# FISCAL OUTTURN ANALYSIS

January –September 2019

## EXECUTIVE SUMMARY

Significant revenue shortfalls are likely to cause severe underspend against the FY2019 Budget priorities. Projecting the current rate of revenue collections forward, the State is likely to achieve Slightly one Third of its estimate. As such, a supplementary for the FY2019 Budget should be considered and a more conservative revenue estimate for the FY2020 Budget prepared.

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# 1. Fiscal Analysis by MDA

## Share of Total Revenue Receipts by MDA
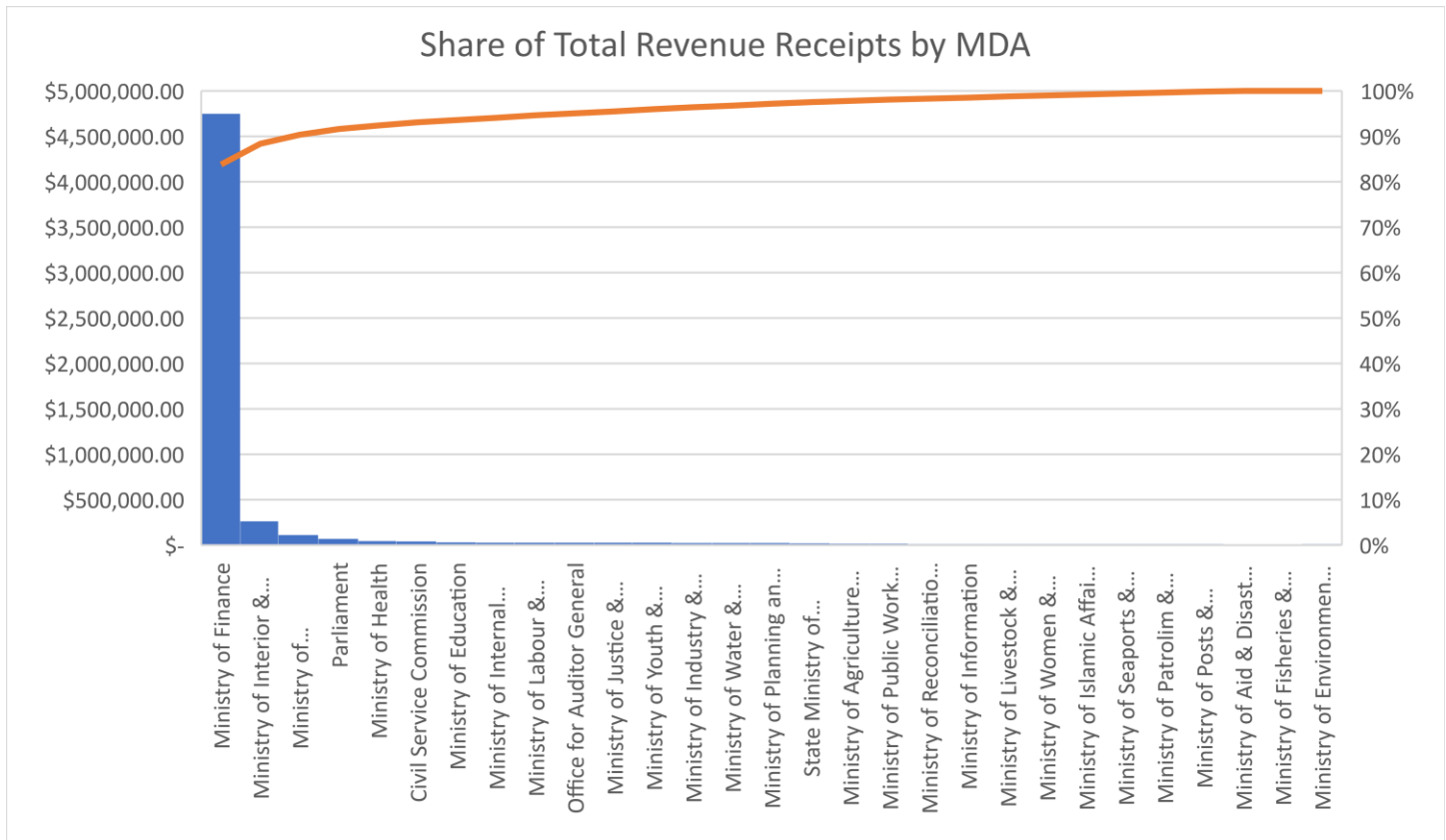


Based on an analysis of revenue receipts by MDA, we find that 90% of government revenues are currently collected by the Ministry of Finance, with the Ministry of Interior & Local Government, Transportation, and Health accounting for the majority of remaining revenue receipts. This represents a continuation from previous fiscal reporting periods, and is reflective of an early public financial management environment where revenue collection and recording is still predominantly undertaken by the Ministry of Finance.

## Share of Total Govt. Expenditure by MDA
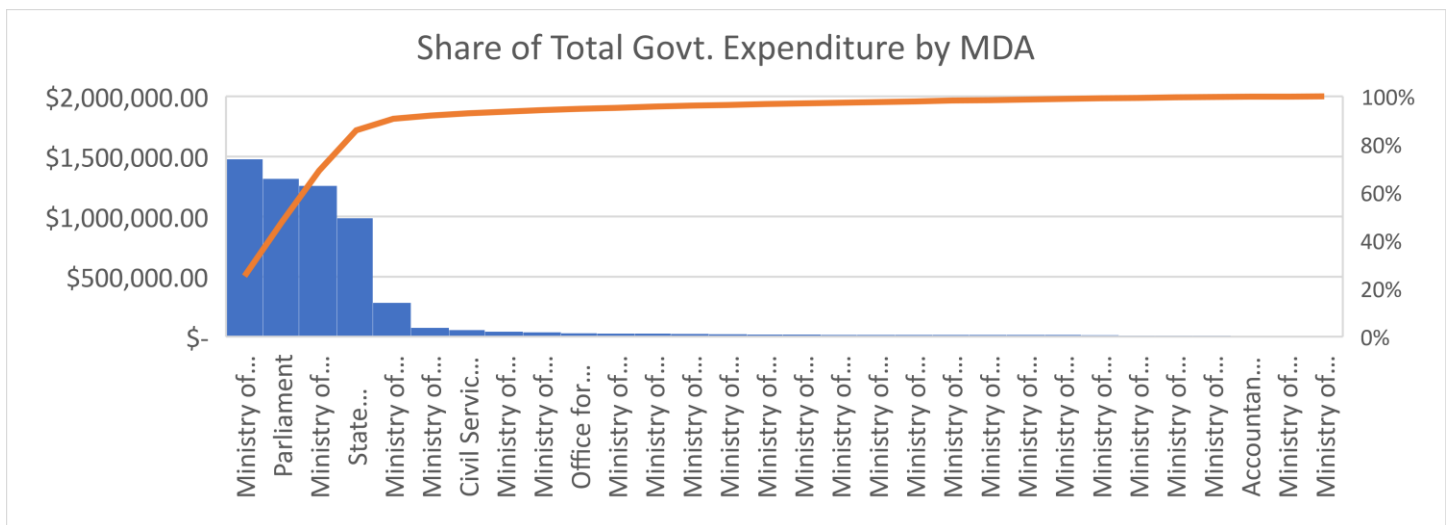


An analysis of total government expenditure by MDA, on the other hand, shows a more promising trend. Currently, Five ministries account for 90% of total government spending: Ministry of Finance, Parliament, Presidency, and the Ministry of Internal Security and the Ministry of Interior and Local Government. This represents a marked improvement away from a concentration of spending in the Ministry of Internal Security towards more General Public Service sector organizations.

## 2. Fiscal Analysis – Revenue

### Comparison of Revenue Estimate and Revenue Received
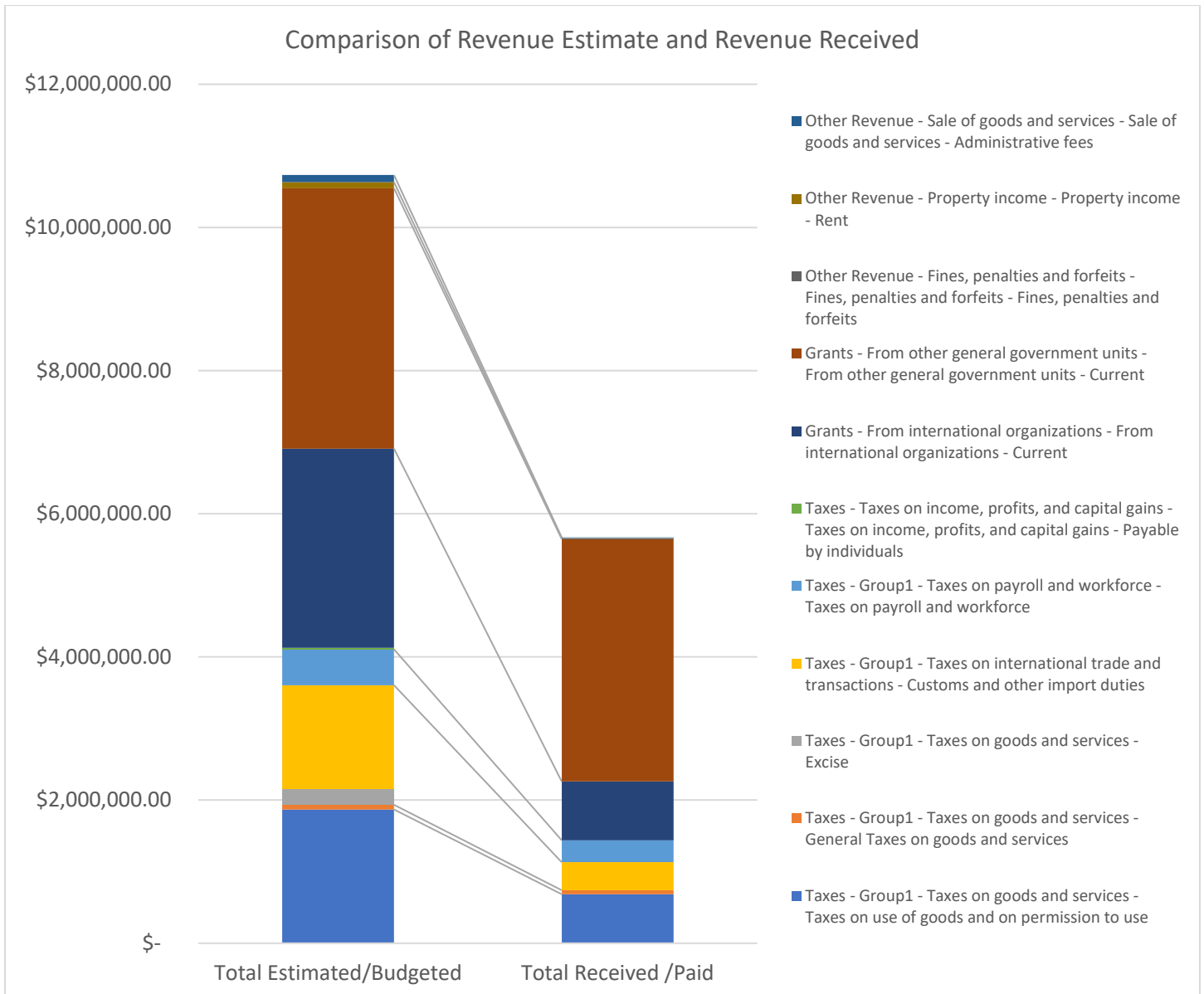


A comparison of revenue estimates and revenue received is very concerning. All revenue streams (tax, grant, and other revenue) are significantly below their estimate and based on a projection of current trends, are unlikely to meet their targets. Tax revenue streams, which are more directly within the State's control, are particularly worrying given that significant tax revenues from taxes on goods and services, on international trade and transactions, and on payroll and workforce have not been realized. Grants receipts from other General Govt. Units are higher than estimate, with International Organization grants being significantly below estimates prepared for the FY2019 Budget.

**Revenue Composition and Growth**

**Revenue Deviation**
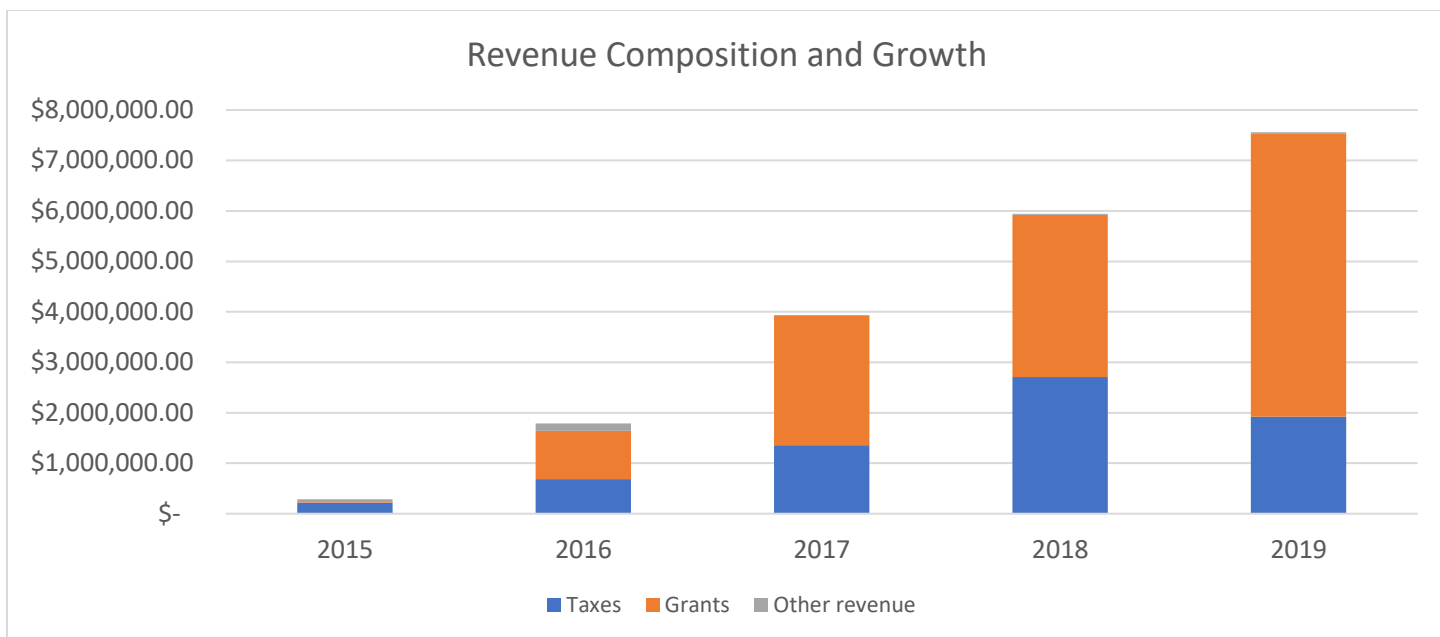
Projecting revenue receipts for the past Nine Months, we anticipate an overall growth in revenue receipts for the State compared to FY2018. However, this growth is likely to reverse gains made to minimize the reliance on grants revenue to underwrite government operations, as the State has been becoming markedly more reliant on grants (particularly from the Federal Government) to finance its expenditures.

**Note: FY2019 full year figures are derived by applying a monthly average to actual revenue receipts over the January – September period of analysis.**
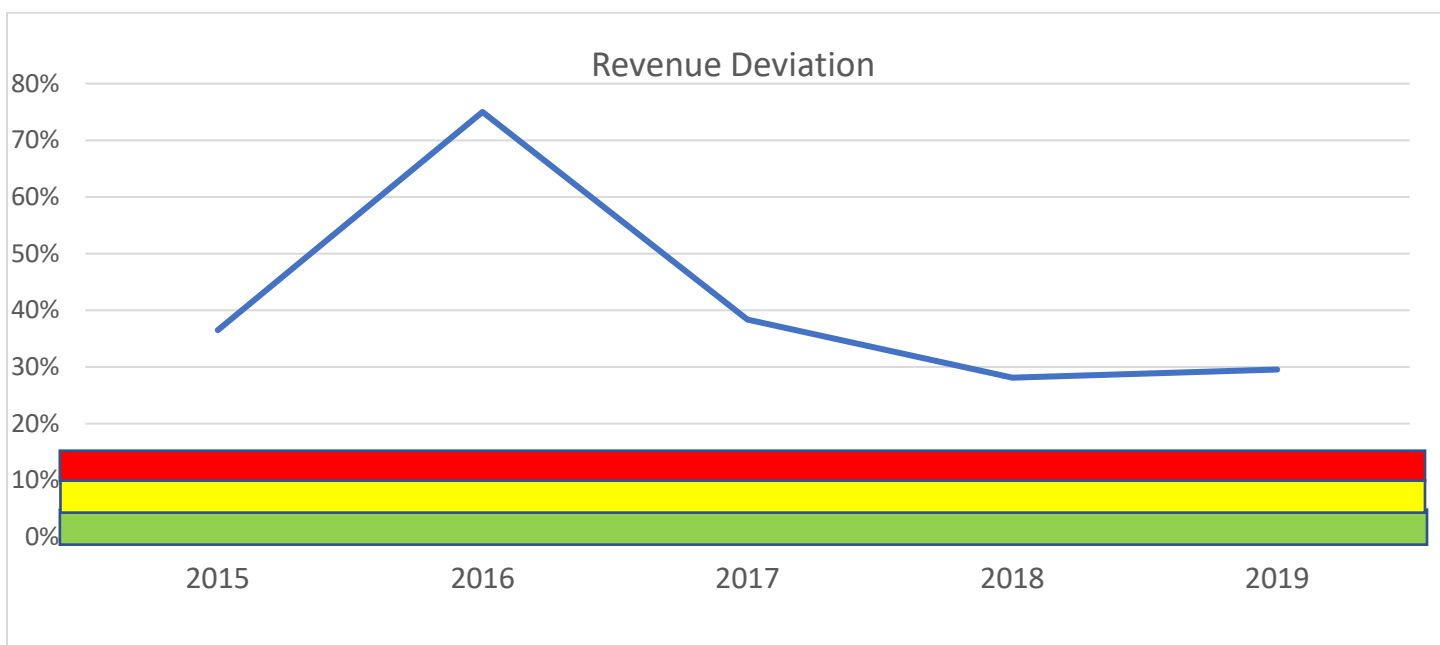
This underperformance in revenue receipts is also a signal of a deterioration of the quality of revenue estimates and the efficiency of revenue administration. Using the PEFA framework, a revenue deviation of less than 5% (PEFA = A; Green in the graph above) is desirable, and as the above graph demonstrates, the State is moving in the wrong direction after progressive improvements between FY2016 and FY2018. This underperformance is also leading to a less than planned for tax burden as demonstrated in the table below.

The tax burden is a useful macro-fiscal indicator for the extent of government engagement in the economy and normally ranges between 10% - 20% in low- and middle-income countries. As per the table below, both the planned and actual tax
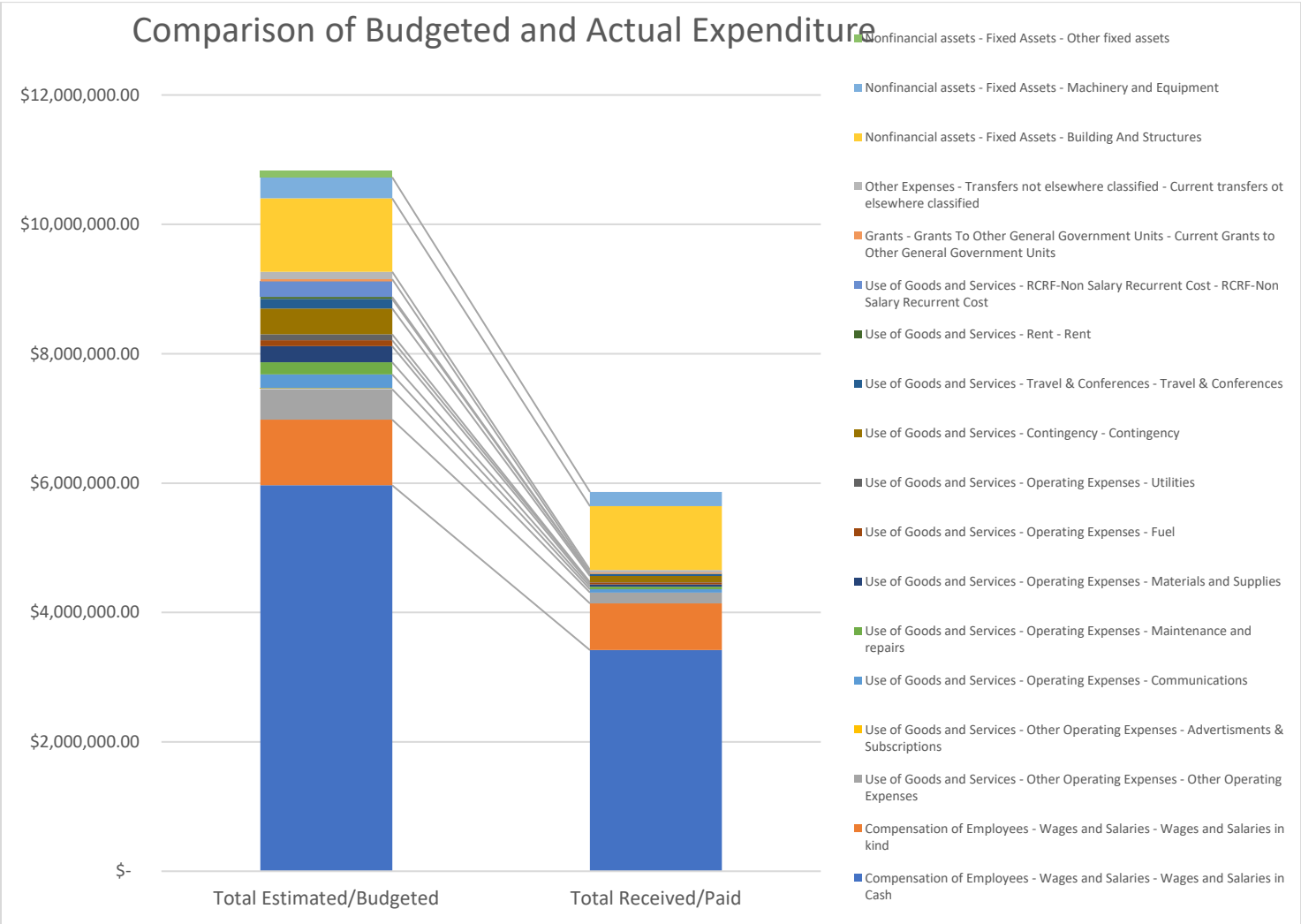
burdens are far lower than this range, but the actual tax burden is particularly concerning as this suggests that the government has a negligible role in the economy.

| Planned Tax Burden (as % of GDP) | Actual Tax Burden (as % of GDP) |
|---|---|
| 0.08% | 0.03% |

This underperformance in tax revenue receipts has also had a negative impact on citizens, and in particular on the poor. The ratio of direct to indirect taxes is a macro-fiscal indicator for the pro-poor nature of a taxation regime, where a higher share of direct taxes is seen as pro-poor as these taxes inherently take into account the individual circumstances of the taxpayer. As visible from the table below, the planned revenue estimate was not pro-poor, as 99.45% of planned tax revenues were from indirect taxes. As the few planned direct taxes have not been collected, 100% of tax revenue receipts are in fact from indirect sources and as such do not take into account individual taxpayer circumstances.

| Taxt Type(Direct/ Indirect) | Sum of Estimated/Budgeted | Sum of Received/Paid |
|---|---|---|
| **Direct Tax** | **0.55%** | **0.00%** |
| **Taxes on income, profits, and capital gains** | **0.55%** | **0.00%** |
| Payable by individuals | 0.55% | 0.00% |
| **Indirect Tax** | **99.45%** | **100.00%** |
| **Taxes on goods and services** | **52.20%** | **51.49%** |
| Excise | 5.36% | 0.00% |
| General Taxes on goods and services | 1.58% | 3.91% |
| Taxes on use of goods and on permission to use | 45.26% | 47.58% |
| **Taxes on international trade and transactions** | **35.11%** | **27.21%** |
| Customs and other import duties | 35.11% | 27.21% |
| **Taxes on payroll and workforce** | **12.13%** | **21.30%** |
| Taxes on payroll and workforce | 12.13% | 21.30% |
| **Grand Total** | **100.00%** | **100.00%** |

## 3. Fiscal Analysis – Expenditure



### Comparison of Budgeted and Actual Expenditure

Legend:
- Nonfinancial assets - Fixed Assets - Other fixed assets
- Nonfinancial assets - Fixed Assets - Machinery and Equipment
- Nonfinancial assets - Fixed Assets - Building And Structures
- Other Expenses - Transfers not elsewhere classified - Current transfers ot elsewhere classified
- Grants - Grants To Other General Government Units - Current Grants to Other General Government Units
- Use of Goods and Services - RCRF-Non Salary Recurrent Cost - RCRF-Non Salary Recurrent Cost
- Use of Goods and Services - Rent - Rent
- Use of Goods and Services - Travel & Conferences - Travel & Conferences
- Use of Goods and Services - Contingency - Contingency
- Use of Goods and Services - Operating Expenses - Utilities
- Use of Goods and Services - Operating Expenses - Fuel
- Use of Goods and Services - Operating Expenses - Materials and Supplies
- Use of Goods and Services - Operating Expenses - Maintenance and repairs
- Use of Goods and Services - Operating Expenses - Communications
- Use of Goods and Services - Other Operating Expenses - Advertisments & Subscriptions
- Use of Goods and Services - Other Operating Expenses - Other Operating Expenses
- Compensation of Employees - Wages and Salaries - Wages and Salaries in kind
- Compensation of Employees - Wages and Salaries - Wages and Salaries in Cash

Significant revenue deviation has translated into severe underperformance against planned government spending. All expenditure streams are significantly below plans. Across the board, this is highly suggestive of either significant off-budget activity or a significant accumulation of arrears as compensation of employees and payments to vendors for operational expenses are not realized. This underperformance is likely to lead to more than 50% of government spending being allocated to compensation of employees.

| Planned Government Final Consumption Expenditure (as % of GDP) | Actual Government Final Consumption Expenditure (as % of GDP) |
|---|---|
| 0.19% | 0.10% |

This underperformance has direct fiscal policy impact. As per the table below, Government Final Consumption Expenditure (a key component of GDP), is significantly below the budgeted plan. As such, any deliberate fiscal impact desired by the Government through its spending patterns is unlikely to have been achieved.
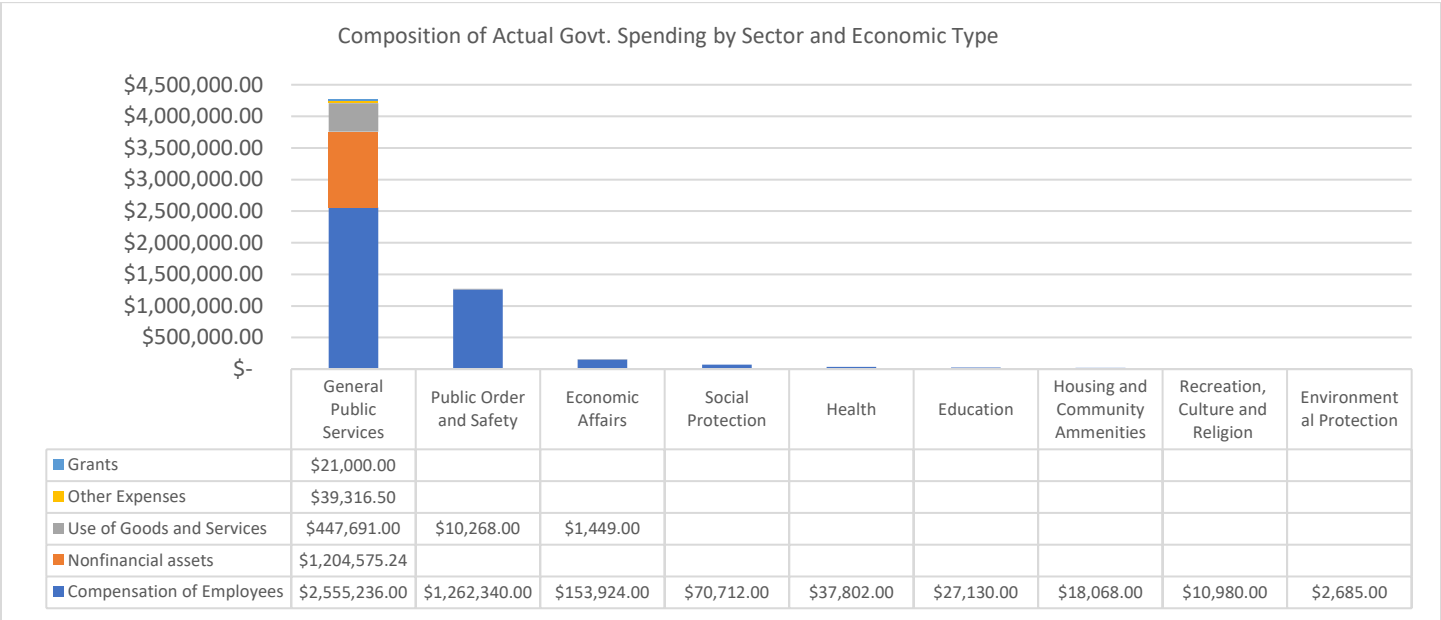
Social Spending Percent
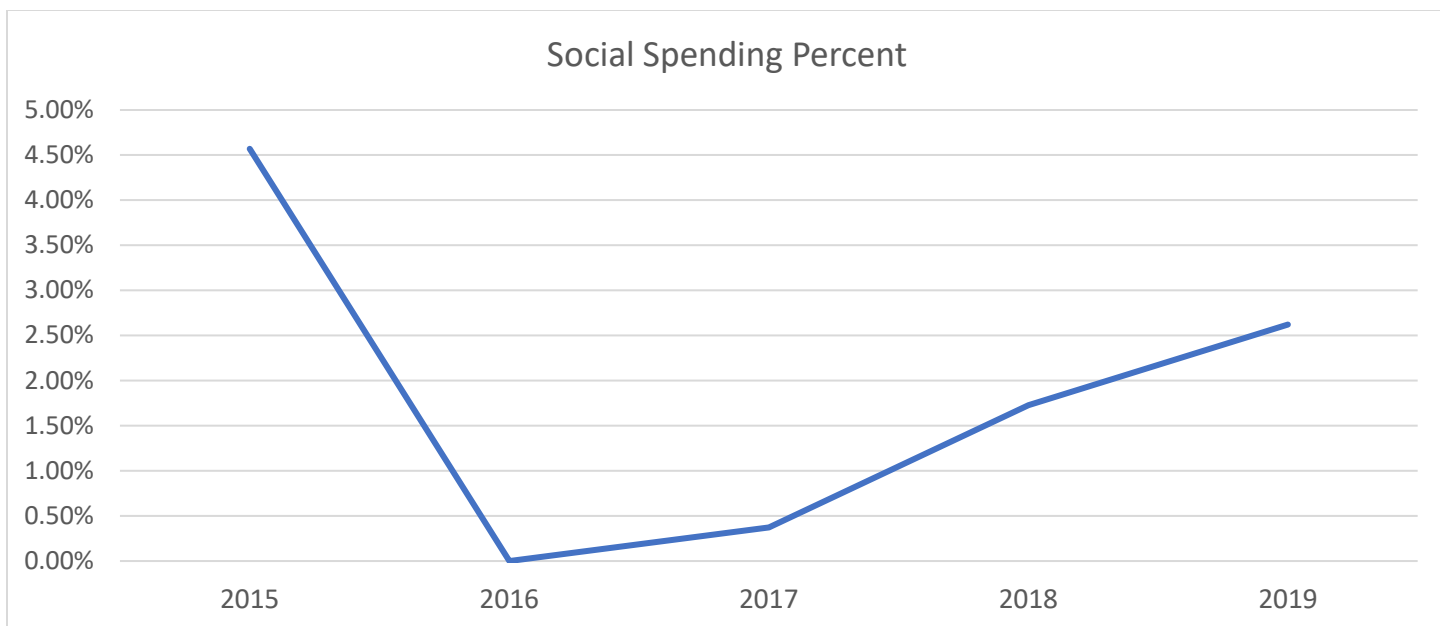
While overall spending is far lower than budgeted, fiscal data suggests a marked improvement in government allocations towards social spending (defined as per GFS as spending on health, education, social protection, and housing and community amenities).



COFOG Sector Composition of Total Govt. Expenditure
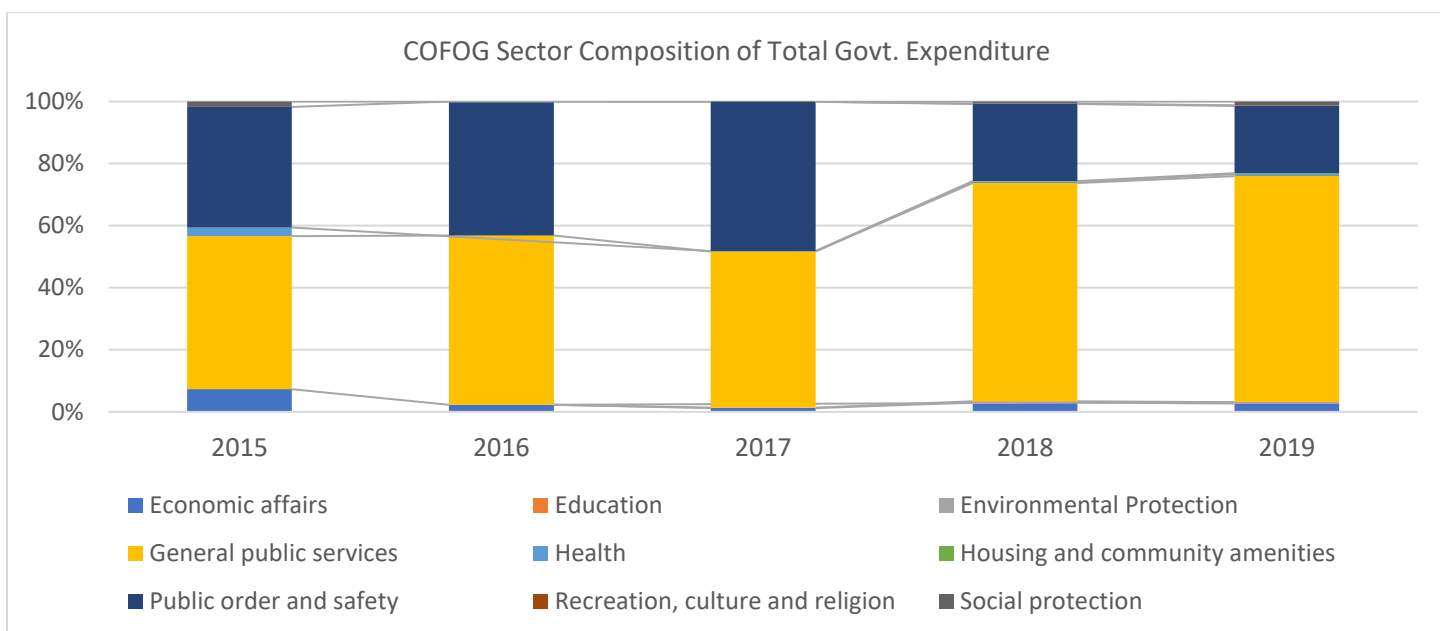
While this is a positive trend, an analysis using the COFOG sector composition graph adjacent suggests that much of this increase is being financed through reductions in spending in the public order and safety sector. This is particularly concerning given insecurity and the demand for a well-functioning security apparatus at the State-level in order to provide a predictable operating environment for citizens. In particular, the relative increase in General Public Services sector spending should be closely monitored, as there are direct trade-offs between spending in this sector and social sector priorities.

## 4. Fiscal Analysis – Cross-Functional

**Composition of Actual Govt. Spending by Sector and Economic Type**



| | General Public Services | Public Order and Safety | Economic Affairs | Social Protection | Health | Education | Housing and Community Ammenities | Recreation, Culture and Religion | Environmental Protection |
|---|---|---|---|---|---|---|---|---|---|
| ■ Grants | $21,000.00 | | | | | | | | |
| ■ Other Expenses | $39,316.50 | | | | | | | | |
| ■ Use of Goods and Services | $447,691.00 | $10,268.00 | $1,449.00 | | | | | | |
| ■ Nonfinancial assets | $1,204,575.24 | | | | | | | | |
| ■ Compensation of Employees | $2,555,236.00 | $1,262,340.00 | $153,924.00 | $70,712.00 | $37,802.00 | $27,130.00 | $18,068.00 | $10,980.00 | $2,685.00 |

The cross-functional analysis of actual government spending is reflective of typical government spending patterns, with the exception of over $1m in non-financial assets being used to create a road, the first developmental expenditure on State budget. Aside from this grant-financed expenditure, government spending continues to be concentrated on compensation of employees in the General Public Services sector and the Public Order and Safety sector, with trivial spending in the economic affairs and social protection sectors. Given the underperformance of revenue, it is evident that available funds are being prioritized towards the compensation of employees (Parliamentarians, Ministers and Statutory Appointments, Civil Servants, and other government employees) followed by the armed forces. Without a concerted effort to improve government revenue administration, it is unlikely that any fiscal space for capital of developmental own-source expenditure will be available in the short-run.