REPORT OF THE COMMITTEE ON ESTIMATES FOR THE SECOND SESSION OF THE ELEVENTH NATIONAL ASSEMBLY, APPOINTED ON WEDNESDAY 26TH SEPTEMBER, 2012

***Consisting of*:**

Mr H H Hamududu, MP (Chairperson); Mr E M Sing'ombe, MP; Mr L Mulusa, MP; Ms D Siliya, MP; Mr R Mpundu, MP; Dr E Kazonga, MP; Mr A Lufuma, MP; Mr C Matafwali, MP; and Mr L Chabala, MP.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

Your Committee has the honour to present its Report on its deliberations for the year 2013.

Functions of the Committee

2.0 The functions of your Committee are as follows:

(a) examine the Estimates and Excess Expenditure Appropriation Bill;

(b) report on economics, improvement in organisation, efficiency or administrative reform, consistent with the policy underlying the Estimates, and examine whether the money is well laid out within the limits of the policy implied in the Estimates;

(c) suggest alternative policies in order to bring about efficiency and economy in administration;

(d) carry out regular examination and scrutiny of budgets, estimates and management thereof; and conduct budget hearings; and

(e) make recommendations and report to the House for the formulation and implementation of future budget Estimates.

Meetings of your Committee

3.0 Your Committee held fifteen (15) meetings to review the legal framework governing the budget process and debt management in Zambia and also to review the performance for the first quarter of the 2013 Budget for selected ministries. In line with the topical issues, your Committee also undertook a tour to the Republic of Rwanda.

Report of your Committee

4.0 The Report is divided into five parts. Part I highlights the review of the legal framework governing the budget process while Part II focuses on the review of the legal framework governing debt management in Zambia. Part III presents an analysis of the first quarter of the 2013 budget for selected ministries while Part IV highlights the findings arising from the study tour to Kigali, Rwanda. Part V is the Conclusion.

PART I

Review of the legal framework governing the budget process in Zambia

Background

5.0 In his 2012 Budget address to Parliament, the Hon Minister of Finance informed the House that he would present to Parliament, the *Budgeting and Planning Bill*, to govern the budget process in Zambia. In order to prepare for the consideration and subsequent enactment of this important piece of legislation, your Committee resolved to review the existing legal framework governing the budget process in Zambia with the view to achieving the following objectives:

a. identifying the existing pieces of legislation on the budget process in Zambia;
b. identifying the gaps in the current legal framework; and
c. recommend improvements to the current legal framework.

In order to gather adequate information on this subject, your Committee sought written memoranda and oral submissions from the Ministries of Finance and Justice, Caritas Zambia, the Civil Society for Poverty Reduction (CSPR), the Jesuit Centre for Theological Reflection (JCTR), the Economics Association of Zambia (EAZ) and the Zambia Institute of Chartered Accountants (ZICA). The summary of the findings of your Committee is set out here below.

Pieces of legislation governing the budget process in Zambia

5.1 Your Committee was informed that the legal framework governing the budget process in Zambia was *the Constitution of the Republic of Zambia*. All the four stages of the budget process, namely; drafting, approval (enactment), implementation and auditing are governed by specific Articles from the Constitution as discussed below.

a. Drafting Stage

Your Committee was informed that the drafting of the national budget is provided for under *clause (1) of Article 117 of the Constitution Amendment No. 20 of 2009* which requires the Minister responsible for finance to prepare and lay before the National Assembly, not later than the second Friday of October, estimates of revenue and expenditure of the Government for the next financial year.

Further, *clause (2) of Article 117 of the Constitution Amendment No. 20 of 2009* provides that in an election year, the Minister responsible for finance shall cause to be prepared and laid before the National Assembly within 90 days from the date the President-elect is sworn in.

Furthermore, *clause (3) of Article 117* provides that the National Assembly is obliged to approve the budget by the 31st of December. However, this provision can be waved in an election year. In such a situation, a provisional general warrant could be issued by the President, under paragraph (b) of clause (2) of *Article 115* to allow expenditure to proceed until an Appropriation Act is passed.

b. Enactment Stage

Once the estimates of the expenditure have been approved by the National Assembly, the Heads of the Estimates in the *Estimates of Revenue and Expenditure* together with the amounts approved in respect of each vote are included in the Appropriation Bill and introduced in the National Assembly for enactment as provided for in *Article 117 (2)* of the *Constitution of the Republic of Zambia.*

On the revenue side, *Article 114 (1) of the Constitution of the Republic of Zambia* empowers Parliament to consent to the imposition of any form of taxation to finance the budget.

The Appropriation Act

The Appropriation Act is passed after the approval of the estimates of revenue and expenditure by Parliament. Its enactment allows the Treasury to issue funds from the Consolidated Fund to Ministries, Provinces and Spending Agencies (MPSAs). Further, the money so appropriated might not be spent for purposes other than what it was appropriated and it ought to be spent by the end of the fiscal year or returned to the Consolidated Fund.

The Supplementary Appropriation Act

The Constitution provides for unforeseen activities through supplementary expenditure. *Article 117(6) of the Constitution of the Republic of Zambia* provides that:

> *'Where any supplementary expenditure has been authorised in respect of any financial year for any purpose and-*
>
> *(a) an amount has not been appropriated for that purpose under any head of expenditure by the appropriation Act for that financial year; or*
>
> *(b) the amount of the supplementary expenditure is such that the total amount expended for the purposes of the head of expenditure in which expenditure for that purpose was included is in excess of the amount so appropriated under that head, the Minister responsible for finance shall introduce in the National Assembly not later than fifteen months after the end of that financial year or, if the National Assembly is not sitting at the expiration of that period, within one month of the first sitting of the National Assembly thereafter, a Bill, to be known as Supplementary Appropriation Bill confirming the approval of such expenditure, or excess expenditure as the case may be'.*

According to this provision, expenditure outside the approved Budget might take place without passing the appropriation law provided that Parliament has approved such expenditure. However, the law to legalise such expenditure had to be brought to Parliament within fifteen months after the end of that financial year.

Your Committee was informed that a *Supplementary Appropriation Act* has to be passed in order to legalise expenditure that had been authorised by a warrant issued by the President in a Financial Year. It is also used to cover expenditure meant to supplement an existing line, such as, transferring of moneys appropriated for a particular activity where there is excess money to another appropriated activity. The *Supplementary Appropriation Act* is also used to address unforeseen circumstances such as effects of natural calamities.

The Excess Expenditure Appropriation Act

Your Committee was informed that the *Excess Expenditure Appropriation Act* is required in a financial year where expenditure had been incurred without the authorisation by Parliament. *Article 117 (7) of the Constitution of Republic of Zambi*a provides that:

> *'Where in any financial year, expenditure has been incurred without authorisation of Parliament, the Minister responsible for finance shall, on approval of such expenditure by an appropriate Committee of the National Assembly, introduce in the National Assembly, not later than thirty (30) months after the end of that financial year or, if the National Assembly is not sitting at the expiration of that period, within one month of the first sitting of the National Assembly thereafter, a Bill to be known as the Excess Expenditure Appropriation Bill, for the approval of Parliament of such expenditure'.*

c. Implementation stage

After the enactment of the budget, the President signs a General Warrant, authorising controlling officers to effect the implementation of the Budget. The implementation of the Budget involves the release of funds from the Treasury. The management, including release and utilisation, of public funds is governed by the *Public Finance Act No. 15 of 2004*.

The Public Finance Act No. 15 of 2004

Your Committee was informed that the *Public Finance Act No. 15 of 2004* establishes the legal framework for the management of public finances. The management of public finances includes controls relating to the operation of bank accounts, the investment of public money, the control of statutory corporations, surcharges and general penalties. More specifically related to the budget process, the *Public Finance Act* mandates the Treasury to manage the National Budget preparation process, exercise control over the implementation of the National Budget and promote transparency and effective management of revenue, expenditure, assets and liabilities of ministries, government departments and statutory corporations.

d. Audit Stage

Article 121(2) (c) of the Constitution of the Republic of Zambia provides for the *Audit stage*, which is, the last stage of the budget process. *Article 121(2) of the Constitution of the Republic of Zambia* empowers the Auditor-General's Office to carry out its functions of ensuring accountability of public resources. *Article 121 (2) (b)* specifically provides that:

> *'It shall be the duty of the Auditor-General to satisfy himself that the moneys expended have been applied to the purposes for which they were appropriated by the Appropriation Act or in accordance with the approved supplementary estimates, or in accordance with the Excess Expenditure Appropriation Act, as the case may be, and that the expenditure conforms to the Authority that Governs it'.*

Further, *Article 121(2) (c)* provides that:

> "*The Auditor-General shall audit the accounts relating to the general revenues of the Republic and the expenditure of the moneys appropriated by Parliament, the National Assembly, the Judicature, the accounting relating to the stocks and stores of the Government and the accounts of such other bodies as may be prescribed by or under any law".*

Article 121 (4) of the Constitution of the Republic of Zambia compels the Auditor-General (AG) to submit a Report to the President within 12 months after the end of each financial year, who in turn is obliged to cause the Auditor-General's Report to be laid before the National Assembly not later than seven days after the first sitting of the National Assembly and if the President makes default in laying the Report before the National Assembly, the Auditor-General shall submit the Report before the National Assembly.

The Public Accounts Committee is charged with the responsibility of scrutinising the Auditor General's Report. Standing Order 153 (2) provides that:

> *'The Public Accounts shall examine the accounts showing the appropriation of sums granted by the National Assembly to the public expenditure, the Report of the Auditor-General on the accounts and such other accounts'.*

After considering the Report by the Auditor-General, the Public Accounts prepares a Report which is tabled on the Floor of the House for adoption and onward transmission to the Executive for corrective action. The role of the Committee in this regard is limited to making recommendations only.

The Public Audit Act CAP 378

Your Committee was informed that the *Public Audit Act* makes provisions relating to the duties and powers of the Auditor-General, and for the audit of private and public institutions that receive funds from the Treasury in order to ensure accountability in the use of public funds.

Weaknesses inherent in these pieces of legislation

5.2 Your Committee was informed that the current legal framework was inadequate in ensuring budget transparency, participation and accountability. Some of the weaknesses of the current legal framework are highlighted hereunder:

i. Absence of the law governing Budget Process

Your Committee heard that there was no specific piece of legislation on the national budget to provide for the consultative process and the calendar for the budget preparation process. Currently, budget formulation, authourisation, implementation and auditing are only derived from the different Articles in the Constitution.

ii. Incomprehensive Budget

The Budget and the Medium Term Expenditure Framework (MTEF) do not cover all public revenue and expenditure. The budgets for local councils and other grant aided institutions are only reflected to the extent of the grant they receive from the Treasury while other income (if any) and their expenditures are not reflected in the "Yellow Book".

iii. Weak linkages between the National Budget, the Medium-Term Expenditure Framework (MTEF) and the National Development Plan (NDP)

Your Committee was informed that there was a very weak linkage between the National Budget, MTEF and NDP making it difficult to conduct meaningful analysis of the Budget and in monitoring the progress made in meeting the medium to long-term objectives.

iv. Inadequate consultations

Your Committee was informed that the budget process was highly centralized with most of the functions controlled by the Ministry of Finance. Although various stakeholders were given the opportunity to input into the process, the Ministry was not legally obliged to take such recommendations into consideration and these consultations were restricted to tax and non-tax proposals. The Budget Hearings on the Draft Budget Estimates were only extended to Ministries, Provinces, and other Spending Agencies (MPSAs). Currently, there was no legal framework regarding the role of the public, non-state actors such as civil society and other stakeholders in the budget process from ward, district, province and national level.

v. Lack of mechanism to review the draft budget

The *Budget Policy Statement* (Draft Budget) is not presented to Parliament for scrutiny by the Estimates Committee and the relevant portfolio committees of Parliament. As a result, there is limited time needed to effectively analyse and debate the Budget before approval.

vi. Limited power by Parliament to change the budget

The *Constitution of the Republic of Zambia* and the National Assembly Standing Orders restricts the power of Parliament to make meaningful changes to the budget. *Article 81 of the Constitution* provides that Parliament cannot proceed upon any Bill (including an Amendment) which makes provision for the imposition of taxation or the alteration of taxation otherwise other than by reduction. This is also provided for under the Standing Orders 79 (a) and 80 (2) of the National Assembly. These provisions limit the extent to which Parliament can make meaningful changes to the Budget.

vii. Excess and supplementary expenditures

The provision in the *Constitution of the Republic of Zambia* with respect to supplementary and excess expenditure gives the Executive excess power to change the original budget. It takes two and a half years, in the case of excess expenditure, and one year and three months in the case of supplementary expenditure, before passing the law to legalise such expenditures.

viii. Ring-fencing of poverty reduction

Your Committee was informed that the current provisions in the law do not provide for ring fencing of funds earmarked for poverty reduction to ensure non-diversion of such funds which are critical to poverty reduction and improved service delivery.

ix. Limited action on the recommendations in the Auditor-General's Report

Although there are various pieces of legislation to curb the abuse of resources, there seems to be limited action taken by law enforcement agencies on the reported abuses in the Auditor-General's Report. The Auditor-General's Report reveals abuse of office, irregularities, misappropriations and misapplication of funds most of which are not acted upon.

x. Lack of mid-term budget review

Your Committee was informed that in most jurisdictions, the Minister of Finance is mandated to present to Parliament the mid-term review of the budget. The mid-term review provides an opportunity for Parliament to ascertain whether the performance of the economy is within the approved provisions. It also provides an opportunity for the Government to explain to Parliament any risks, if any or anticipated risks that were likely to negatively affect the economy. Regrettably, this is not the case in Zambia.

xi. Inadequate consultations

The whole budget process was highly centralised with most of the functions controlled by the Ministry of Finance. Even though various stakeholders were given the opportunity to input into the process, the Ministry was not legally obliged to take such recommendations into consideration and these were restricted to tax and non-tax proposals. This was because the Budget Hearings on the Draft Budget Estimates were only done by Ministries, Provinces, and Spending Agencies (MPSAs). Currently, there was no legal framework or clear government policy regarding the role of the public, non-state actors such as Civil Society and other stakeholders in the budget process from ward, district, province and national level.

Observations and recommendations by your Committee

5.3 From the outset, your Committee notes that the Government launched the *2013 Citizens Budget* which is a non-technical presentation of the national budget intended to enable the public, including those who are not familiar with public finance, to understand the Budget. The decision to prepare the Citizens Budget is commendable as it will enhance participation, transparency and accountability. Your Committee also supports the pronouncement by the Minister of Finance, in his address to Parliament on the *2012 Budget* regarding the intention of the Ministry of Finance to present the *Budgeting and Planning Bill* for enactment**.**

In supporting the Government on the issues raised above, your Committee, however, wishes to make observations and recommendations set out below.

i. Enactment of the Budgeting and Planning Act

Your Committee observes that while *Article 117 (1) the Constitution of the Republic of Zambia* provides for the preparation and presentation of the budget, the current pieces of legislation do not compel the Executive to consult with the general public regarding the budget formulation process thereby leaving the consultation process at the discretion of the Executive. This is mainly attributed to lack of the *Budgeting and Planning Act* which should ideally provide for the consultative process and the calendar for the budget preparation process. Your Committee is aware that considerable efforts had been directed towards the preparation of this important piece of legislation. However, it is concerned that this piece of legislation is taking too long considering that substantial amounts of resources have already been spent towards its preparation. (See table 1)

Table 1

	2010	**2011**	**2012**	**2013**
Planning and Budget Act	K120m	K20m	K155.2m	K378.2m

Source: 2013 Yellow Book page 564

In light of this, your Committee recommends that the Ministry of Finance should, in line with *Article 118(A) of the Constitution Amendment No. 20 of 2009,* present the *Budgeting and Planning Bill* to Parliament for enactment. The Bill will ensure a consultative, transparent and accountable budget process, thereby instilling ownership in the Zambian citizenry. Your Committee is aware that the enactment of the Budgeting and Planning Bill will address various challenges in the budget process as highlighted in most of the recommendations hereunder.

xii. Absence of the Parliamentary Budget Office (PBO)

Your Committee observes that the absence of the Budgeting and Planning Act deprives Parliament of services of a Budget Office which should provide to the parliamentarians timely, independent and objective analysis of the national budget and the economy as a whole.

In light of this, your Committee recommends that the Budgeting and Planning Bill should provide for the *Parliamentary Budget Office (PBO).*

Specifically, the PBO shall:

a. provide budget related information to Committees of Parliament;

b. prepare reports on budgetary jurisdictions and economic forecasts and options to reduce the budget deficit;

c. prepare analytical studies of specific subjects such as financial risks posed by Government sponsored enterprises and financial policies;

d. study budget proposals and trends and where appropriate, suggest changes in the content or format of such proposals or trends;

e. propose where necessary, alternative scenarios for various macro-economic variables in respect of any financial year;

f. establish and foster such relationships with the Treasury and with other national and international organisations, with interest in budgetary and economic matters, as it deems fit for the efficient and effective discharge of its mandate;

g. undertake independently or in collaboration with any appropriate person or institution, any other study or activity likely to assist in carrying out the functions specified in this section; and

h. ensure that its research findings, evaluations, recommendations and other relevant literature are presented in a readily intelligible and user-friendly form.

xiii. Integrate development planning and budgeting

Your Committee notes that the current budget process does not integrate development planning and budgeting. This is mainly attributed to the absence of the *Budget and Planning Act.*

In this regard, your Committee recommends that the Budgeting and Planning Bill, when presented to Parliament for enactment should provide for integration of development planning and budgeting. The Bill should provide for harmonisation of development planning and MTEF/budgeting nomenclature and dovetail development planning, annual budget/plan review exercises and MTEF/budget formulation timelines.

xiv. Institutional framework for integrating development planning with the annual budget process

Your Committee observes that the current budget process does not provide for the institutional framework for integrating development planning with annual budget process.

In this regard, it recommends that the *Budgeting and Planning Bill* once enacted should provide for the creation of the institutional framework for integrating development planning with the annual budget process. The law, once in place should, ideally, provide for the establishment of the National, Provincial and District Development Coordinating Committees as legal entities for development planning within the annual budget process.

xv. Facilitate greater stakeholder participation

Your Committee observes that the current budget process does not facilitate greater stakeholders' participation. It recommends that there is need to facilitate greater stakeholder participation in the development planning and MTEF/Budget processes. This means that the proposed law should provide for Sector Advisory Groups (at national level) and for participative planning/budget procedures at district level for devolved functions.

xvi. Facilitate sector devolution

Your Committee observes that the current budget process does not facilitate sector devolution. Your Committee recommends that the Government, through the proposed law should facilitate sector devolution.

xvii. Enhance Parliamentary Oversight

Your Committee observes that there is limited parliamentary oversight on the NDP, MTEF and the budget process. In this regard, your Committee recommends that Bill to be presented to Parliament should enhance parliamentary oversight over the NDP, the MTEF and the budget formulation processes.

xviii. Limit supplementary expenditures

Your Committee observes with dismay that the legal framework on supplementary expenditures allows expenditure to occur before Parliament's approval. This undermines democratic accountability and Parliament's role in the budget process. The supplementary budget appears to be a method used to finance activities over and above what Parliament has approved, thereby derogating from the power of Parliament to deliberate on and approve all public expenditures. In effect, the supplementary budget dilutes the legal authority of Parliament in the performance of its oversight function over the Executive's budget implementation activities.

In this regard, your Committee strongly recommends that this matter be carefully scrutinised during the current constitutional review process so that supplementary expenditures should receive the approval of the Legislature before they are incurred. Ideally, therefore, the *Supplementary Appropriation Bill* should be passed before actual spending takes place.

xix. Amendment of the provision for Excess Expenditure in the Law

Your Committee expresses serious concern that the current legal framework provides for expenditure of public funds without recourse to Parliament in the case of excess expenditure.

Your Committee, therefore, recommends that expenditures without parliamentary scrutiny and approval should be discouraged because the possibility of abuse of public funds in such cases is high. Further, it recommends appropriate amendments to the relevant laws in order to enhance parliamentary scrutiny of all public expenditure.

xx. Documentation and mid-year reports

Your Committee observes that necessary documents are not submitted at the time of scrutiny of the budget rendering it difficult to undertake effective comparative analysis of the budget. Further, Parliament is not given an update on the mid-term performance of the economy. This deprives Parliament an opportunity to ensure that the performance of the budget mid-year was in line with the approved budget and also to appreciate any challenges and anticipated risks by the Government in implementing the budget for the remaining period.

Your Committee recommends that the Government through the Minister of Finance should present to Parliament the mid-term review of the budget for consideration. This will provide an opportunity for the Government to apprise the House on the mid-year performance of the economy and the expected risks and challenges for the remainder of the fiscal year. This will also give a chance to the Government to explain the likely policy direction that the Government proposes to take to meet the expected challenges.

xxi. Draft Budget

Your Committee observes that the period of time needed to fully scrutinise the budget is not adequate. This is explained by the fact that the budget preparation is still shrouded in secrecy thereby denying Parliament ample time and information to debate the budget.

Your Committee is aware that in other jurisdictions, the Minister of Finance prepares and lays before the National Assembly three months before the Budget presentation, a draft budget. The draft budget which is referred to the Budget Committee (Estimates) for scrutiny states broad strategic macro-economic issues that will be the basis of the budget of the succeeding financial year and the medium term. It includes:

(a) revised framework for the present financial year and the proposed fiscal framework for the next three years;

(b) an explanation of the macro-economic and fiscal policy position, the macro-economic projections and the assumptions underlying the fiscal framework; and

(c) the spending priorities for the Government for the next three years.

In light of the above, your Committee recommends that the proposed *Budgeting and Planning Bill* should provide for the submission of the draft budget to Parliament before the final presentation of the budget. This will ensure adequate time for Parliament to fully engage the budget through various portfolio Committees.

PART II

THE LEGAL FRAMEWORK GOVERNING DEBT MANAGEMENT IN ZAMBIA

Background

6.0 Your Committee was informed that the Zambian budget was financed through taxes, borrowings from both local and external sources, and grants. In the past, the Government had accumulated unsustainable levels of debt. However, the qualification of Zambia for the Highly Indebted Poor Country Initiative (HIPC) and the Multi-Lateral Debt Relief Initiative (MDRI) led to a substantial write-off of Zambia's debt.

Your Committee is aware that it may be necessary to borrow especially for investment in line with the overall budget. It is nevertheless of the view of that debt should be contracted only after a comprehensive consultative process with stakeholders so that there is buy-in. In the absence of a comprehensive legal framework, Zambia risks plunging itself into another debt trap.

In this regard, your Committee resolved to review the existing legal framework governing debt management with a view to achieving the following objectives:

i. identify various pieces of legislation on debt management in Zambia;
ii. identify the gaps in the existing pieces of legislation in Zambia; and
iii. recommend the way forward.

In order to gather adequate information on this subject, your Committee sought written memoranda and oral submissions from the Ministries of Finance and Justice, Caritas Zambia, Civil Society for Poverty Reduction (CSPR), the Jesuit Centre for Theological Reflection (JCTR), the Economics Association of Zambia (EAZ) and the Zambia Institute of Chartered Accountants (ZICA). The summary of the findings of your Committee is set out here below.

Current legal framework on debt management

a. The Constitution of the Republic of Zambia

6.1 Your Committee was informed that debt management in Zambia was governed by several pieces of legislation and regulations. One such is the *Constitution of the Republic of Zambia*. *Article 120 (Public Debt), of the Constitution of the Republic of Zambia* provides the following:

i. there shall be charged on the general revenues of the Republic all debt charges for which the Government is liable.

ii. for the purposes of the Article, debt charges include interest, sinking fund charges, the repayment or amortisation of debt, and all expenditure in connection with the raising of loans on the security of the revenues of the former Protectorate of Northern Rhodesia or the Republic and on the service and redemption of debt thereby created.

Other pieces of legislations include the ones set out below.

b. The Loans and Guarantees (Authorisation) Act-CAP 366 of the Laws of Zambia

Your Committee was informed that the Act authorises the Government to raise and guarantee loans. It gives the Minister of Finance the sole authority to raise in the Republic or elsewhere short and long term financing within certain limits as the Minister shall from time to time be authorised by resolution of the National Assembly prescribed by statutory instrument. The law requires that debt service payments be charged from the general revenue.

c. Local Loans (Registered Stock and Securities)-CAP 353 of the Laws of Zambia.

Your Committee was informed that the Act authorises the President or the Minister of Finance to borrow in the domestic capital market by the creation and issue of registered stock and the issue of securities in the form of bonds and debentures. The law specifies the conditions of issuing various financial instruments and limits the maturity of these instruments to sixty years. The law specifies the types of securities that can be issued, such as registered debentures, debentures payable to bearer, registered bonds, and bonds payable to bearer.

d. The Bank of Zambia Act of 1996-CAP 360 of the Laws of Zambia

Your Committee was informed that the Act provides the functions and responsibilities of the Bank of Zambia. The main objective of the Bank of Zambia (BoZ) is to formulate and implement monetary and supervisory policies that would ensure the maintenance of price and financial systems stability so as to promote balanced macro-economic development. Additionally, the Bank of Zambia among other functions; acts as banker of the Republic as well as the adviser to the Government on matters relating to economic and monetary management.

The Act further authorises the BoZ to issue and manage government loans and loans guaranteed by the Government as the Minister of Finance may determine and to act as agent of the Government for such purposes and on such terms and conditions as the Minister may determine.

WEAKNESSES INHERENT IN THESE PIECES OF LEGISLATION

6.2 Your Committee was informed that provisions on debt management were spread across various pieces of legislation. However, the law clearly assigns the responsibility of approving all contractual obligations of the Republic of Zambia to the Minister of Finance.

There exists lack of clear coordinating mechanism of recording and managing both domestic and external debt between the Ministry of Finance and the Bank of Zambia. Currently, the Ministry of Finance has the sole responsibility of contracting external and internal debt while the Bank of Zambia effects payments of external debt and manages domestic debt through its open market operations where it sells and buys government securities on behalf of the Government.

While there is some form of legal and administrative framework for the management of national debt, your Committee was informed that there existed serious weaknesses which include lack of guidelines in terms of borrowing, absence of basic permanent negotiation teams, lack of public accountability and centralisation of borrowing powers in one office that is also not adequately overseen by Parliament.

OBSERVATIONS AND RECOMMENDATIONS BY THE COMMITTEE

6.3 After a careful review of the legal framework governing debt management in Zambia, your Committee makes the observations and recommendations as follows:

i. Enactment of the debt management legal framework

The country lacks a comprehensive debt management legal framework.

In this regard, it recommends that the Government should present to Parliament for enactment a comprehensive law for debt management.

ii. Role of various stakeholders in acquisition and management of debt

The current legal framework does not allow for a broader participation of stakeholders such as Parliament in the acquisition of debt.

Your Committee recommends the need to reform both the legal and institutional arrangement governing the current debt acquisition to allow for broader participation of critical stakeholders such as Parliament and civil society.

iii. Streamline the institutional arrangement

Currently, the management of debt cuts across two institutions, namely, the Ministry of Finance which has the sole responsibility of contracting external and internal debt while the Bank of Zambia effects payments of external debt and manages domestic debt. Your Committee is concerned that this arrangement leads to duplication of work and sometimes leads to conflicting data on debt in Zambia. Your Committee therefore, recommends that the institutional arrangement should be streamlined so that issues of debt are managed by the Ministry of Finance only. This will enhance debt management and avoid conflicting data on debt as is the case.

PART III

REVIEW OF THE PERFORMANCE FOR THE FIRST QUARTER OF THE 2013 BUDGET FOR SELECTED MINISTRIES

7.0 Your Committee reviewed the performance of the first quarter of the 2013 budget for the Ministry of Tourism and Arts and the Ministry of Transport, Works, Supply and Communication.

The decision to review the first quarter of the 2013 budget for the Ministry of Transport, works, Supply and Communications was informed by the Government's pronouncement to implement the Link Zambia 8000 project whose aim is to link all provincial capitals and open up the country to investment particularly in rural areas so as to enhance accessibility to markets. Further, the Government had planned to pave 2000 kilometres of township roads using labour intensive technology. Your Committee considered these projects key for sustainable development and poverty reduction. It is hoped that there will be employment creation during the construction of key infrastructure.

Regarding the decision to review the budget for the Ministry of Tourism and Arts by your Committee, this was informed by the country's bid to host the United Nations World Tourism Organisations General Assembly UNWTO-GA in 2013. The hosting of a Conference of such magnitude would require infrastructural development which was expected to attract a substantial amount of public resources. Your Committee considered the hosting of the UNWTO-GA as an important opportunity for Zambia to show-case her tourism potential, thereby promoting the Country as a tourist destination. It is of a strong view that unlocking the potential of tourism will enhance economic diversification.

In undertaking the study, your Committee envisaged to achieve the following objectives:

a. ascertain Government's commitment, through releases of funds, to infrastructure development;

b. ascertain Government's commitment and readiness to hosting the UNWTO-GA, through releases of funds; and
c. recommend the way forward.

In order to gather adequate information on this subject, your Committee sought written memoranda and oral submissions from the Ministries of Finance; Transport Works, Supply and Communication; and Tourism and Arts. In addition, it invited the Road Development Agency (RDA) and the Zambia Tourism Board (ZTB) which are key implementing agencies under the two ministries, respectively. The summary of the findings of your Committee is set out here below.

a. Ministry of Transport, Works Supply and Communication

Your Committee was informed that the approved budgetary provision for the Ministry of Transport, Works, Supply and Communication (Head 51) for the year 2013 was *KR 539,808,010.06*. A total of *KR67,851,792* had been released to the Ministry during the time of the review (January and February) which translated into 12.57 percent of the total approved budget for 2013. (Table 2). However, the percentage was projected to be higher by close of the quarter as it did not include the funding for March.

Table 2

Budgetary allocations versus Releases

Description	Budget	Releases	Percentage	Balance
Personal emoluments	69,313,741.00	5,039,343.00	7.27%	64,274,398.00
Use of Goods and Services	134,327,460.00	12,201,361.00	9.08%	121,626,099.00
Social Benefits	3,932,579.00	2,013,424.00	51.20%	1,919,155.00
Grants and Other Payments	275,681,690.00	28,198,602.00	10.23%	247,483,088.00
Non-Financial Assets	56,552,540.00	20,399,062.00	36.07%	36,153,478.00
Total	**539,808,010.00**	**67,851,792.00**	**12.57%**	**471,456,218.00**

Source: Ministry of Finance

A comparative analysis of the budget for 2012 in the first quarter showed that a total of *KR113, 229,152.58* was released against a budget provision of *KR670, 547, 601.31*. This translated into 16.89 percent of the 2012 budget for the Ministry. When the 2013 and 2012 releases for the same period are compared, it was likely the releases for 2013 at the end of the quarter would be more. This was commendable especially that infrastructure was key to meeting most of the Millennium Development Goals (MDGs) such as reduction of poverty which stood at 42.3% in 2010 falling from 58% in 1991[1].

Allocation for roads

The 2013 Road Sector Annual Work Plan (RSAWP) had a total budgetary resource allocation of KR3.288 billion intended to address road infrastructure maintenance, rehabilitation, upgrading, bridge construction and maintenance as well as various techno-economic feasibility studies and detailed engineering designs for various road projects. The primary focus was the completion of all on-going projects to which funds had already been committed. The 2013 RSAWP displayed bias towards major up-grading works under the Link Zambia 8000 project in the form of multi-year contracts that would be carried over from 2013 and beyond. The priority would, however, continue to progressively shift towards maintenance of the existing network in good and fair condition and rehabilitation of

[1] 2013 MDG Progress Report for Zambia

roads in bad condition. Collaborative efforts with the local road authorities would see major spot improvements and maintenance works on the much neglected feeder road network.

Your Committee was informed that approximately 75 percent was expected to be financed from local resources with contribution from direct Government financing steadily increasing over the years and was currently standing at 48 percent while the Road Fund (fuel levy) contribution was at 27 percent. The remaining percent would be sourced from Loans and Grants from Cooperating Partners (CPs) including Multilateral Development Banks such as the Development Bank of Southern Africa (DBSA), Exim Bank of China, World Bank, African Development Bank and other financiers

b. Ministry of Tourism and Arts

Your Committee was informed that a total of *KR25,684,879* had been released to the Ministry at the time of review (January and February) which translated into 27.04 percent of their total approved budget for 2013. However, the percentage is projected to be higher by close of the quarter as it did not include the March funding. The approved budgetary provision for the Ministry of Tourism and Arts (Head 68) for the year 2013 was *KR95,005,126.00.*

Table 3

Description	Budget	Re leases	Percentage	Balance
Personal Emoluments	10,737,794.00	1,278,018.00	11.90%	9,459,776.00
Use of Goods and Services	61,101,494.00	20,495,272.00	33.54%	40,606,221.00
Grants and Other Payments	20,198,000.00	3,388,000.00	16.77%	16,810,000.00
Non-Financial Assets	2,967,838.00	523,589.00	17.64%	2,444,250.00
Total	**95,005,126.00**	**25,684,879.00**	**27.04%**	**69,320,247.00**

A comparative analysis of the first quarter of 2012 revealed that a total of KR7, 602,918.53 was released against a budget provision of KR47, 052,138.08. This translated into 16.16 percent of the total budget for the Ministry in 2012. Although the releases to the Ministry for the year had improved from the previous year in the same quarter, it was still low particularly that Zambia would be hosting the UNWTO-GA in August 2013.

OBSERVATIONS AND RECOMMENDATIONS BY THE COMMITTEE

7.1 After the review of the first quarter of the 2013 budget for the Ministries of Transport, Works, Supply and Communication and Tourism and Arts, your Committee wishes to make the observation and recommendation set out below.

i. Late Release of Funds

Your Committee observes that releases to the two Ministries in the first quarter were not timely thereby negatively affecting implementation of Government Plans. Your Committee is aware that the Country is hosting the UNWTO-GA in August, 2013 and as such adequate and timely resources are needed for effective preparations. The releases towards the Ministry of Tourism and Arts at 27.05 percent at the time of the review were not significant considering that all preparations should be completed by August. Your Committee is concerned that the failure to effectively prepare will make the country miss an opportunity to show-case itself as a tourist destination.

In this regard, your Committee recommends that the Government should release the funds on time to allow for adequate preparation for this important event.

PART IV

BENCHMARKING TOUR TO THE REPUBLIC OF RWANDA

8.0 Your Committee was privileged to undertake a tour to the Republic of Rwanda from 14th to 20th April 2013. The tour provided an opportunity for your Committee to appreciate the budget process in Rwanda and also a chance to benchmark with Rwanda regarding the implementation of the budget particularly in infrastructural development.

Whilst in Rwanda, your Committee paid a courtesy call on the Hon Madam Speaker of the Chamber of Deputies. Your Committee later interacted with the Committee on the Budget and Patrimony from the Chamber of Deputies and with Permanent Secretaries from the Ministries of Finance and Economic Planning; and Local Government and the Office of the Ombudsman. Finally, it held meetings with the consortium of Civil Society Organisations (CSOs) involved in the budget process and toured the Kigali Genocide Memorial Centre.

One of the major findings by your Committee was the implementation by the Rwandan Government, of the performance-based management approach in Government locally called *Imihigo.* Through this approach, all public officers are required to sign performance contracts with clear objectives and measurable indicators reflected in the priorities of the local population and develop realistic strategies to achieve those objectives. These objectives take into account national priorities as highlighted in the international and national strategic documents such as the Millennium Development Goals (MDGs), Vision 2020, Economic Development and Poverty Reduction Strategy (EDPRS), District Development Plans (DDPs) and Sector Development Plans. Public officers are required to perform according to the targets agreed in the contract and failure to meet the targets attracts severe punishment which might include expulsion.

Imihigo ensures efficient service delivery, full participation and ownership of citizens since priorities are developed from the grassroot. The benefits of *Imihigo* include transparency and accountability; results based management for authorities; instils public trust and confidence.
In addition, the following were the findings by your Committee:

i. the Committee on Budget and National Patrimony of the Chamber of Deputies operated in similar lines as the Committee on Estimates of the Parliament of Zambia. It was responsible for considering the draft budget statement of Parliament, the draft State budget statement and following up on Poverty Reduction Strategy Paper. It was also responsible for following up on tax policy and related laws, national policy and mainstreaming gender in the State budget;

ii. the planning instruments for Rwanda are the vision 2020 for the long-term, while the medium term is the Economic Development and Poverty Reduction Strategy running for 5 years, the Medium-Term Expenditure Framework (MTEF) and the annual term (annual action plans and performance contracts);

iii. the Rwandan Government prepares a gender-responsive budget which ensures the empowerment of women;

iv. with regard to the poverty reduction, the survey conducted in Rwanda in 2011, revealed that in the past five years of implementing the Economic Development and Poverty Reduction Strategy, one million Rwandese have crossed the poverty datum line;

v. the National Decentralisation Policy was adopted in May 2000, with commitment to empower local communities to determine their own future in achieving good governance, pro-poor service delivery and sustainable development. The Government has established the Fiscal Decentralisation Steering Committee and the National Decentralisation Implementation Secretariat;

vi. concerning the Local Government Budget Preparation process, the determination of the District priorities is based on the vision 2030, EDPRS and the District development Plans. The budget is then presented to Parliament for information only and scrutinised and approved by District Council, and

vii. Rwanda has a simplified tax system which ensures efficiency, economy and effectiveness (EEE). The Government of the Republic of Rwanda has embraced Information and Communication Technology (ICT) in various operations including tax management.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

8.1 Drawing lessons from the study tour to Rwanda, your Committee makes the observations and recommendations set out hereunder.

i. Performance based management approach

Your Committee observes that Rwanda has been implementing the performance-based management in the civil service to instil a sense of hard work, responsibility, commitment and ownership among the people in order to achieve results.

Noting that this strategy has achieved positive results in Rwanda, your Committee strongly recommends that the Government should explore the possibility of implementing performance-based management approach in the Government to improve service delivery.

ii. Favourable tax system

Your Committee observes that the tax structure in Rwanda is simple, progressive and equitable. This, combined with a robust Information and Communication Technology (ICT) infrastructure development, has led to efficiency in tax collection thereby broadening and deepening the tax base.

Your Committee recommends that the Government should implement the tax reform as a matter of urgency so as to make it simple, progressive and equitable.

iii. Information and Communications Technology (ICT)

Your Committee notes that the Government of the Republic of Rwanda has been implementing a robust information communication and technology (ICT) programme covering most private and public institutions. ICT facilities have also been made available to schools through various incentives. This has increased access to information and enhanced awareness on various key issues affecting the people. It has also lead to efficiency in tax administration, registration of business, immigration registration, banking and many more activities. Regrettably your Committee notes that Zambia has not given the necessary attention to ICT development.

In light of this, your Committee recommends that the Government should emulate strategies being undertaken by the Government of Rwanda in promoting ICT. Further, your Committee recommends that the Government should explore the possibility of transforming the Ministry of Information and Broadcasting into the Ministry of Information Communications and Technology (MICT). This will require transferring the department of communications from the Ministry of Transport, Works, Supply and Communication to the Ministry of Information and Broadcasting.

PART V

CONCLUSION

9.0 Your Committee wishes to pay tribute to all stakeholders who appeared before it and tendered both oral and written submissions. It also wishes to thank you, Mr Speaker, for affording it the opportunity to serve on your Committee for the year 2013. Your Committee also appreciate the services rendered by the Office of the Clerk of the National Assembly. Finally, your Committee is very hopeful that the observations and recommendations contained in this Report will go a long way in improving the economy of Zambia.

June 2013	H H Hamududu, MP
LUSAKA	**CHAIRPERSON**