



Malawi Government

GUIDELINES FOR THE PREPARATION OF THE 2016/17 BUDGET

Ministry of Finance, Economic Planning & Development

P.O. Box 30049

Lilongwe

Tell: 01 789 355

Fax: 01 789 173

Email: budget@finance.gov.mw

www.finance.gov.mw

Contents

<i>Contents</i>	2
INTRODUCTION	4
1.1 BACKGROUND/INTRODUCTION	4
FUNDAMENTAL CONSIDERATIONS FOR PREPARATION OF THE NATIONAL BUDGET	6
2.1 OVERVIEW	6
2.2 THE MTEF BUDGET CYCLE	6
2.3 THE MACROECONOMIC CONTEXT	7
2.4 ALIGNMENT TO THE MEDIUM AND LONG-TERM PRIORITIES AND PROGRAMS	8
2.5 ALIGNMENT TO THE PSIP	9
2.6 ALIGNMENT WITH ENVIRONMENT SUSTAINABILITY GUIDELINES	9
2.7 GENDER RESPONSIVE BUDGETING (GRB)	10
2.8 OPERATIONALIZATION OF INTEGRITY COMMITTEE	12
PREPARATION OF THE 2016/17 BUDGET	13
3.1 INTRODUCTION	13
3.2 THE PROGRAM BASED BUDGET (PBB) REFORM	13
3.3 MINISTERIAL MTEF/BUDGET PROCESS	15
3.4 CEILINGS	15
3.5 RECURRENT BUDGET	16
3.6 DEVELOPMENT BUDGET	23
3.7 SUBVENTED ORGANISATIONS	27
3.8 REVENUE	27
3.9 CASH FLOWS	28
3.10 GENERAL ISSUES TO BE NOTED	29
3.11 THE TEMPLATES	31

KEY OUTPUTS AND TIMINGS	32
CONCLUSION.....	33
WORK PLAN FOR BUDGET PREPARATION	34
COMPLETING THE PROGRAM BASED BUDGET	35

INTRODUCTION

1.1 BACKGROUND/INTRODUCTION

The Public Finance Management Act (PFMA) 2003 requires that, 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 in the short term to achieve its social economic development programs consistent with the medium and 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, Economic Planning and Development 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 2016/17 National Budget.

In terms of structure of the document, it has been organized as follows; the first section is the introduction; the second section looks at the fundamental considerations when preparing the National Budget; the third section focuses on practical advice for preparing the 2016/17

budget; the fourth section outlines the key expected outputs and timings; and the fifth section concludes this document. Annexes set out the work plan for Budget Preparation and a guidance note for completing the new Output Based Budget Template.

FUNDAMENTAL CONSIDERATIONS FOR PREPARATION OF THE NATIONAL BUDGET

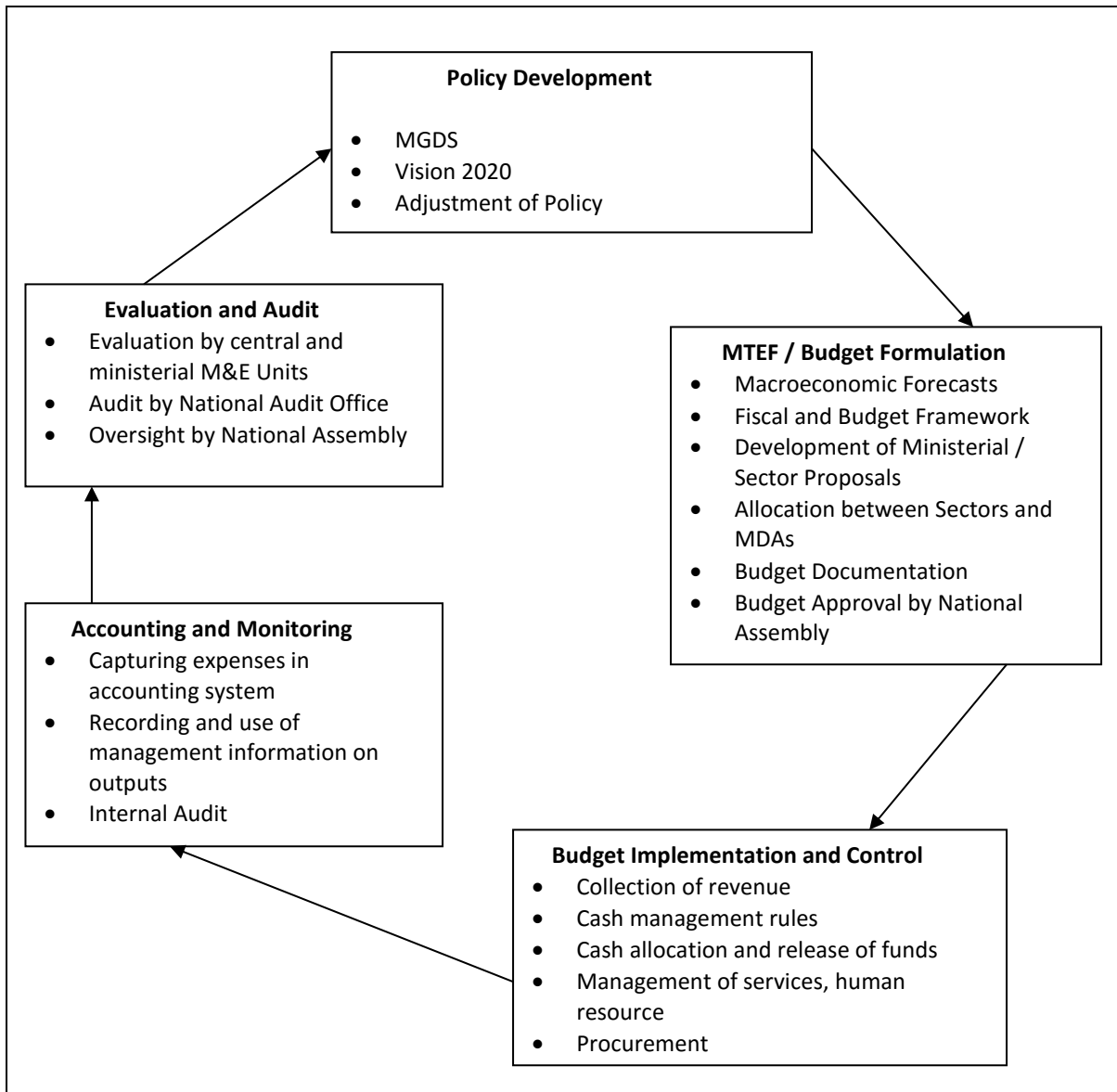
2.1 OVERVIEW

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 equilibrium; and also 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 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 explicitly 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 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 of the region and global economies are of paramount importance when preparing national budgets because of the influences such economies have on domestic economies. Similarly, under historical and future trends; past, present and future GDP growth rates always influence the National Budget either positively or negatively. The 2016/17 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). Government uses this 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 2016/17 Budget will ensure that the 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 key development strategy documents that guide the formulation and implementation of the National Budget Cycle (Figure 1): the Malawi Growth and Development Strategy (MGDS) II and the Vision 2020. The MGDS sets out the medium term priorities for achieving Malawi's medium to long-term ambitions and aspirations outlined in the Vision 2020.

The MGDS is essentially an overarching strategy for developing the country and the National Budget is an instrument by which the policy is implemented.

As the MGDS is a product of a 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 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 2016/17 Budget will be 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.** Treasury has noted with dismay revelations of continued inconsistencies in the way MGDS activities are captured. Most MDAs do not properly align their activities to MGDS, thereby leading to poor alignment and reporting of MGDS priorities. **Spending Agencies will also be required to clarify how their expenditures are contributing to the strategies, outcomes, outputs and activities of the MGDS.**

2.5 ALIGNMENT TO THE PUBLIC SECTOR INVESTMENT PROGRAM

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 2016/17 Budget, therefore, MDAs are strictly advised to adhere to PSIP approved projects and their corresponding ceilings. As such, it will be ideal to go through the PSIP when renegotiating ceilings for particular projects. When circulating ceilings, 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 ENVIRONMENT 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 2016/2017 Budget preparation, it is imperative that spending 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 of their sectors' sustainable utilization 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; and
- Ministries and Departments should ensure their role in monitoring of the sustainability indicators in the MGDS is clearly indicated. Budgets should reflect environment sustainability.

Additionally, all new capital intensive projects will be required to conduct an 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 (or mail to the Secretary for Natural Resources, Energy and Mining, Environmental Affairs Department, P/Bag 394, Lilongwe 3 or telephone 01771100).

2.7 GENDER RESPONSIVE BUDGETING (GRB)

Gender-responsive budgeting (GRB) is government planning, programming and budgeting that contributes to the advancement of gender equality as it relates to development. It entails identifying and reflecting needed interventions to address gender gaps in sector and local government policies, plans and budgets. GRB also aims to analyse the gender-differentiated

impact of revenue-raising policies and the allocation of domestic resources and Official Development Assistance.

GRB initiatives seek to create enabling policy frameworks, build capacity and strengthen monitoring mechanisms to support accountability to women.

Gender Responsive budgeting is a tool for monitoring 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. Gender responsive budgets, therefore, address the needs and interests of the women and men, girls and boys, and focus on the needs of the poorest.

The 2016/17 Budget gives priority to mainstreaming gender in the 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, outputs 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, Disability and Social welfare is available to work with the sectors in the preparation of 2016/17 budgets. (Contacts: the Secretary for Gender, Children, Disability and Social Welfare, Private Bag 330, Capital City, Lilongwe or telephone 01770411)

2.8 OPERATIONALIZATION OF INTEGRITY COMMITTEE

Ministries, Departments and Agencies are hereby being reminded of the need to apportion resources towards the operationalization of Integrity Committees within their institutions. This is aimed at improving Public Sector Governance. MDAs are being advised to provide at least 1% of their Other Recurrent Transactions for purposes of this function in their budgets. The Anti-Corruption Bureau has designated desk officers for each of the institutions, please feel free to contact them through The Director, Anti-Corruption Bureau, P.O. Box 2437, Lilongwe or on telephone 01770166or 0888990463 for guidance should there be need.

3

PREPARATION OF THE 2016/17 BUDGET

3.1 INTRODUCTION

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

3.2 THE PROGRAM BASED BUDGET (PBB) REFORM

The 2016/17 National Budget will incorporate new program structure for all Ministries and Departments in line with the PBB reform. In the 2014/15 financial year, six MDAs were involved in the PBB pilot. In the 2015/16 financial year the number of votes with program structures that incorporated PBB ideals increased to thirteen Votes. The 2016/17 financial year will have all MDAs budgets presented with new program structures that are unique to a Vote.

Program Based Budgeting (PBB) is a process whereby budgets are formulated and appropriated by Votes' programs, which are aligned to Votes' strategic objectives. In other words, it links resources to results. Key to the success of PBB improving government performance is an increasing emphasis on monitoring and evaluation by program, and feedback to inform decisions on effective and efficient resource allocation. This reform will complement the efforts underway by the Public Service Reform Commission.

For example, if the Ministry of Agriculture, Irrigation and Water Development had two core strategic objectives; to improve maize productivity and diversify agricultural exports, then it would formulate two programs: (1) Increasing maize productivity program and (2) diversifying agricultural exports program. Each program must have a defining objective, with relevant outcome and output indicators to ensure progress against those objectives is measured. All

costs associated with the achievement of those objectives must then be captured in that program classification.

As demonstrated by the above example, PBB also seeks to improve the clarity and transparency of resource allocation and performance, making it easier for users of Budget Documentation (Government Officials, Parliament, Auditors, Taxpayers, etc.) to understand, analyse, critique and put to good use budget information for the development of Malawi.

The Ministry of Finance, Economic Planning and Development from the month of October 2015 has been working with all Ministries and Government Departments to come up with programs that follow the ideals stated above. MDAs were requested to ensure that the program design includes each and every function or activity undertaken within a relevant program. In particular, the following points were emphasized:

- Each MDA should have no more than seven programs;
- Each program should have a distinctive name that reflects the overall objective of a program;
- There is no duplication of program names used by other MDAs;
- The program structure should be restricted to two levels i.e. program and sub-program. However, sub-program may not always be required;
- All costs must be clearly captured in each program; and
- The program ‘Management and Administration’ will have standardized outputs and output indicators across all MDAs with the following sub-programs:
 - Administration, Planning and M&E: the following functions will be allocated to this sub-program:
 - Procurement; Policy and Planning; Integrity Committees; and the Minister’s Office.
 - Financial Management and Audit Services
 - Human Resource Management
 - Cross-cutting issues such as HIV/Aids will be allocated to this sub-program.
 - Information and Communication Technology

As you prepare the budget for the 2016-17 financial year, you are urged to ensure that you are using the programs that were agreed between your institution and Treasury after the consultative process. Remember that Programs that appear in the detailed template are final. All detailed templates have been updated to reflect these new programs. Budget submissions that bear old programs will not be accepted.

3.3 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 and drafting the detailed Budget Estimates in consultation with the Ministry of Finance for submission and approval by Parliament.

3.4 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, MGDS, 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 indicative outer year 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, Economic Planning and Development.** 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 provide a chance for the Ministry of Finance, Economic Planning and Development to analyse Institutions' Budgets, they are not a chance for MDAs to appeal 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 is taken.

3.5 RECURRENT BUDGET

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

3.5.1 PERSONAL EMOLUMENT

Controlling Officers must ensure that the submission for Personal Emoluments should be in line with the actual staff in their respective Ministries and Departments at the end of the financial year, and should include the annual wage creep **ONLY** which is estimated at 3 percent. Requests to fill vacant positions and promotions should be made **BOTH** to the Treasury and to the Department of Human Resources Management and Development (DHRMD), who will provide early in the 2016/17 financial year, an approved recruitment plan. Controlling Officers are therefore being reminded to obtain the approval from both the DHRMD and Treasury before proceeding with filling of any vacant positions on their establishment as Treasury is constrained to provide additional resources for positions that are filled without approval.

Recently, abundant requests to create non-established posts have been noted. Filling of those non-established posts was abolished by DHRMD and its approval is strictly based unavoidable circumstances. Non compliance has an implication on the management of the Personal Emoluments budget. **To avoid this, MDA's are urged to ensure that filling of non-**

established posts is duly approved by both Treasury and DHRMD for purposes of good budget management.

In cases where an institution has arrears for Personal Emoluments, these should be clearly worked out and indicated separately when the Budget submission is made, and reasons for the accumulation of the arrears should be clearly stated.

Preparation of the Personal Emoluments budget should be in line with the establishment as issued by the DHRMD. In that respect, the **budget should be reflected on the respective cost centre, program and sub-program level.** Part of the delays attributed to processing of salaries have been the failure to match budget allocations at cost centre, program and sub-program level making monthly funding release difficult. For instance, preparing emoluments of a Tourism Officer, requires that the budget should be allocated under the Tourism Cost Centre, and the relevant Tourism program as well as sub-program and not under Information or Culture program. This will also assist in monitoring of the Personal Emoluments budget.

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

- i) **Rationalization of the Public Service.** The Public Service Reform Commission is in the process of rationalizing the Public Service with a view to improve efficiency in service delivery while at the same time ensuring cost saving.
- ii) **Regular and intensive monitoring of the payroll.** Despite the controls on the payroll management, periodic head counts will be done regularly to ensure non-existence of ghost workers and that employees are paid correct salaries.
- iii) **Payment for Salary Arrears will be on special request.** It has come to the notice of the Treasury that most wage bill fluctuations are being explained by arrears. Most of these arrears relate to other previous financial years other than the current. Such arrears must be audited first before making the request for funding. In such cases, it becomes difficult to manage the wage bill. Funding to pay salary arrears must not be reflected on GP5 Form but must be requested separately. These salary arrears should only be those that have been properly planned and budgeted for like those falling due within a financial year.

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 Treasury during Budget Hearings to allow Treasury to make budget provisions for the same once the audit has taken place.

iv) **Recruitment.** It has to be noted that each year Government through the DHRMD reserves and allocates ceilings for prioritised recruitment. **Recruitment warrants are however only valid for the financial year in which they have been granted.** MDAs tend to use recruitment warrants from previous financial years to undertake recruitment in the ensuing year, this is not acceptable as it distorts wage bill calculation. If for whatever reason the MDA's have failed to recruit in a given financial year for which a warrant was issued, a fresh warrant should be sought in that year, if they so wish to proceed with recruitment. Furthermore, the recruitment warrant and ceilings do not include recruitment for non-established staff. MDAs should therefore make sure that they liaise with the DHRMD and Treasury on recruitment of non-established staff as well for purposes of financial resources identification within the budget of the respective MDA.

3. 5.2 OTHER RECURRENT TRANSACTIONS (ORT)

As usual, all Recurrent Expenditures of the Budget must be aligned to specific Government policies and MGDS activities and given detailed costing in the Budget template. A number of measures to help control expenditures from previous financial years remain in place 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 the sole Supplier of commonly-used items in Government such as stationery and other items.** All procurement by Ministries and Department will continue to be on cash basis and be purchased from the Central Government Stores, with the aim of avoiding arrears. Controlling Officers, Heads of Departments and Chief Executive Officers who accumulate arrears will be held responsible.

In the event that Central Government Stores does not have the relevant items, institutions should obtain a waiver issued by the Central Government stores using the following procedure:

- 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 item in stock, it will request the concerned Institution to get three quotations for the item from private suppliers;
- c. The Institution will get the quotation through 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.

Officers are reminded not to sign contracts without following procurement rules and regulations. Failure to comply will lead to personal accountability and discipline.

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

Government has recapitalized the Central Medical Stores so that it is the sole supplier of drugs and medical supplies for the public hospitals. Central Medical Stores is now an autonomous Trust. All procurement of these medical supplies by Central Hospitals and District Hospitals should be cash on delivery basis to avoid accumulation of arrears. Payments to Central Medical Stores is being done centrally either by the Ministry of Health or the National Local Government Finance Committee (NLGFC) within the allocations of the hospitals. In this way, integrity of the supply chain is ensured; very expensive purchases from vendors and the accumulation of arrears is being discouraged in order to improve the quality of health care in the country. It has however been noted that District Hospitals and Central Hospitals are failing to provide the supporting documentation for payment processing by the responsible central institutions. This is delaying the process and public hospitals are therefore urged to provide the supporting documentation as a matter of urgency to expedite payments.

All procurement by Government Institutions 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 for utilities 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. Prepaid water meters are now being installed in the Northern and Southern Region Water Boards and the expectation is that all Public Institutions will move towards the pre-paid meters. All Government Offices must switch off all electrical appliances such as computers when not in use. All these need to be taken into account as Budgets are being prepared.

ii) **Use of Government Print:** All printing services in Government will still be provided by Government Print. Where Government Print is unable to provide the services, an authority should be sought from the Chief Secretary to use private printers, following which the normal procurement procedures are to be followed.

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 adherence to this PFM Act provision is greatly encouraged at all times. MDAs are strongly advised to use the commitment module in IFMIS for all transactions to facilitate discharge once funding is made available.

C. CONTROL OF TRAVEL RELATED EXPENDITURES

i) **Government continues in its efforts of containing the travel budget.**

ii) **Internal Travel.** Government will continue to enforce the internal travel restrictions set out in the OPC Circular No. 15/15/7 issued on 19th November 2013.

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. 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 subjected to disciplinary action.

iv) **External Travel Allowances.** Reference should be made to OPC Circular No. 15/15/7 issued on 29th October, 2014. Government will abide to the recommendations of the policy of limiting the number of trips for any public officer to three per annum and that no top up allowance will be given on fully funded trips.

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 will be done through the Cash Management Committee.

For Court Cases, the Committee will continue to review and determine whether the causes of the claims are as a result of avoidable or unavoidable causes. For claims arising from 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.

Government institutions shall be responsible for the settlement of compensation claims where the Attorney General has failed to provide defence due to failure by the Institution to provide any or 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 wilfully or negligent conduct leads to Government incurring liability, loss or damage shall be surcharged for such liability, loss or damage.

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 relating to sites earmarked for public 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; the payments must be properly channelled to the right claimants.

E. SUBSCRIPTIONS TO INTERNATIONAL ORGANISATIONS

As all may be aware the Accountant General's Department has been centrally paying subscriptions to international organisations. However, the AGD's has been overwhelmed with requests for payment of subscriptions to the extent that the bill cannot be accommodated within the available budget. At present the Accountant General in consultation with the Ministry of Foreign Affairs and International Cooperation has prioritised payment of subscriptions to international organisations whose interest may span across a number of institutions like the African Union, COMESA, SADC and UN among others. Institutions are therefore being encouraged to budget for the other subscriptions within their ORT allocation. For additional details on the prioritised list of institutions to be subscribed internationally please contact the Cash Management Division of the Accountant General's Department.

F. CAPTURING OF DONOR RESOURCES UNDER THE RECURRENT BUDGET

For the 2016/17 budget, recurrent resources that have been provided by donors will have to be captured using the relevant donor code. In the past this only applied to the development budget. However, to avoid using donor resources for purposes not intended, donor codes will also be used for recurrent expenditures attached to a donor. The budget templates will include a sheet named 'donor codes' which will guide MDAs in selecting the relevant code. Examples of such support is the PFEM support and Emergency Recovery resources.

3.6 DEVELOPMENT BUDGET

Ministries should ensure that all development projects implemented under them are included during the process of preparing the budget. Only projects in the Public Investment Programme (PSIP) will be included in the Budget.

Ensure that all Part II commitments are adequately provided to existing projects before allocating to new projects.

3.6.1 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 must 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. Institutions should be aware that there can be a long period for most construction projects between the design stage and the construction phase. Planning and cash flow of projects ought to take this into account. All approved projects that have not yet commenced should be reviewed and Controlling Officers ought to seek fresh approval from PSIP section of the Department of Economic Planning and Development in the Ministry of Finance, Economic Planning and Development.
- iii) **Government Projects:** Before contracts are signed, the contracts must be approved by the ODPP, the Ministry of Finance, Economic Planning and Development, and the Ministry of Justice and Constitutional Affairs. In the occurrence of an extension of these contracts, all extensions must follow the same approval process of new contracts. Un-official contract extensions between the contractors and the respective Government institutions is highly discouraged as it leads to arrears that cannot be monitored.
- 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 relevant Ministry with the confirmation of the PSIP section.
- v) Funding for Development Part II projects will continue to be done upon receipt of certificates showing completion of work on one end and progress reports that have been duly verified by MoFEPD. For projects at design stage, funding will be based upon a cash flow agreed with the relevant Desk Officer and the Cash Management Section in the Ministry of Finance.
- vi) Future maintenance and operations costs of completed development projects should be established and included in the recurrent budget i.e. 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.).
- vii) Monitoring of projects: there will be regular monitoring of projects by M&E and Budget Divisions of the Ministry of Finance, Economic Planning and Development to ensure that implementation is in line with the plan and that the allocated funds are used effectively.

Part 1 Projects

The Part 1 Funding Ceiling is determined only by the amount of funding available from donors. The indicative ceilings sent to institutions by MoFEPD include a figure for Part 1 resources, but this should not be considered indicative. 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 the Treasury together with the relevant supporting documentation for inclusion as long as it does not affect counterpart funding (Part II).

- Not all foreign funded projects are eligible for reporting in the budget. Foreign funded projects eligible for reporting in the budget are considered as On Budget projects. On Budget is external funding that is listed in the budget documentation for a project to be considered as On-budget it must meet the following criteria: Activities are managed by a government agency;

- Government is able to account for the use of resources -the activity is audited by AG or a government institution is able to indicate the implement of activities

Certain donors may not have any projects that fit the 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 II) funding required under project agreements must be included in the submission to the Treasury, this should be the same amount indicated at the PSIP meetings between the Department of Economic Planning and Development and your institution.

Arrears resulting from Part II long term contracts must be recalculated to proportions that are commensurate with the resources of the budget and be agreed upon before work begins to avoid accumulation of idle time claims.

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. Such projects could be considered off budget or on plan.

On-budget support is development cooperation funding that is recorded in the annual budgets approved by the legislature. Off-budget is therefore development cooperation funding that is not recorded in the budget. On treasury is development cooperation funding that is recorded in the annual budget approved by the legislature AND funding is channelled through Government account No 1.

On Budget: External funding that is listed in the budget documentation. For support to be On Budget, it must meet both of the following criteria:

- Activity is managed/implemented/executed by a government agency
- Government is able to account for the use of resources on a transactional level, allowing for entry into government fiscal accounts

Examples: Projects financed from the International Development Association and the African Development Fund, Basket Funds management by Government such as MTDFs, projects such as DEAP, FROIP

Activity is managed by government when overall responsibility for management and delivery of activities and accountability for results rests with government. For some partners the term ‘government implementation’ or ‘government execution’ may be used to describe the same situation. By default these activities contribute to building of national capacities. The definition does not exclude situations in which payments or procurements are handled directly by a development partner as long as this is done in agreement or request by government. In addition implementation of activities often requires the establishment of steering committees and similar joint structures as a mechanism for consultation and joint decision-making.

For government to be able to account for the use of resources, resources will have to be appropriated by parliament and transaction data entered into IFMIS. If IFMIS is not used to issue payments, more detailed financial information at transactional level will be recorded after-the-fact. This information is in addition to disbursement data reported directly into the AMP by all development partners.

Therefore, the drawing line between on and off budget support would be where government has a reasonable degree of control/oversight and has full line of sight to actual disbursements at a transactional level. For ODA where disbursements cannot be disaggregated at the transaction by transaction level, or where supporting documentation (such as contracts, invoices) are not available to government, then this should be off-budget.

Off Budget: Activity does not meet the two criteria listed above (e.g. activities implemented directly by DPs or through NGOs). For example, Global Fund funds channelled through Action Aid will be off-budget.

On Treasury: Activity is both listed within the current year’s budget documentation and is deposited into a Government account No 1 at the Reserve Bank of Malawi. Examples being general /sector budget support

On Plan: The activity meets at least one of the following criteria:

- The activity is integrated into government strategic plans (national, sector, district)
- The activity represents a project that is included in the PSIP

For example, activities implemented by CSOs are ‘on plan’ if they are in response to a sector plan and are coordinated through the Sector Working Groups and/or contribute to government’s national development objectives as outlined in the Malawi Growth and Development Strategy (or its successors). Mechanisms like Joint Sector reviews are used to allow for accountability for results for the use of funds.

Only activities that adhere to AMP reporting guidelines in terms of accuracy and timeliness of reporting can be considered under the ‘on-budget’ and ‘on-plan’ categories.

There is no ceiling for support outside the budget. All such support should be recorded and submitted to the Ministry of Finance, Economic Planning and Development. However, this is

not a preferred modality of delivering development support. As such, Government policy is to request that as much as possible future support be channelled through Government systems and be reported on the budget once the comfort to use Government system has been established.

3.7 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 subvented organisations become self-sustaining, with commercially-oriented organisations becoming more profitable to remit dividends and 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 except in situations that the MOFEPD has decided to reflect the budget under the subventions budget line. 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.

3.8 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 2016/17 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. Ministries and Departments that have not yet submitted their revenue enhancement measures for 2016/17 Financial Year should submit as soon as possible. Ministries/Departments are also being urged to make provisions in their ORT budgets for revenue collection effort as no additional funding will be available for the revenue enhancement measures.

During implementation of the 2016/17 budget, Ministry of Finance would like to urge all Ministries and Departments to observe proper accountability and revenue management practices. The Ministry through the Revenue Policy Division 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 and submitted to the Ministry of Finance alongside their expenditure budget.

3.9 CASH FLOWS

Ministries are required to provide indications of the expected monthly breakdown of all expenditures by Cost Centre, further broken down by program, for cash management planning purposes. These cash flow estimates should originate from ministries' preliminary work plans and procurement plans. Ministries will submit cash flows together with their budget templates - the budget templates include a worksheet where MDAs are required to input this information. This will ensure timely submission of cash flows and enable the Treasury to consult with relevant Ministries on cash flow adjustments where necessary. Failure to provide monthly breakdowns of cash requirements will be treated as non-submission.

When developing the cash flows, Ministries will need to account for all components of expenditure: Personal Emoluments, Other Recurrent Transactions, and Development – Part II. While some expenditure lines such as Personal Emoluments and office supplies may be expected to be evenly distributed throughout the year; other expenditures such as procurement of equipment and development projects may be once off or concentrated over a particular part of the year. Therefore, Ministries must carefully consider the timing of the cash outlays when completing the cash flow templates.

There has been a trend in recent years for Ministries to prepare cash flows that are “front-loaded”, whereby funding allocations are significantly higher during the first half of the

financial year than in the second. These front-loaded submissions create cash flow challenges for Government since they do not correspond well to revenue inflows, and, therefore, efforts will continue to be made by Government to spread expenditure as evenly as possible throughout the financial year. As part of these efforts, Treasury will no longer accept front-loaded submissions without strong justification to support the need for greater cash outlays early in the fiscal year.

Ministries must also ensure that the cash flows balance to the budget submission for each Cost Centre and Development-Part II project. Additionally, for each Cost Centre, both Personal Emoluments and Other Recurrent Transactions must balance to the budget as submitted. Cash flow submissions will not be accepted by Treasury unless they balance in accordance with these requirements.

Ministries' adherence to these requirements will result in more accurate and timely information for Government to manage cash requirements throughout the financial year. Thus, treasury will endeavour to advise MDAs on expected quarterly funding levels in line with liquidity forecast for that period to allow predictable levels of funding hence implementation of activities.

3. 10 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 2016/17 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 work closely 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.

National Local Government Finance Committee is working towards moving salary provisions for Ministries and Departments with devolved functions to the respective Council. In the 2016/17 financial year, NLGFC will be conducting a pilot for some District Councils. The concerned Councils will therefore be expected to prepare a Personal Emolument budget as well. It is expected that in the 2017/18 financial year, all salary provisions for devolved functions will be allocated under the respective council.

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 the Ministry of Local Government and Rural Development and the National Local Government Finance Committee for further information and technical support on decentralisation. Officials from the National Local Government Finance Committee will be present at Budget Hearings of all ministries that have devolved their functions to the local authorities.

C. PERFORMANCE CONTRACTS

The Office of the President and Cabinet has instituted Performance Contracts which MDAs are expected to adhere to and report on at the end of the financial year. This entails undertaking a review of the MDAs performance against agreed targets. The Performance Contracts will help in realizing the Government's strategic and policy priorities and encourages accountability within government institutions.

The review of the Performance Contracts will guide the determination of budgetary allocations by assessing whether value for money has been achieved, which programs to be given priority for funding and projects to be discontinued or handed over to relevant MDAs.

Considering that this will be the first year in which MDAs will be liable to these contracts, they may not play a role in resource allocation for the next financial year. However, it is ideal that MDAs should keep in mind targets set in the Performance Contracts when preparing their budgets.

3.11 THE DETAILED TEMPLATES

The format of the past two years has not been changed; however, following the merger of a number of institutions the templates have been updated to reflect this. 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 and Items) can be found in the templates.

The list of the programmes by Ministry is available in the templates. The list has been modified to accommodate the revised program structures for each MDA in line with the PBB reform. The programs and sub-programs will be unique for each MDA. The budget templates will now have new program codes based on the new program structure. In this case, MDAs should stick to the programs that have been agreed upon. Any changes that need to be made should be communicated to the Ministry of Finance. You will not be **ABLE TO** make any changes to the templates yourselves, as consistency between all Votes' templates must be maintained for formatting.

4

KEY OUTPUTS AND TIMINGS

The key outputs expected from the process of preparing the 2016/17 Budget are:

- (i) PE Excel Template; including cash flow worksheet;
- (ii) ORT Excel Template, including cash flow worksheet;
- (iii) Development Excel Template, including cash flow worksheet;
- (iv) Revenue Excel Template; and
- (v) Program Based Budget Submission. Along with monitoring reports or achievements summary including expenditure level from the current year, this document will be the basis of Budget Hearings.

Submission of the above templates must be done by **6th April 2016**.

As per last year's process, cash flows 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

WORK PLAN FOR BUDGET PREPARATION

Activity	Date
Budget Briefing Workshops and Circulation of Budget Guidelines	29th to 31st March 2016
Circulation of Indicative MTEF ceilings	31st March 2016
Budget Submissions	14th April 2016
Budget Hearing Meetings	4th to 15th April 2016
Circulation of Final MTEF ceilings	20 th April, 2016
Final Budget Submissions from Ministries	25 th April, 2016
Budget Consolidation	14th April to 6th May 2016

Annex 2

COMPLETING THE PROGRAM BASED BUDGET

This Annex provides definitions and examples of the information that budget agencies should provide when completing the Program Based Budget. The template has six sections as follows:

I-Mission	II-Strategic Objectives	III-Major Achievements	IV-Program Issues	V-Budget by Program	VI-Program Information
<ul style="list-style-type: none">•Mandate•Strategic Document•Vision	<ul style="list-style-type: none">•Program Objectives	<ul style="list-style-type: none">•Program Outcomes	<ul style="list-style-type: none">•Program Outcomes	<ul style="list-style-type: none">•Program Budget•Sub-Program Budget	<ul style="list-style-type: none">•Outcome Indicators•Output Indicators

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. Strategic Objectives

- In this section, budget agencies should provide a brief definition and explanation of a program and the goal the program is intended to achieve.
- 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.

3. Major Achievements

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 **measurable and compared to the target set**. In addition, where data is readily available, votes should provide information broken down by gender. The achievements should be short, clear and concise and presented in bullet point format.

4. Program Issues

In this section, MDAs will be required to state any challenges, problems or constraints that they experienced in implementation of program during current financial year. In addition to challenges, MDAs may also discuss any measures or actions that are being undertaken or proposed to address these challenges. The text should be short, clear, concise, and presented in bullet points.

5. Budget by Program

This section will show budget allocations by program and subprogram as depicted by the table below:

Table 5.1

Code	Program/ sub-program title	Year 2014/2015 Approved	Year 2014/2015 Revised	Year 2015/2016 Estimates	Year 2016/2017 Projection	Year 2017/2018 Projection
	Program					
	Sub-program					
	Program					
Total						

The information presented in this table will include both recurrent and development expenditure. The document will include additional tables showing the budget by cost centre, the development budget by project and the staffing levels.

6. Program Information

In this section each program (including sub-programs, if any) is described separately providing both performance and budget information.

Program 1:

Objective:						
Performance indicators	Targets (per financial year)					
	2014/2015 Achievement	2015/2016		2016/2017 Target	2017/2018 Projection	2018/2019 Projection
		Target	Prelim			
Outcome:						
1. (Outcome performance indicator)						
Sub-program 1:						
Output 1.1:						
1.1.1.(Output performance indicator)						

Every program should have an objective, outcome and outcome indicators as well as outputs and output indicators. MDAs will be required to report against the indicators. Information should be provided on achievements for the previous financial year, the target and preliminary outcome of the current financial year and then the targets for the next financial year as well as the two outer years.

a. Outcomes and Outcome Indicators

Outcomes are ‘what we intend to achieve’. Outcomes will reflect intended or achieved short and medium-term achievements of the programs and these will be accompanied by indicators designed to measure progress. Consideration should be given on what the long-term goals are of the programs that MDAs have identified. Outcomes should relate clearly to an institution's strategic goals and objectives set out in its plans.

b. Outputs and Output Indicators

What are outputs?

- Outputs are the final products, or goods and services produced. Outputs may be defined as "what we produce or deliver".
- 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 combinations 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.

c. What objective is output contributing to?

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

d. 2014/15 achievement

This is the actual achievement of the stated outputs in the previous financial year

e. 2015/16 target

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

f. 2015/16 preliminary

This will show the actual outputs achieved in the current financial year

g. Estimates and Projections

These are the projected outputs to be achieved based on the Medium Term budget estimates. The estimates will be for the next financial year while the projections correspond to the two outer years.

Programme Personnel Information

The template includes two tables showing information on staffing levels within the Ministries and Departments. The first table shows the personnel information by grade i.e. the actual staffing levels and the authorised establishment as well as the estimated cost associated with the number of personnel

The second table will show the information broken down into four categories:

- a. Executive/Managerial: this category refers to Principals Secretaries and Chief Directors;
- b. Technical/Front Line Service Delivery this category refers to technical staff under the various programs;
- c. Administrative Support: this category refers to support staff e.g. secretaries and accounts personnel; and

d. Temporary/Contract: this category refers to officers who have been employed on a temporary or contractual basis.