 th April 2013
Budget Hearing Meetings	8 th to 12 th April 2013
Circulation of Indicative MTEF ceilings	12 th April 2013
Budget Submissions	26 th April 2013
Budget Hearing Meetings	29 th April to 3 rd May 2013
Circulation of Final MTEF ceilings	6 th May 2013
Final Budget Submissions from Ministries	10 th May 2013
Budget Consolidation	26 th April to 16 th May 2013

Annex 2

COMPLETING THE OUTPUT BASED BUDGET

This Annex provides definitions and examples of the information that budget agencies should provide when completing the Output Based Budget.

A. Vote Overview

1. Mission Statement

This section must present the ministry's mission. A mission statement describes the purpose for which the institution exists. It essentially answers the WHY DO YOU EXIST?

A good Mission Statement should take the form: *"To achieve overarching objective X by providing services Y"*.

For example, for the Department of Immigration:

To provide national security (Overarching Objective) through sound migration management and timely issuance of relevant documents to eligible persons (services provided)

2. Objectives and Strategies

a. Objectives

- In this section, budget agencies should describe the planned outcomes that the agency is working towards through the provision of the budget.

- These should be in line with the outcomes that are outlined in the National Development Strategy.
- Outcomes are the desired impact of the services provided by an institution on individuals, social structures or physical environment
- A good objective defines:
 - The level of performance – desired outcome;
 - The time frame – when will the target be achieved; and
 - How it will be measured – objectives must be SMART.

b. Strategies

The Ministry should fill/describe the actions to be taken by the institution in order to achieve the stated objectives:

<i>Example Objectives</i>	<i>Example Strategies</i>
To increase retention rate of females at Secondary School to 78% by 2014	Construct 30 Girls Hostels at key Secondary Schools around the country
To reduce maternal mortality to 500 births per 100,000 by 2015/16	Train 200 midwives each year and deploy them in rural areas
To create a supportive business and commercial environment that is stable, secure, transparent and free of lengthy approval processes. Achievement will be measured by 2013 Business Interview results.	Review and rationalise current legislation for business start-ups
To maintain macroeconomic stability that is conducive to economic growth. Defined here as x% inflation and x% GDP growth in 2013/14.	Agree upon and implement IMF Program.

3. Achievement Summary

This section gives the user the opportunity to highlight the major achievements made in the previous financial year. Particular focus should be made on how these achievements have contributed to the National Development Strategy, and evidence of such achievement should be stated where available.

A good explanation of an achievement should be **measureable and compared to the target set**. In addition, where data is readily available, votes should provide information broken down by gender.

Good Examples	Bad Examples
In 2012/13, MoEST trained 3,900 Primary School Teachers against a target of 3860 (2,000 women and 1,900 men) and 1,350 Secondary School Teachers against a target of 1300. (800 men and 550 women) as part of the Government program to address the high Pupil: School Teacher ratios.	In 2012/13, MoEST increased primary and secondary school training
The number of Tourism arrivals in Malawi increased from 720,000 in 2011/12 to 850,000 in 2012/13 against a target of 800,000. This is estimated to have generated \$3m in foreign exchange.	The number of tourism arrivals increased
The backlog of Homicide Cases awaiting trial fell from 520 in 2011/12 to 375 in 2012/13. The target was to reduce the number to 400.	Reduced homicide backlog

4. Estimates and Projections

Section 4 gives the user the opportunity to outline a maximum of 5 priority measurable Outputs. Outputs must be stated for the current year, next fiscal year and two outer years.

a. Outputs

What are outputs?

- Outputs are ‘the goods or services (usually the latter) which government agencies provide for its citizens’ or other stakeholders. Examples of outputs are:

- Pupils taught in public schools;
- Patients treated in a public hospital;
- Pensions received by former public sector workers;
- Legislation passed on energy regulation; and
- Production of a public document like the budget documentation.

- Outputs should contribute to the achievement of outcomes.
- Outputs should not be confused with inputs which are the resources used to produce outputs. These include:
 - Human resources
 - Funds and other materials.
- Outputs should also not be confused with **activities/processes** which use inputs to produce outputs and ultimately outcomes. Typically a combination of activities produce outputs. Support programs on their own (such as IT support or HR) do not produce outputs. Examples of activities / processes include
 - surgery, keeping of medical records, nursing (activities) to treat patients (output)
 - teaching, pastoral activities, setting exams (activities) to teach students (output)
- Institutions should ensure that the outputs selected should follow SMART criteria. That is they should be:

Specific in that they should specify exactly what the institution is expected to achieve;

Measurable given the monitoring and evaluation tools available;

Achievable given the resources provided and the institutional constraints;

Relevant to the specific objectives of the institution; and

Time-bound; achievable within the time-frame specified.

Outputs that are not SMART will be sent back to ministries/departments for revision.

b. What objective is output contributing to?

Ideally the outputs should be contributing to the objectives that are stated in Section 2 ‘Objectives and Strategy’. These should answer the question ‘Why is the government trying to achieve this output?’

c. 2012/13 projected

This was the expected achievement of the stated outputs in the current financial year

d. 2012/13 preliminary

This is what the latest expectation is of what outputs will be achieved by the end of the financial year;

e. Estimates and Projections

These are the projected outputs to be achieved based on the Medium Term budget estimates.

Examples of outputs are given below. Where relevant, votes should provide outputs that are disaggregated by gender.

Examples

Output	What objective is output contributing to?	2012/13 Planned	2012/13 Preliminary	2013/14 Budget	2014/15	2015/16
Develop Land For Irrigation and rehabilitate Irrigated Land	To increase smallholder farmers' output per unit area	1200 Hectares Developed and 800 rehabilitated	1100 Hectares Developed and 600 rehabilitated	2000 Hectares of land for irrigation; 1000 hectares of land rehabilitated for irrigation	4000 Hectares of land for irrigation; 1000 hectares of land rehabilitated for irrigation	4000 Hectares of land for irrigation; 2000 hectares of land rehabilitated for irrigation
Increased number of primary school classes taught as measured by Pupil Qualified Teacher Ratio (PTR)	To improve quality and relevance of education provided at all levels	72:1 PQTR	74:1 PQTR	72:1 PQTR	69:1 PQTR	68:1 PQTR
Orphans and vulnerable children in government schools provided with school fees	To reduce the number of individuals at risk of deprivation	15,000 orphans and vulnerable children (9,000 boys and 6,000 girls) in government schools provided with school fees	12,000 orphans and vulnerable children (8,000 boys and 4,000 girls) in government schools provided with school fees	14,000 orphans and vulnerable children (8,000 boys and 6,000 girls) in government schools provided with school fees	15,000 orphans and vulnerable children (8,500 boys and 6,500 girls) in government schools provided with school fees	16,000 orphans and vulnerable children (9,000 boys and 7,000 girls) in government schools provided with school fees
Trade Testing Examinations Conducted	To increase industrial productivity and competitiveness	3,000 pupils tested (1,500 boys and 1,500 girls)	2,500 pupils tested (1,500 boys and 1,000 girls)	4,000 pupils tested (2,000 boys and 2,000 girls)	4,000 pupils tested (2,000 boys and 2,000 girls)	4,000 pupils tested (2,000 boys and 2,000 girls)

Output	What objective is output contributing to?	2012/13 Planned	2012/13 Preliminary	2013/14 Budget	2014/15	2015/16
Number of beneficiaries provided with cash transfers.	To reduce the number of individuals at risk of deprivation	105,732 (500,000 men and 505,732 women) beneficiaries provided with cash transfers.	905,732 (400,000 men and 505,732 women) beneficiaries provided with cash transfers.	120,000 (600,000 men and 600,000 women) beneficiaries provided with cash transfers.	130,000 (650,000 men and 650,000 women) beneficiaries provided with cash transfers.	140,000 (700,000 men and 700,000 women) beneficiaries provided with cash transfers.
Number of people sensitised and provided with cooperative training	To empower Malawians to participate in economic activities	4,000 people (3,000 men and 1,000 women) sensitised and provided with cooperative training	3,500 people (2,500 men and 1,000 women) sensitised and provided with cooperative training	4,000 people (3,000 men and 1,000 women) sensitised and provided with cooperative training	4,500 people (3,000 men and 1,500 women) sensitised and provided with cooperative training	5,000 people (3,000 men and 2,000 women) sensitised and provided with cooperative training
Number of people with disabilities who are reached with various social interventions	To empower persons with disabilities so that they achieve socio-economic independence and thus contribute to the development of the country	700 persons (350 men and 350 women) reached with various social interventions	900 persons (450 men and 450 women) reached with various social interventions	1,000 persons (500 men and 500 women) reached with various social interventions	1,000 persons (500 men and 500 women) reached with various social interventions	1,200 persons (600 men and 600 women) reached with various social interventions
Number of HIV positive people accessing ARTs	To improve access to health services	250,987 people (150,000 men and 100,987 women) accessing ARTs.	280,000 people (150,000 men and 130,000 women) accessing ARTs.	300,000 people (150,000 men and 150,000 women) accessing ARTs.	350,000 people (175,000 men and 175,000 women) accessing ARTs.	400,000 people (200,000 men and 200,000 women) accessing ARTs.
TB cure rate increased.	To reduce TB prevalence rate	3.2 per cent (3.2 per cent for men, 3.2 per cent for women)	4.2 per cent (3.2 per cent for men, 5.2 per cent for women)	3 per cent (3 per cent for men, 3 per cent for women)	2.5 per cent (2.5 per cent for men, 2.5 per cent for women)	2 per cent (2 per cent for men, 2 per cent for women)

B. Import Detailed Estimates from Excel

To fill the import data sheet, you will start with balancing of the detailed templates for ORT, PE and Development against the ceilings. Once this data has been properly captured and balanced, the output based sheet can be used for exporting data to output based template. Copy all the data in this sheet and past in the import data sheet in the output based template. The same process should be repeated for ORT, PE and Development. The data should be

pasted on the same import data sheet immediately below already pasted data. Desk officers can be consulted for further clarifications.

C. Recurrent – Enter Quarterly Output Data

To add a new programme, type in the relevant 7 digit code; 3 digits for the Vote; 2 digits for the program, and 2 digits for the sub-program. Planned and actual outputs should be stated for the current 2012/13 year and quarterly planned outputs should be stated for the 2013/14 financial year.

D. MTEF – Medium-Term ceilings, PE, ORT and Development

As part of the work to reinvigorate the Medium Term Expenditure Framework (MTEF), Ministries and Departments are being requested to input projections for:

1. Their ceilings (these are the ceilings provided by the Ministry of Finance)
2. Their Recurrent Budget by program – this should balance with the figures in the ceilings.
3. Their Development Budget by project – this should be in line with the PSIP and should balance with the ceilings.

1. Medium Term Budget Ceilings

Please enter total projections for PE, ORT, Development Part 1 and Development Part 2 for 2014/15 and 2015/16/

2. Medium-Term Program Estimates – PE

Please enter the 2014/15 and 2015/16 PE estimates by program and sub-program with the corresponding relevant codes. These should balance with the ceilings provided by the Ministry of Finance.

3. Medium-Term Program Estimates – ORT

Please enter the 2014/15 and 2015/16 ORT estimates by program and sub-program with the corresponding relevant codes. These should balance with the ceilings provided by the Ministry of Finance.

4. Medium-Term Project Estimates Dev.

Please enter both Part 1 and Part 2 Development Expenditures for the three years: 2013/14 (estimate) and 2014/15 and 2015/16 (projections). These should balance with the ceilings provided by the Ministry of Finance.

E. Medium-Term Revenue Projections

For those Ministries and Departments that collect Revenues, current year and medium-term projections of revenues should be input. A brief explanation should also be provided on what is the source of the revenue (e.g. School Fees, Licensing Fees, Traffic Fines, Airport Departure Taxes etc.) and any plans to increase the revenues (e.g. raising the fine for Road Traffic offences).

F. Comment on Expenditure Trends

There is an opportunity to provide text to comment on any major changes in allocation to

a. Budget Ceilings – are certain parts of the budget (PE/ ORT/ Dev) receiving larger increases / decreases than other parts? Why? What additional outputs will be achieved with increases in resources?

The PE budget has received relatively larger increase due to the increased recruitment of graduating teachers, assisting in our objective of lowering the PQTR.

b. Program Allocations – have there been any major changes to program allocations? Why? What will this achieve?

The largest rise in percentage terms is going to the Sub-Program Rail Transport Services. An additional K50 million has been allocated because of ongoing challenges in this area. Air Transport has also received a large increase as a result of the works to rehabilitate Kamuzu International Airport.

c. Items in the Recurrent Budget – are certain items receiving larger rises than others? What is happening to the travel budget?

The travel budget has been reduced by Kx million as, per the recent circular, the ministry has reduced its fleet of cars to 3, and has reduced its projections for both internal and external travel to meet cost-saving measures.

d. Items in the development Budget – are certain items receiving larger rises than others? Why? How much is being spent on acquisition of fixed assets? Is it increasing? How much is being spent on travel? Why is there travel expenditure in the Development Budget?

The Budget for Development has increased by K110 million in 2013/14 primarily to assist in building up rail transport infrastructure. The PE Budget has also increased by K20 million on account of recruitments made for Road Traffic in 2012/13.

G. Generate and Print Reports

Utilise this function to generate PDF reports on the following:

- Output Based Submission
- Report by Type
- Report by Program
- Report by Item - recurrent
- Report by Item - Development
- Report by Project