REPUBLIC OF ZAMBIA

REPORT

OF THE

BUDGET COMMITTEE
ON THE REVIEW OF THE SECOND QUARTER PERFORMANCE OF THE 2019 BUDGET FOR SELECTED MINISTRIES AND PROVINCES

FOR THE

THIRD SESSION OF THE TWELFTH NATIONAL ASSEMBLY

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TABLE OF CONTENTS

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1.0 Composition of the Committee

The Committee consisted of Mr M Simfukwe, MP (Chairperson); Ms M N Subulwa, MP (Vice Chairperson); Mr L A Lufuma, MP; Mr P Phiri, MP; Mr S K Kakubo, MP; Mr F C Chaatila, MP; Mr D Mumba, MP; Mr M. L Kafwaya, MP; Mr J Siwale, MP; and Mrs S S Mulyata, MP.

The composition of the Committee changed following the appointment of Mr M L Kafwaya, MP as Cabinet Minister. He was replaced by Mr R Nakachinda, MP.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir

The Committee has the honour to present its report on the Review of the Second Quarter Performance of the 2019 Budget for Selected Ministries and Provinces for the Third Session of the Twelfth National Assembly.

2.0 Functions of the Committee

The functions of the Committee are as follows:

i) examine the Estimates of Revenue and Expenditure, including the Supplementary Estimates of Expenditure and Excess Expenditure;
ii) report on economics, improvement in organisation, efficiency for administration 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;
iii) study, inquire into and report on matters related to coordination, control and monitoring of the National Budget;
iv) conduct budget hearings;
v) review Estimates of Revenue and Expenditure and make recommendations to the House;
vi) examine the Medium Term Expenditure Framework and budget policy statements presented to the House;
vii) examine money Bills, including the Excess and Supplementary Appropriation Bills;
viii) examine tax rates and estimates, economic and budgetary policies and programmes with direct budget outlays;
ix) examine public debt before it is contracted; and
x) exercise powers conferred on it under Article 203 of the Constitution.

3.0 Meetings of the Committee

The Committee held seven meetings to review the second quarter budget performance for 2019 with respect to selected ministries and provinces.

4.0 Procedure adopted by the Committee

The Committee reviewed the performance of the macroeconomic performance and the fiscal framework for the second quarter of 2019. The Committee also reviewed the budgets for the Ministries of Health; Agriculture; General Education; Local Government; and Water Development, Sanitation and Environmental Protection. The Committee also reviewed the budget performance of Southern, Western, and Lusaka Provinces. In undertaking its work, the Committee requested detailed written memoranda from the ministries and provinces under review and also from other stakeholders. Thereafter, the stakeholders were invited to provide oral submissions and to clarify issues arising there from.

5.0 Arrangement of the Report

The Committee's Report is organised in four parts: Part I gives an analysis of the second quarter performance of the macroeconomic framework overview for 2019; Part II assesses the second quarter performance of the fiscal framework; Part III presents the findings on the review of the second quarter budget performance for selected ministries and provinces; Part IV highlights the stakeholders' concerns, while Part V gives Committee's observations and recommendations.

PART I

6.0. MACROECONOMIC FRAMEWORK

6.1. Economic growth

The Committee was informed that data showed that the economy grew by 3.7 per cent in 2018 compared to 3.4 per cent in 2017. The growth was driven by a strong rebound in information and communications activities, and a pick up in the wholesale and retail sub sector, mining, and manufacturing. In the first quarter of 2019, real GDP growth remained subdued at 2.6 per cent compared to 2.5 per cent in the fourth quarter of 2018, and 2.7 per cent during the corresponding quarter of 2018. Unfavourable performance in the agriculture and construction sectors mainly explained the subdued growth. The Committee learnt that for 2019, real GDP growth was expected to slow down, reflecting lower agriculture production and mining output, as well as constrained electricity generation.

The Committee was further informed that the Stanbic Bank Zambia Purchasing Managers' Index (PMI), an index of the prevailing direction of economic trends in the manufacturing and service sectors showed that business conditions for the private sector had deteriorated further in 2019. The Stanbic PMI averaged 45.2 in the second quarter of 2019 compared to 48.9 in the first quarter of 2019, below the 50.0 threshold in both years. The Stanbic PMI recorded in the first and second quarter of 2019 was lower than 51.8 recorded during the second quarter of 2018. This indicated deteriorating conditions attributed to weak demand, general liquidity constraints, a fall in output and in new orders. Further, the Purchasing Managers' Index (PMI) Surveys by Stambic

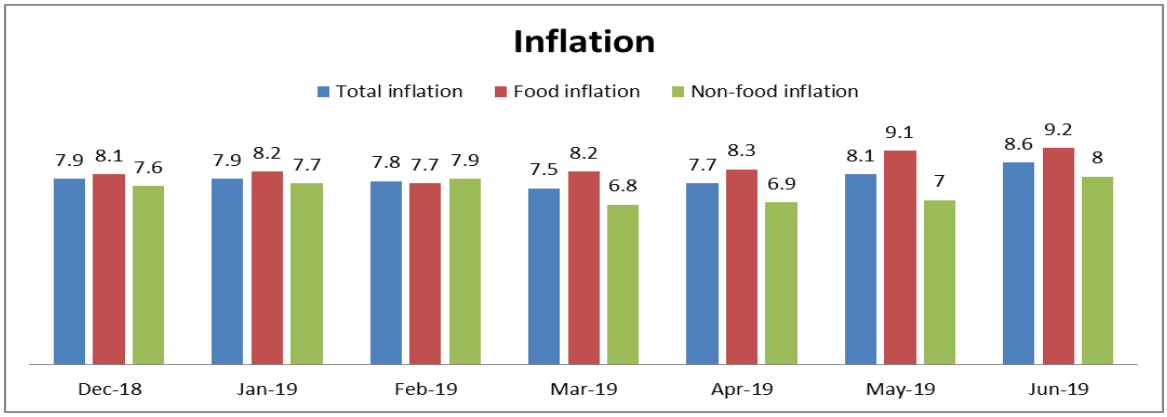
Bank in three other countries for the month of June revealed that they were generally higher than Zambia. The surveys revealed that Kenya was at 54.3, Uganda at 57.3 and Nigeria was at 54.8.

In light of this, the Committee is of the view that the GDP growth of 4.0 per cent projected in the 2019 budget might be difficult to attain.

6.2. Inflation

The Committee was informed that the annual overall inflation increased to an average of 8.1 per cent in the second quarter of 2019 from 7.7 per cent in the first quarter of 2019. This was attributed mainly to the pass-through effects of the depreciation of the Kwacha, the rise in prices of fish products, and the increase in maize grain and mealie meal prices. As of June, 2019, inflation rose to 8.6 per cent from 7.5 per cent in March, 2019 (refer to Chart 2). Annual average inflation was 0.6 percentage points higher in the second quarter of 2019 compared to 7.5 per cent recorded during the corresponding quarter of 2018.

Chart 2: Annual Overall Inflation



6.3 Foreign exchange

The Committee was informed that the rate of depreciation of the Kwacha against the US dollar at 7.7 per cent in the second quarter of 2019 was higher than the 0.6 per cent recorded in the first quarter of 2019. The Committee was also informed that much of the depreciation occurred between April and May, 2019 when the Kwacha reached K14.00/US dollar from K11.95/US dollar in March. In June, the Kwacha reversed some of the losses, appreciating to K12.80/US dollar.

The Committee was further informed that the depreciation of the Kwacha in the second quarter of 2019 was largely due to elevated demand for foreign exchange to facilitate petroleum imports, subdued supply, and strong negative market sentiments attributed mainly to concerns about declining foreign reserve levels and a deteriorating fiscal position.

6.4 Interest rates

The Committee was informed that commercial banks' nominal average lending rates edged up to 25.4 per cent in June, 2019 from 24.6 per cent in March, 2019. This was higher than the 24.1 per cent recorded in June, 2018. The commercial banks' lending rates increased largely on account of the rise in the cost of funds and higher yield rates on Government securities.

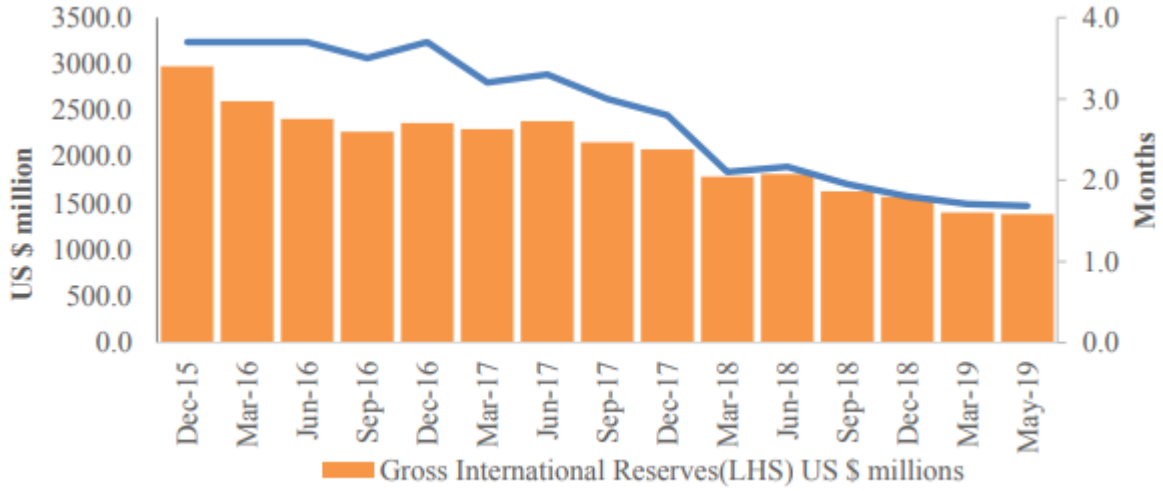
Further, the Committee was informed that savings rates increased with the 180-day deposit rate for amounts exceeding K20,000 rising to 10.2 per cent in second quarter of 2019 from 9.8 per cent in the first quarter. The savings rate for the first and second quarter of 2019 was higher than the 8.2 per cent recorded in the second quarter of 2018.

Furthermore, the Committee was informed that yield rates on Government securities remained elevated in the second quarter of 2019, mainly on account of sluggish demand due to tight liquidity conditions. The Treasury bills and Government bonds yield rates increased to 25.1 per cent and 29.6 per cent from 23.4 per cent and 24.9 per cent, respectively in the first quarter.

6.5 Gross international reserves

The Committee was informed that the gross international reserves were about US $1.40 billion, representing 1.7 months of import cover as at end of May, 2019, from US $1.57 billion representing 1.8 months of import cover recorded at end-December, 2018 (see Chart 4). Payments towards principal and interest on external debt were the major factors accounting for the decline in reserves in 2019.

Chart 4: Gross International Reserves



6.6 Current Account

6.6.1 Primary Income

The Committee was informed that preliminary data for the first quarter of 2019 indicated that the current account surplus narrowed to US $19.4 million from the revised figure of US $112.2 million in the fourth quarter of 2018. This outturn was mainly driven by unfavourable performance in the primary income account of higher interest payments on external debt, and a reduction in losses attributable to foreign owned enterprises.

6.6.2 International Trade

The Committee was further informed that preliminary data showed that the trade balance recorded a surplus of US $136.3 million during the second quarter of 2019, 7.8 per cent lower than the surplus recorded in the previous quarter. The decline in the trade balance was on account of a relatively higher reduction in export earnings relative to imports. Compared with the

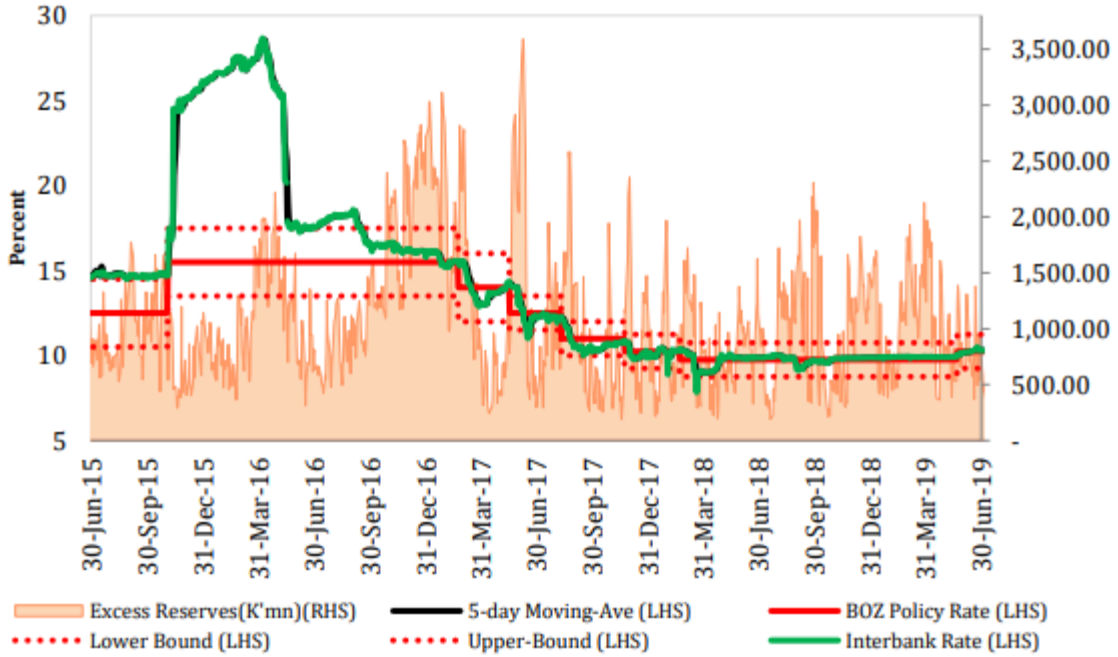
corresponding quarter in the previous year, the trade balance improved to a surplus of US $136.3 million against a deficit of US $167.7 million. This was attributed to a decline in imports driven by a fall in expenditures on motor vehicles, industrial boilers and equipment, iron and steel, and fertiliser.

The Committee was further informed that the balance on goods improved by registering a surplus in the first quarter of 2019. This was due to the contraction in imports, which outweighed the reduction in export earnings. Goods imports declined by 25.3 per cent, mostly on account of lower importation of copper ores, industrial boilers and equipment, fertiliser as well as petroleum products. The goods export earnings fell by 5.2 per cent due to lower earnings from copper and non-traditional exports (NTEs). Copper exports at US $1,431.9 million were 3.3 per cent lower than the amount recorded in the preceding quarter, following a decline in export volumes. NTEs declined by 9.6 per cent to US $489.5 million owing to a reduction in earnings from burley tobacco and maize exports.

6.7 Monetary Policy

The Committee was informed that monetary policy formulation and implementation continued to focus on maintaining inflation within the target range of 6-8 per cent in the first half of 2019. It was further informed that the Bank of Zambia tightened its monetary policy stance by raising the policy rate by 50 basis points to 10.25 per cent on May 22, 2019 from 9.75 per cent in order to counter heightened inflationary pressures (see Chart 1). In arriving at this decision, the Central Bank took into account projections indicating that inflation would breach the upper bound of the 6-8 per cent target range over the forecast horizon as some of the risks to inflation outlined in previous Monetary Policy Committee (MPC) statements had begun to materialise. Lower maize output, continued elevated fiscal deficits, high debt service payments, and the decline in gross international reserves were among the key upside risks to inflation. These risks had also contributed to downgrades of Zambia by the ratings agencies and adverse market sentiments, which continued to exert pressure on the exchange rate.

Chart 1: Policy rate and interbank rate



Source: Bank of Zambia

In addition, the Committee was informed that the Bank of Zambia had previously maintained the policy rate at 9.75 per cent for four consecutive quarters in order to support private sector credit growth, curtail the rising non-performing loans, and support economic growth. Private sector credit and economic growth still remained subdued. The ability of monetary policy to influence availability of credit to help finance the productive sectors of the economy remained constrained, largely reflecting several challenges to monetary policy implementation. Those challenges included higher than projected fiscal deficits, elevated external and domestic debt, and high debt service payments. Financing of the fiscal deficit from the domestic financial market also continued to exert upward pressure on interest rates. The underdeveloped state of the financial and capital markets, reflected in the low secondary market trading of Government securities, as well as local bonds and shares also limited the effectiveness of monetary policy.

Further, the Committee was informed that challenges in dismantling domestic arrears contributed to the high levels of non-performing loans in the banking and non-banking institutions. Furthermore, the high external debt service payments also continued to exert downward pressure on international reserves, reducing the buffers that the economy could fall back on to address any external shocks that might arise.

6.7.1 Government securities

The Committee was informed that the Government securities continued to be unfavourable in the second quarter largely due to subdued demand on account of tight liquidity conditions. The subscription rate for Treasury bills declined to 79 per cent in the 2019 second quarter from 91.0 per cent in the first quarter while that of Government bonds almost halved to 15.0 per cent from 29 per cent. Despite the low subscription rates, funds raised through auctions were higher than maturities. As a result, the total outstanding stock of Government securities increased by 3.5 per cent to K60.3 billion from K58.2 billion at end of the 2019 first quarter.

6.7.2 Broad Money and Domestic Credit

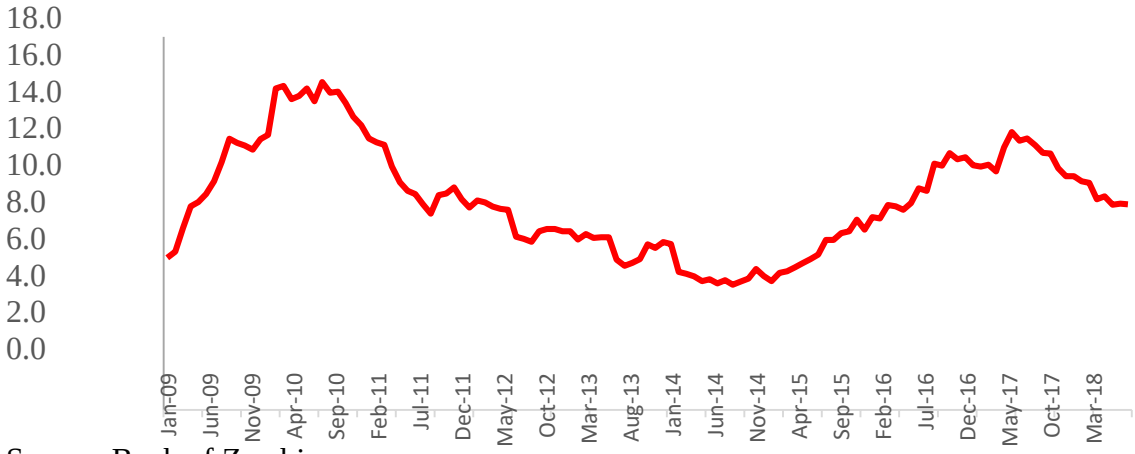
The Committee was informed that supply for Broad Money (M3) grew by 7.1 per cent as of May, 2019 against a contraction of 3.9 per cent in the first quarter of 2019. The growth in M3 was driven mainly by domestic credit and the rise in balances on commercial banks' offshore accounts. On a year-on-year basis, M3 growth slowed down to 16.1 per cent in May, 2019 from 17.6 per cent in March, 2019.

The Committee was further informed that total domestic credit growth edged up to 5.2 per cent by May, 2019 from 2.9 per cent recorded in the first quarter of 2019. The increase in domestic credit was driven by lending to private enterprises and the Government. On a year-on-year basis, domestic credit growth rose to 20.3 per cent in May, 2019 from 17.9 per cent in March, 2019.

6.7.3 Banking sector

The Committee was informed that the banking sector's overall financial performance and condition remained satisfactory as of May, 2019. This was owing to the strong aggregate capital adequacy position and satisfactory earnings performance. The regulatory primary adequacy capital ratios were well above the minimum, an indication of the sector's capacity to absorb unexpected losses. Credit risk, however, remained elevated and had a negative impact on asset quality as reflected by the ratio of non-performing loans to total loans, which remained high at 9.9 per cent almost at the maximum prudential threshold of 10 per cent for the Bank of Zambia (see Chart 5). The overall performance notwithstanding, the sector's earnings performance remained vulnerable to potential loan losses especially for banks with inadequate loan loss reserves.

Chart 5: Gross non-performing loans to total gross loans



Source: Bank of Zambia

6.7.4 Non-bank financial institutions

The Committee learnt that the overall financial performance and condition of the Non-Bank Financial Institutions sector (NBFIs) was rated fair up to the end of May, 2019. Regulatory capital, liquidity management and sensitivity to market risk were satisfactory, while earnings performance was fair and asset quality was rated unsatisfactory due to a high non-performing loans (NPL) ratio which was at 23.7 per cent as at end-May, 2019. This was way above the prudential limit of 10 per cent.

The high NPL ratio was largely attributed to some microfinance institutions which were adversely affected due to delays in payments of civil servants loans, as well as poor underwriting practices in the sector. In this regard, the Bank of Zambia had continued to work with NBFIs in an effort to ensure adherence to sound loan underwriting practices.

PART II

7.0. REVIEW OF THE FISCAL FRAMEWORK

Table 2: 2018 second quarter compared to 2019 second quarter performance

	2018 SECOND QUARTER PERFORMANCE			2019 SECOND QUARTER PERFORMANCE		
	Q2 Proj	Q2 Actual	Q2 Performance	Q2 Proj	Q2 Prel*	Q2 Performance*
A. TOTAL REVENUE & GRANTS	**13,244,182**	**13,081,320**	**99%**	**15,230,633**	**17,436,384**	**114%**
Domestic Revenue	**12,634,606**	**12,948,423**	**102%**	**15,084,011**	**17,110,506**	**113%**
1. Tax Revenues	10,526,791	11,066,247	105%	12,663,840	13,824,722	109%
2. Non Tax Revenue	2,107,816	1,882,176	89%	2,420,172	3,285,784	136%
Grants	**609,575**	**132,897**	**22%**	**146,622**	**325,878**	**222%**
B. TOTAL EXPENDITURE	**17,403,739**	**18,317,225**	**105%**	**22,496,489**	**23,566,929**	**105%**
EXPENSES	**12,175,712**	**11,520,622**	**95%**	**13,309,240**	**13,785,348**	**104%**
Personal Emoluments	5,704,564	5,182,904	91%	6,656,328	6,387,594	96%
Use of Goods and Services	2,122,574	1,680,260	79%	1,001,557	1,144,594	114%
Interest Payments	2,076,634	2,462,312	119%	2,911,808	4,185,164	144%
Grants and Other Payments	1,567,097	1,809,925	115%	2,094,918	1,925,933	92%
Social Benefits	445,433	305,220	69%	401,470	54,062	13%
Other Expenses	259,410	80,000	31%	243,159	88,000	36%
ASSETS	**3,946,762**	**5,172,115**	**131%**	**6,916,955**	**7,402,448**	**107%**
Non Financial Assets	3,774,483	5,168,115	137%	6,878,734	7,402,448	108%
Financial Assets	172,279	4,000	2%	38,222	-	0%
LIABILITIES	**497,434**	**113,656**	**23%**	**148,487**	**28,363**	**19%**
FINANCING	**3,375,725**	**4,040,050**	**120%**	**5,306,645**	**4,550,639**	**86%**
Net Domestic Financing	**1,002,758**	**743,382**	**74%**	**1,144,172**	**288,459**	**25%**
Domestic Financing	1,152,758	1,618,837	140%	**1,309,586**	**782,543**	**60%**
Amortisation	(150,000)	(875,456)	584%	(165,414)	(494,084)	299%
o/w maturities	-	(760,758)	0%	-	*(375,702)*	*0%*
Net External Financing	**2,372,968**	**3,296,668**	**139%**	*4,162,473*	*4,262,180*	*102%*
Programme	1,000,000	-	0%	-	-	0%
Project	2,006,800	3,932,045	196%	6,118,866	6,118,866	100%
Amortisation	(633,832)	(635,377)	100%	(1,956,393)	(1,856,686)	95%

7.1. Revenue Performance

The Committee was informed that revenue and grants for the second quarter of the 2019 fiscal year were projected at a total of K15.23 billion. During the period under review, the Government managed to raise total revenue and grants of K17.43 billion. The total revenue and grants in the second quarter of 2019 were above the forecast by 14 per cent and were better than the performance in 2018 which were at 99 per cent and narrowly below target by 1 per cent. The over performance was largely attributed to an over performance of non-tax revenues, mainly

relating to the deliberate measures of prioritising non-tax revenue collecting institutions, and higher than projected receipts from cooperating partners.

The Committee was informed that total domestic revenue was projected at K15.08 billion for the period under review. The Government collected a total amount of K17.1 billion which was above forecast by 13.0 per cent. Of the total domestic revenues collected, tax revenues amounted to K13.82 billion and non-tax revenues amounted to K3.28 billion.

7.1.1. Tax Revenue

The Committee was informed that in the second quarter of 2019, the Government projected to collect a total of K12.66 billion. However, the total amount collected was K13.82 billion which was above the forecast by 4.0 per cent.

7.1.2. Non Tax Revenue

The Committee learnt that the Government forecast to collect K2.42 billion as non tax revenue during the second quarter. Out of this amount, K1.3 billion was revenue projected from mineral royalty. The positive performance was largely attributed to a dividend from the Bank of Zambia and non tax revenue collecting agencies collecting above forecast.

7.1.3 Grants

The Committee was informed that grants from cooperating partners amounted to K325.9 billion and were higher than the projected amount by 122.0 per cent.

7.3. Tax Revenue performance in first half of 2019

The Committee was informed that the approved budget for 2018 was at K71.6 billion, out of which K51.5 billion was in the form of revenue and grants and the balance was expected from domestic and external financing. In the first half of the year, revenue and grants stood at 49.0 per cent of the approved budget with tax revenue standing at 52.0 per cent and non tax revenue at 45.0 per cent. The under-performance on non tax revenue was attributed to delayed implementation of measures under the land titling programme and the introduction of electronic number plates under the Road Transport and Safety Agency. The expenditure in the period under review stood 59.0 per cent of the approved budget.

In 2019, the approved budget stood at K86.8 billion of which K58.0 billion was in the form of revenue and grants. The balance was expected to come from domestic and external financing. In the first half of the year, revenue and grants were recorded at 56.0 per cent of the approved budget with tax revenue recorded at 54.0 per cent and non tax revenue at 74.0 per cent. The over performance of non tax revenue was largely attributed to a dividend from the Bank of Zambia arising from foreign exchange gains and non tax revenue collecting agencies collecting above target. The expenditure in the period under review stood 54.0 per cent of the approved budget.

Table 1: 2018 compared 2019 midyear budget performance

2018 VS 2019 FIRST HALF BUDGET PERFORMANCE						
	2018 (Jan - June)			2019 (Jan - June*)		
	2018 Approved	Jan-Jun	%	2019 Approved	Jan-Jun*	%
A. TOTAL REVENUE & GRANTS	**51,525,318**	**25,234,984**	**49%**	**58,010,985**	**32,582,301**	**56%**
Domestic Revenue	**49,087,017**	**24,988,230**	**51%**	**56,086,808**	**32,110,277**	**57%**
1. Tax Revenues	40,874,378	21,279,454	52%	**46,672,859**	25,159,162	54%
2. Non Tax Revenue	8,212,639	3,708,776	45%	**9,413,949**	6,951,116	74%
Grants	**2,438,301**	**246,754**	**10%**	**1,924,177**	**472,023**	**25%**
B. TOTAL EXPENDITURE	**71,662,386**	**41,991,471**	**59%**	86,807,895	46,801,411	54%
EXPENSES	**52,451,962**	**24,422,084**	**47%**	**56,319,453**	**26,084,508**	**46%**
Personal Emoluments	23,103,744	10,430,547	45%	25,240,279	11,175,557	44%
Use of Goods and Services	7,420,225	2,848,065	38%	6,104,074	1,941,073	32%
Interest Payments	10,923,277	6,441,033	59%	14,183,205	9,239,529	65%
Grants and Other Payments	7,993,388	3,896,218	49%	8,259,213	3,421,875	41%
Social Benefits	1,781,730	596,958	34%	1,760,045	141,375	8%
Other Expenses	1,229,598	209,262	17%	772,637	165,100	21%
ASSETS	**14,662,904**	**14,927,850**	**102%**	**20,610,453**	**14,993,475**	**73%**
Non Financial Assets	14,201,120	14,863,850	105%	20,457,566	14,993,475	73%
Financial Assets	461,784	64,000	14%	152,887	-	0%
LIABILITIES	**1,329,734**	**143,182**	**11%**	**487,839**	**69,446**	**14%**
FINANCING	**16,919,282**	**14,988,954**	**89%**	**19,406,759**	**9,540,457**	**49%**
Net Domestic Financing	**10,944,874**	**3,985,659**	**36%**	**3,502,551**	**229,843**	**7%**
Domestic Financing	11,153,290	4,961,735	44%	**4,164,207**	2,157,670	52%
Amortisation	(208,417)	(976,076)	468%	(661,656)	(1,927,827)	291%
o/w maturities		(760,758)	0%	-	*(1,776,710)*	-
Net External Financing	**5,974,408**	**11,003,295**	**184%**	**15,904,208**	**9,310,613**	**59%**
Programme	1,425,000	-	0%	**7,825,000**	-	**0%**
Project	7,558,778	12,525,573	166%	16,807,702	13,036,770	78%
Amortisation	(3,009,369)	(1,522,278)	51%	(8,728,494)	(3,726,157)	43%

Generally, the revenue performance in the first quarter of 2019 was better than the performance in the first quarter of 2018. However, the Committee noted that the 2019 non tax revenue included an exceptional K1.7 billion in dividends which was higher than the projection.

7.4. Expenditure performance

The Committee was informed that preliminary expenditures in the second quarter of 2019 amounted to K23.56 billion and were above the target of K22.5 billion by 5.0 per cent. Of the total expenditure, K17.03 billion was financed from domestic resources while K6.54 billion was foreign financed.

7.4.1 Personal Emoluments

The Committee was informed that personal emoluments at K6.4 billion were below target of K6.7 billion by 4 per cent. The fiscal constraints persisted into the second quarter and were largely the reason for the underperformance.

7.4.2. Use of Goods and Services

The Committee was informed that total releases for the procurement of goods and services amounted to K1.14 billion and were above the target of K1.0 billion by 4 per cent. Notable expenditures included K100 million for drugs and medical supplies, K36 million for delimitation and election related expenditures and K17 million for National Assembly sitting of the House.

7.4.3. Interest Cost on Foreign Debt

Interest payments during the period under review amounted to K4.2 billion and was above target of K2.9 billion by 44 per cent. The over expenditure was attributed to the depreciation of the Kwacha, which led to higher than projected releases on interest payments on external debt.

7.4.4. Transfers and Other Payments

The Committee was informed that expenditures on transfers and other payments at K1.49 billion were below the target of K1.6 billion by 5 per cent. Notable expenditures included K291 million to local authorities and K204.40 million for the Farmer Input Support Programme.

7.4.5. Other expenses

The Committee learnt that releases under this category stood at K88.0 million and were below the target of K243.2 million by 64 per cent. Out of the releases, K61.5 million went towards the procurement of grain under the Food Reserve Agency.

7.4.6. Assets

The Committee was informed that total releases towards acquisition of assets – which were non-financial assets - stood at K7.4 billion and was above the target of K6.9billion by 7.0 per cent. Of this amount, K6.1 billion accounted for foreign financed projects.

7.4.7. Liabilities for Goods and Services

Releases towards liabilities for goods and services during the period under review amounted to K28.4 million, which was below target by 81.0 per cent. This meant that only 19 per cent of the profiled funds for goods and services were released for the payment of suppliers in the second quarter of 2019.

7.5. Amortisation

The Committee was informed that during the period under review, the Treasury accessed K782.5 million from domestic sources. Amortisation amounted to K2.35 billion, comprising K494.1 million towards domestic amortisation and K1.86 billion towards external amortisation.

PART III

8.0. REVIEW OF SECOND QUARTER PERFORMANCE OF THE BUDGET FOR SELECTED MINISTRIES AND PROVINCES

The Committee reviewed the second quarter budget performance for the Ministries of Health, Agriculture, General Education, Local Government and Water Development, Sanitation and Environmental Protection. It also reviewed the budget performance for Southern, Western and Lusaka Provinces. The consolidated findings by the Committee are highlighted in Tables 9 and 10 below.

Table 9: Breakdown of second quarter releases into categories

	Institution	2019 Q2 Releases				
		Personal Emoluments	Capital Expenditure	Recurrent Expenditure	Grants	Total
1	Ministry of Health	1,054,382,601.00	7,061,132.82	209,750,159.51	104,941,789.10	1,376,135,682.43
2	Ministry of Agriculture	86,724,774.84		275,626,248.92	70,335,236.66	432,686,260.42
3	Ministry of General Education	2,217,841,956.62	14,888,032.68	22,674,039.16	182,143,199.31	2,437,547,227.77
4	Ministry of Local Government	4,560,691.16		7,349,241.77	299,621,187.01	311,531,119.94
5	Ministry of Water Development, Sanitation and Environmental Protection	4,574,190.26	22,109,481.45	1,714,916.00	28,693,727.49	57,092,315.20
6	Southern Province	17,024,796.92	17,000.00	4,434,876.15	-	21,476,673.07
7	Western Province	16,351,601.89		2,598,533.00	-	18,950,134.89
8	Lusaka Province	25,617,878.26		1,839,370.00	-	27,457,248.26

Source: MOF

Table 10: Proportion of 2019 Budget released in Q2 compared to Q1

Proportion of Budget Estimates Released in Q1 and Q2 of 2019						
	Institution	2019 Budget	Q1 Releases	%	Q2 Releases	%
1	Ministry of Health	7,519,930,916	1,117,792,684	14.9%	1,376,135,682	18.3%
2	Ministry of Agriculture	4,213,714,551	733,645,644	17.4%	432,686,260	10.3%
3	Ministry of General Education	10,122,943,142	2,182,880,478	21.6%	2,437,547,228	24.1%
4	Ministry of Local Government	1,546,227,083	291,857,202	18.9%	311,531,120	20.1%
5	Ministry of Water Development, Sanitation and Environmental Protection	2,420,479,167	26,405,405	1.1%	57,092,315	2.4%
6	Southern Province	97,391,658	17,781,502	18.3%	21,476,673	22.1%
7	Western Province	106,589,668	18,073,914	17.0%	18,950,135	17.8%
8	Lusaka Province	86,047,665	25,836,545	30.0%	27,457,248	31.9%

Source: MOF

8.1. Ministry of Health

The Committee was informed that the approved budgetary provision for 2019 for the Ministry was K 7,519,930, 916. Further, the Committee was informed that the proportion of the 2019

budget estimates that was released during the second quarter of 2019 in comparison with the releases for the first quarter of 2019 showed that 19 per cent of the total budget was released in the second quarter while 7.58 per cent of the total budget was released in the first quarter.

The Committee was informed that K357,331, 010. 26 was profiled in the second quarter of 2019 and 100 per cent of the profiled amount was released.

8.2. Ministry of Local Government

The Committee was informed that in 2019, the Ministry's Budget was K1,546,227,083.00 under Head 20. This accounted for 1.78per cent of the 2019 national budget which stood at K86,807,894,727. 00.

The Committee was further informed that in the first quarter, the Ministry was funded K274,269,703.16 against the profiled amount of K386,556,770.75 with a variance of 43.4 per cent. Further, K321,766,408.15 was released in the second quarter against the profiled amount of K386,556,770.75 representing a variance of 25 per cent. Despite the Ministry receiving more funding in the second quarter, core programmes under infrastructure development were not funded.

8.3. Ministry of Water Development, Sanitation, and Environmental Protection

The Committee was informed that a total budget provision of K 2,420,479,167.00 was made under the Ministry of Water Development, Sanitation and Environmental Protection for the year 2019, representing 3 per cent of the total national budget of K86, 807, 894, 727.00.

The Committee was informed that K31 691, 597.29 was disbursed out of the profiled amount of K209, 443, 312.20 representing 15.1 per cent in the second quarter of 2019.

The Committee was informed that out of K146,476,708. 09 profiled under the Department of Environmental Management, 8.9 per cent or K13,129,715.84 was released and out of K47, 168,520.43 under the Water Supply and Sanitation Department, 36.2 per cent amounting to K17,096,681.45 was released.

The Committee was informed that a total amount of K60,168,087.54 was released by the Treasury for implementation of various programmes in the second quarter of 2019 as compared to K38,981, 358.79 in the first quarter. The increase in releases for the second quarter was largely attributed to the increase in capital expenditure as a result of the increase in releases for Water Supply Sanitation Projects and counterpart funding from the African Development Bank towards project activities under Lake Tanganyika Development Project.

Further, there was a decline in RDCs in the second quarter by 45 per cent, while operational grants had a marginal increase of 4.1 per cent in the second quarter, with personal emoluments (PEs) remaining the same.

8.3.1. Non Tax Revenue collections

The Committee was informed that the Water Resources Management Authority (WARMA) collected K8, 728,814.51 in the first quarter and K9, 341,616.79 at the close of the second quarter representing a positive variance of 7 per cent. Further, the Zambia Environmental

Management Agency (ZEMA) collected K4, 823,892 as at 31st March, 2019 against the budgeted income of K 9,685,384 representing a negative variance of 49.8 per cent. At the close of the second quarter, ZEMA collected K15, 400,260 against budgeted income of K16, 826,560.00 giving a negative variance 8.4 per cent.

The performance of ZEMA in terms of revenue collection posted a positive variance from K4, 823,892 in the first quarter to K15, 400,260 in the second quarter of 2019 representing an increase of 45.6 per cent. During the quarter under review, ZEMA experienced continued challenges due to delayed funding and non-receipt of the February and March grants.

8.4. Ministry of Agriculture

The Committee was informed that the budget for the Ministry of Agriculture had reduced from K4.7 billion in 2018 to K4.2 billion in 2019. This represented an overall 10.4 per cent reduction in budgetary provision to the Ministry. The Ministry's budget had also reduced from 6.5 per cent in 2018 to 4.8 percent in 2019 as a percentage of the national budget.

The Committee was informed that as a proportion of the Ministry's total budget, the total releases for the second quarter at 10.8 per cent was almost the same as the releases in the first quarter at 10.3 per cent. Based on the trends observed from the first two quarters, the Ministry projected that the total releases at the end of the year would be about 40 per cent of the total budget for the Ministry.

The Committee was informed that only 27.2 per cent was released from the funding profile of K1.670 billion in the second quarter. The percentage released against the profile in the second quarter was just over half of what was released in the first quarter of 2019.

8.4.1 Funding breakdown

The Committee was informed that from the total amount released in the second quarter, the breakdown was as follows:

- FISP received K212.1 million (46.7 per cent);
- Personal Emoluments received K112.1 million (24.7 per cent);
- FRA received K61.5 million (13.5 per cent);
- Donor funded programmes and projects received K37.4 million (8.25 per cent);
- Grants received K25.3 million (5.6 per cent); and
- RDCs received K5.6 million (1.2 per cent).

8.4.2. FISP Debt Position

Table 32
AS AT 05.07.2019

FARMING SEASON	2016/2017	2017/2018	2018/2019	TOTAL DUE
	K	K	K	K
FERTILIZER SUPPLIERS[1]		364,399,810	-	**364,399,810**
SEED SUPPLIERS	1,667,684	19,475,313	331,060,414	**352,203,412**
TRANSPORTATION	27,794,650	1,586,200	35,870,616	**65,251,466**

FISP E-VOUCHER	25,364,307	75,192,935	467,109,385	**567,666,628**
OTHER FISP SERVICE PROVIDERS	-	15,400,000	118,311,167	**133,711,167**
GRAND TOTAL	**54,826,641**	**476,054,258**	**952,351,582**	**1,483,232,482**

8.4.3. Non Tax Revenue collection

The Committee was informed that the Ministry collected revenues from the sale of crops, farmer contributions, inspection fees, issuance of import and export permits and the issuance of phytosanitary certificates.

In the second quarter, the revenue generated by the Ministry was K22.29 million. Revenue generation in the second quarter of 2019 reduced by 74 per cent compared to what was reported in the first quarter. This was mainly due to the fact that there were no crop sales made by FRA in the second quarter.

8.5 Ministry of General Education

The Committee was informed that the Ministry of General Education was one of the first Ministries which started piloting the Output Based Budget (OBB) in 2015. The OBB was the budget which focused on outputs as opposed to the Activity based Budget which focused on Activities.

8.5.1 Approved budgetary allocations for the year 2019.

The Committee was informed that the budgetary allocation for the Ministry of General Education for 2019, was K **10,122,943,142.00**.

8.5.2 The Proportion of the 2019 Budget Estimates that was released during the second quarter

The Committee was informed that in the first quarter, the releases amounted to K 33,098,010.40 for non-PEs and K 2,213,890,910.25 for PEs, totaling K2,246,988,920.65 representing a percentage of 88.78 per cent of the first quarter budget. In the second quarter, releases amounted to K184, 406,132.00 and K 2,213,890,910.25 for PEs totaling K 2,398,297,042.25 representing 94.8 per cent of the second quarter budget.

8.5.3 A breakdown of releases to the Ministry into Personal Emoluments, Capital Expenditure and RDCs

Personal Emoluments	K 4,427,781,820.50
Other Personal Emoluments	K 1,000,000.00
Capital Expenditure	K 15,188,033.00
Recurrent Departmental Charges	K 3,023,282.00
Grants	K 41,769,128.60
Total	**K 4,488,762,264.00**

8.6. Southern Province

The Committee was informed that 41.56 per cent of the budget was released in the second quarter of 2019 compared to only 10.48 per cent in the first quarter of 2019 which revealed an increase of 31.08 percentage points. The Committee was also informed that 97.16 per cent of funds released were towards goods and services whilst 0.58 per cent was towards capital expenditure. The Committee was, however, informed that from the total releases in the second quarter, only 53 per cent was spent, compared to 71.0 per cent spent in the first quarter, indicating a reduction in absorption by 18per cent percentage points.

8.7. Western Province

The Committee was informed that the total approved budgetary provision for Western Province in 2019 was K106,589,668.00. Further, the Committee was informed that more funds were allocated towards Personal Emoluments, accounting for more than 73 per cent of the budget, whilst less than 27.0 per cent was earmarked for both Recurrent Departmental Charges and Poverty Reduction Programmes.

The Committee was informed that as at 30th June 2019, a total of K43,385,026 was released by the Treasury, which accounted for a total of 40.7 per cent of the total budget for the province. More funds, however, were released in the second quarter than in the first quarter. In the first quarter, a total of K21,263,092.00 was released compared to the second quarter in which an amount of K22,121,933.50 was released.

The Committee was further informed that Forestry, Lands and Survey had received relatively higher funding against the profiles due to the treasury policy to fund these departments with Appropriation in Aid (AIA) quarterly in order to encourage them to raise non-tax revenue. However, the Treasury increased funding to Child Programmes in order to address early child pregnancy which was on the rise in the Province, while the district administration programmes were funded 100 percent to ensure improved operations at district level.

With the Poverty Reduction Programmes (PRP) funds, 5,000 seedlings of citrus fruits were raised at Namushakende Farm Training Institute (FTI), the ground rent collections exercise was conducted in Lukulu and Mitete Districts and blitz patrols were conducted in selected districts in order to combat illegal cutting and transportation of timber. In addition, the Province held the Provincial Development Coordinating Committee (PDCC) meeting to review the 2018 provincial performance and share the focus areas for 2019.

8.7.1. Non-Tax Revenue

The Committee was informed that the Province collected non-tax revenue through the natural resources-based departments. During the period under review, the Province raised a total of K4,303,160.22 compared to the first quarter of 2019 in which an amount of K3,461,924.95 was collected. More than 92 per cent of revenue was from concession licensing. However, there was a possibility of raising more non-tax revenue under Lands and Survey department by legalising most informal settlement and business premises, in order to allow Government to begin collecting ground rent and other fees. The common challenges facing non-tax revenue collection were inadequate transport, human resources and insufficient operational funds to scale up revenue collections.

8.8. Lusaka Province

The Committee was informed that the approved 2019 budgetary allocation for the Province was K 86,047,665.00. The Committee was further informed that the Ministry of Finance released K591, 800.00 in the first quarter of 2019, representing 2.96 per cent compared to K1, 641,370.00 in the second quarter 2019, representing 8.22 percent.

The Committee was informed that the profiled amount for the second quarter of 2019 budget was K3, 234,999, of which K1, 641,370.00 was released, representing 50.74 per cent.

8.8.1. Non Tax Revenue Collections

The Committee was informed that the Province collected more revenue in the first quarter amounting to K485, 055 compared to the second quarter collections which amounted to K303, 790. In this regard, the Committee was informed that lack of adequate transport was the main challenge in revenue collection in the Province.

PART IV

9.0. STAKEHOLDER CONCERNS

Stakeholders who appeared before the Committee raised various concerns on the review of the second quarter budget performance for 2019. These are set out below.

9.1. Economic growth

Stakeholders expressed concern that preliminary data showed that real GDP growth remained subdued at 2.6 per cent away from the set macroeconomic objective of attaining 4 per cent growth in line with the 2019 budget.

Further, stakeholders expressed concern that indicators of economic activity such as the Stanbic Bank Zambia Purchasing Managers' Index showed that business conditions for the private sector had deteriorated further in 2019 to average 45.2 in the second quarter of 2019 compared to 48.9 in the first quarter of 2019, both being below the 50.0 minimum threshold. This in essence was a manifestation of the deteriorating economic conditions which had adverse effects on private sector participation in economic activities.

9.2. Fiscal performance

Stakeholders expressed concern that the Government's expenditure was K46.8 billion or 54 per cent of the 2019 budget of K86.8 billion. This was K2.8 billion or 6.4 per cent higher than the projected expenditure of K44 billion. It was highlighted that this overspending was mainly due to higher than projected interest payments (K2 billion) and capital expenditure (K3 billion). The stakeholders were concerned that interest payments on debt already took up 65 per cent of the approved budget by June 2019, while capital spending took up 73 per cent of the planned spending for this budget line. It was clear that interest payments and capital expenditure were likely to be the major sources of spending overruns in 2019. It worried the stakeholders that, coupled with personal emoluments, the three expenditure items took up about three-quarters of the total expenditure. The stakeholders also stated that there was clearly a liquidity crunch in the economy, which in turn had led to reduced economic activity in the country.

9.4. Poor Releases of Funds to Ministries and Spending Agencies

Stakeholders were concerned about the poor releases from the Treasury. They complained that because of the poor releases the ministries were unable to implement most of the planned developmental programmes, including capital projects. This posed a challenge to the ministries and provinces in attaining the goals and objectives outlined in the 2019 Annual Work Plans, and, consequently, the Seventh National Development Plan. For instance, they informed the Committee that releases for drugs in the second quarter only received 50 per cent of the profiled amount, meaning that only half of the required drugs were procured which manifested in the shortage of some drugs in most health facilities.

Further, stakeholders submitted that capital projects were not funded for the first and second quarters of 2019, as was the case for Lusaka province, thereby increasing the final cost of projects in the long run due to interest charges and escalation of prices caused by inflation. In addition, most core programmes only received about 2 per cent of the profiled funding whilst PE's and RDCs took up almost the entire budgets for MPSAs.

9.5. Appropriation in Aid

Some stakeholders were concerned about the policy that compelled them to remit all the revenues collections into the consolidated account. They were of the view that they should be given the latitude to spend a portion of the collected revenues under their jurisdiction as opposed to remitting all revenues to the Treasury. This was in view of the late release of funds which affected planned programmes. In that regard, they submitted that some regulatory agencies failed to execute their regulatory mandates due to delayed funding.

9.6. Need to Devise an Arrears Clearance Strategy

Stakeholders expressed concern that the debt accumulation was creating a liquidity crunch in the economy. They added that this had led to reduced activity as a result of payment delays and resulted in difficulties for businesses to access credit from commercial banks, resulting in a reduced pace of economic activity.

In view of this, stakeholders submitted that the Ministry of Finance should devise an arrears clearance strategy with a phased approach which should clearly articulate how the arrears would be dealt with in the short to medium term.

PART V

10.0. COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

After a detailed review of the second quarter budget performance for 2019, and taking into account the submissions received, the Committee makes the observations and recommendations set out hereunder.

10.1. Reduced economic activity

While the Committee appreciates the monetary policy stance taken by the Bank of Zambia of tightening monetary policy by increasing the policy rate to 10.5 per cent from 9.75 per cent as a

way of containing inflationary pressures, it is concerned that this policy has a tendency to reduce demand for goods and services. This concern is borne out by the fact that already, indicators of economic activity such as the Stanbic Bank Zambia Purchasing Managers' Index show that business conditions for the private sector have deteriorated further in 2019.

In view of the above, the Committee urges the Government to work closely with the Central Bank in ensuring measures to curtail the rising inflation rate do not stifle economic activity by the private sector, which is key for promoting economic growth.

10.2. Poor Macroeconomic Performance

The Committee observes with concern that the Government may not meet most of the macroeconomic objectives pronounced in the 2019 budget speech. The Committee notes, for example, that the GDP growth rate which was projected at 4 per cent in the budget speech was only recorded at 2.5 per cent mid-year, while inflation rate was at 8.6 per cent as at end-June, well above the 6 to 8 per cent band projected in the 2019 budget. The foreign reserves which were projected at 3.0 months of import cover were only able to cover 1.7 months of imports by the end of May. This state of affairs is also evident in other objectives. The Committee is aware that these economic challenges have wrongly been attributed solely to exogenous factors that the Government may have no control over.

While the Committee appreciates that exogenous factors have partly contributed to the deterioration of the various economic fundamentals, it is also aware that various endogenous factors such as high fiscal deficit and the accumulation of both external and domestic debt have also negatively contributed to the deterioration of the economy. In this light, the Committee recommends that the Government should institute urgent and robust measures, in addition to the recently announced austerity measures, to steer the economy back on track. The measures should also include getting the country on the International Monetary Fund (IMF) package so as to boost confidence and unlock donor support and investment.

10.3. High Non Performing Loans (NPL)

The Committee observes with concern that both commercial banks and non-bank financial institutions have experienced high non performing loans in the first and second quarters of 2019. The Committee is aware that this problem partly arises from the failure by the Government to pay domestic arrears for local suppliers, which translates into failure by these suppliers to meet their loan obligations and delays or failure in repayments of civil servants' loans. This has the potential to push financial institutions into insolvency which may lead to other economic challenges.

In view of the above, the Committee strongly recommends that Government must explore all available options to clear domestic arrears as a way of helping unlock the poor performance of non-performing loans in both commercial banks and non bank financial institutions. The Ministry of Finance should urgently devise an arrears clearance strategy with a short to medium term phased approach to deal with the arrears. The Government should first make a comprehensive assessment of the scale of the problem by taking stock of the current situation, after which the stock of arrears would need to be verified and categorised according to type

(goods and services, debt servicing and transfers), the payment due date to determine how long payments had been overdue, and consequences of further payment delays. Coupled with the above, the Central Bank should continue working on the measures meant to reduce lending rates in the financial sector.

10.4. Monetary Policy vs fiscal policy

The Committee observes that Central Bank has been instituting various progressive measures meant to ensure price stability. However, it is aware that most of the measures have to a larger extent been rendered ineffective because the fiscal policy has not been in tandem with monetary policy. This has been sending the message that there is poor policy coordination, if any, between the two policy authorities. For example, while the Central Bank has been tightening monetary policy through the upward adjustment of the policy rate, the Executive has been implementing expansionary fiscal measures as seen by the widening fiscal deficit.

In this regard, the Committee reiterates its recommendation that in order to achieve intended results, there is need for close coordination between monetary and fiscal policy. The Committee urges the Government to consider creating a clear mechanism for interaction between the Ministry of Finance which is in charge of fiscal policy and the Central Bank being the custodians of the monetary policy.

10.5. Low International Reserve

The Committee observes that the international reserves at 1.7 months of import cover recorded mid-year compared with 3 months envisaged in the 2019 budget is rather low. The Committee worries that the country may deplete the reserves needed to intervene in the event of volatility in the foreign exchange market arising from external factors such as the declining prices of copper and increasing prices of oil, to mention but a few. The Committee is also concerned that, as a short-term measure, the Government is currently participating on the foreign market as a way of building reserves. This has a tendency of leading to depreciation in the Kwacha as has been seen in the recent past.

In the light of the above, the Committee recommends that medium to long-term measures should be put in place to build the international reserves which are key in enhancing investor confidence. The Committee recommends that the Government should improve its relationship with donors who have been a source of foreign exchange in the medium-term and to promote a diversified export portfolio in the long-term through alternative donor funding.

10.6. E-voucher

The Committee notes that the objective of the e-voucher system is to promote the diversification agenda by ensuring that farmers have access to a variety of farming implements. The Committee also notes that the success of this programme is dependent on the timely and consistent funding of the programme.

In this regard, the Committee urges the Government to consider funding this programme consistently as it supports the poor, especially those in the rural areas whose livelihoods depend on agriculture activities.

10.7. Erratic Funding

The Committee notes with concern that erratic funding to MPSAs is becoming a major problem and the effects are detrimental to the operations of these entities. The poor funding has also negatively affected the implementation of capital projects in some of the MPSAs.

In view of the above, the Committee urges the Government to improve the releases to various spending agencies for them to smoothly implement planned programmes, including capital projects which are key for development.

10.8. Revenue Collection

The Committee notes that the collection of revenue by provincial offices in respective departments is being hampered because of inadequate transport and other equipment to increase patrols and collection points in the provinces.

In this regard, the Committee urges the Government to ensure that it enhances its revenue collection by providing the necessary logistics, including increasing funding and providing vehicles for officers in the provinces.

10.9.High Debt Stock Owed to Suppliers of Drugs

The Committee notes with great concern the shortage of drugs in the health facilities in the country because of the huge debt owed by the Government to suppliers of drugs. These shortages may lead to avoidable loss of lives of poor ordinary Zambians.

Therefore, the Committee urges the Government to prioritise funding towards purchase of drugs and grants to health facilities.

10.10. Reduced Spending on Goods and Services

The Committee expresses concern at the reduction of spending on goods and services. The Committee agrees with stakeholders who appeared before it that this reduction will compromise the effective and efficient public service delivery, which may also affect key Government sectors.

In view of the foregoing, the Committee strongly urges the government to consider prioritising activities meant for improved service delivery in order to avert many challenges associated with poor service delivery being faced in the country.

10.11. Constituency Development Fund (CDF) and the Local the Government Equalisation Fund (LGEF) projects

The Committee notes with concern the manner in which the councils expend the Constituency Development Fund (CDF) and the Local Government Equalisation Fund (LGEF). The Committee observes that the costs of CDF projects are usually inflated and above the general market prices by the technocrats responsible for the procurement of the projects.

In view of this, the Committee urges the Government to take practical steps to curb abuse of the CDF and the Local Government Equalisation Fund for constituency projects by ensuring that overpricing and delivery of substandard materials and projects is brought to a stop forthwith.

Further, the Committee urges the Government to review the *Public Procurement Act (2008)* as a matter of urgency in order to end the conniving and abuse of public funds through overpricing and delivery of poor quality works.

PART VI

11.0 THE ACTION TAKEN REPORT CONSIDERATION OF THE ACTION TAKEN REPORT ON THE REPORT OF THE BUDGET COMMITTEE ON THE REVIEW OF THE SECOND QUARTER PERFORMANCE OF THE 2018 BUDGET FOR SELECTED MINISTRIES AND PROVINCES FOR THE SECOND SESSION OF THE TWELFTH NATIONAL ASSEMBLY.

The Committee considered the Action taken Report of the Budget Committee on the review of the second quarter performance of the 2018 Budget for Selected Ministries and Provinces for the Second Session of the Twelfth National Assembly.

i) Limited Time to Review the Second Quarter Budget Performance

The Committee in the previous Session commended the Government for commencing the review of the second quarter of the budget in order to bring it in line with the Constitutional Provisions. The Committee expressed concern over the limited time available to carry out this exercise and to compile a report to be presented before the House. The Committee further expressed concern that there was very little time for stakeholders to make submissions on the review of the second quarter, to collect and compile data, and to make comparisons between their absorption capacity and the released amounts. Notably, the second quarter ended on 30th June.

In view of the foregoing, the Committee strongly urged the Government to finalise and operationalise the Planning and Budgeting Bill as a matter of urgency, and to ensure that issues relating to the time to consider the review of the budget quarterly reviews were incorporated in the budget cycle.

Executive's Response

The Executive informed the Committee that the delay in finalising and operationalising the Planning and Budgeting Bill was due to an extended consultative process which the Government embarked on in view of the proposed amendments to the Republican Constitution. However, those consultations had since been concluded and the Bill was currently undergoing some final technical reconciliation before resubmission to Cabinet for approval.

Committee's Observation and Recommendation

In noting the submission from the Executive, the Committee strongly urges the Government to expedite the completion of work on the overdue Planning and Budgeting Bill so that it is finalised before 31st December 2019. The Committee, in this regard, resolves to await a progress report on the matter.

ii) Reduction in Grant inflows

In the previous session, the Committee observed that grants from donors were a major component of budget support and noted with concern that there was an underperformance of grant inflows during the second quarter of 2018. This was attributed to non-remittance of funds by the country's cooperating partners.

In that regard, the Committee urged the Government to ensure that it met the requirements set by the country's donors in order to avoid negative impact on the donor funded programmes.

Executive's Response

The Executive in its response informed the Committee that Government (through Ministry of Finance and other Ministries, Provinces and Spending Agencies), Cooperating Partners and Project Implementation Units (PIUs) of donor funded projects convened Portfolio Review meetings where challenges and successes pertaining to project implementation of donor funded projects were shared and addressed. Furthermore, Government had been holding quarterly consultative meetings between Ministries that were performing well in terms of project implementation and those that were not, with the view of providing a platform where experiences and best practices were shared. Those meetings were convened with a view of meeting the requirements set by the donor countries in order to avoid negative impact to the much needed donor fund supported programmes.

In addition, Government was in the process of creating a dedicated Project Implementation Unit at the Ministry of National Development Planning to review and meet the requirements set by the donor countries to enhance implementation of donor funded projects.

Furthermore, Government made progress in the establishment of a comprehensive system for the appraisal of donor funded projects in order to ensure value for money. Business processes and an institutional framework were being elaborated. In 2019, a multi-sectoral Public Investment Board would be established to scrutinise investment proposals prior to consideration for donor funding.

In light of the above, all major projects that were to be considered for donor funding would be required to undergo comprehensive appraisal through the system so as to ensure value for money, and to enable Government to meet the requirements that would be set by the donor countries .

Committee's Observations and Recommendations

In noting the submission from the Executive, the Committee resolves to await a progress report on the establishment of a Multi-sectoral Public Investment Board in order to enhance scrutiny of the investment proposals prior to consideration for donor funding.

iii) Debt Status

In the previous Session, the Committee noted the completion of Debt Sustainability Analysis conducted by the Ministry of Finance, and expressed concern at the country's debt status with regard to both domestic and foreign debt. The Committee further noted that the move to increase domestic borrowing was supposed to reduce foreign debt. However, both domestic and foreign debt, continued to grow. The Committee observed that the country had already spent K7.2 billion to service its debt and there was need for further K6.9 billion to meet its debt servicing obligations in 2018. The rising debt had led to increased expenditure on interest payments which exerted significant pressure on the budget and if not addressed, this would crowd out other critical spending such as capital expenditure and spending on social protection programmes.

As a matter of urgency, the Committee urged the Government to reign in the escalating debt by, among other things, speeding up the presentation of the *Loans and Guarantees (Authorisation) Act* for amendment to ensure transparency and accountability in debt contraction. The Committee further urged the Government to strengthen fiscal consolidation through better decision making on how the country's resources were spent.

Executive's Response

In response, the Executive submitted that to ensure transparency and accountability in the debt contraction, the *Loans and Guarantees (Authorization) Act* was being amended and a draft Bill had been prepared and was being considered by Cabinet. Cabinet noted that some of the amendments to the Constitution would affect the provisions of the Bill. Therefore, the directive from Cabinet was that the Bill be enacted after Constitutional amendments had been done. Once those amendments were made, the Bill would be aligned to the Constitution and enacted.

The Executive further submitted that with regard to fiscal consolidation, Government was committed to implementing the austerity measures announced in June, 2018 which were directed by the President. In line with those measures, Government had indefinitely postponed the issuance of sovereign guarantees and the contraction of all pipeline debt. These austerity measures were being implemented to bring down the escalating levels of debt, as well as reduce Government's exposure to contingent liabilities. Government currently spent within its means through the streamlining and prioritisation of expenditures.

Committee's Observations and Recommendations

The Committee notes the submission from the Executive and urges the Government to provide a report on the money saved from the austerity measures, and how that money has been utilised in order for the Committee to appreciate the impact of the austerity measures on the budget

performance and the economy at large. The Committee is seriously concerned over the delay in the finalisation and presentation of amendments to the *Loans and Guarantees (Authorisation) Act, Chapter 366 of the Laws of Zambia* which would, among other things, enhance transparency in debt contraction. The Committee resolves to await a progress report on the matter.

iv) Interest Rates

In the previous Session, the Committee observed that despite the Bank of Zambia's intervention to reduce the policy rate and the statutory reserve ratio, coupled with the prevailing inflation rate, commercial bank interest rates were still high.

In this regard, the Committee urged the Government to find a way of curbing the high interest rates.

Executive's Response

In its response, the Executive submitted that Government had engaged the commercial banks to reduce the high interest rates. Further, the Executive submitted that its key strategy was to ensure fiscal consolidation and settlement of arrears to Government contractors in order to reduce non-performing loans.

Committee's Observations and Recommendations

The Committee reiterates its earlier recommendation to the Government to find a way of curbing the high interest rates. The Committee resolves to await a progress report on the matter.

v) Electronic Fiscal Devices

The Committee observed with concern that the Electronic Fiscal Devices (EFD) for all taxpayers registered for VAT to ensure that suppliers made correct declarations had not been adequately implemented.

The Committee, therefore, recommended that, as a matter of urgency, the Government should expedite the implementation of Electronic Fiscal Devices for all taxpayers in order to ensure that suppliers made correct declarations.

Executive's Response

In its response, the Executive submitted that Government had made significant progress in the implementation of Electronic Fiscal Devices as follows:

i) The Invoice Management system through the use of electronic fiscal devices was still on pilot in three towns namely Lusaka, Ndola and Kitwe; and

ii) The number of EFD devices distributed stood at 1888 with over 60 per cent of the devices having been once online.

Vendors such as Shoprite had been connected to a server connection and all its transactions had been captured by ZRA.

Committee's Observations and Recommendations

The Committee reiterates its recommendation to expedite the implementation of electronic fiscal devices for all taxpayers in an effort to ensure that correct declarations are made by suppliers. The Committee resolves to await a progress report on the matter.

vi) Inadequate Funding

In the previous Session the Committee observed that the second quarter funding was inadequate to cater for a number of activities such as infrastructure development and dismantling of areas, among others.

In light of the above, the Committee recommended that the Government should adequately fund the Ministries and Provincial Administrative Offices in order for them to attain their quarterly targets.

Executive's Response

In response, the Executive informed the Committee that the Ministry of Finance was creating stronger synergies with revenue collecting agencies to enhance domestic resources, thereby ensuring that resources were released in a timely and predictable manner.

Committee's Observations and Recommendations

The Committee notes the submission from the Executive and strongly urges the Government to ensure that creation of stronger synergies is completed in order to ensure that resources are released on time. The Committee will await for a progress report on the matter.

vii) Customs Valuation Database

In the previous Session, the Committee noted with displeasure that there was an absence of a customs valuation database to help curb under-declaration of the value for duty purposes on selected imports.

In light of the above, the Committee recommended that a customs valuation database be established.

Executive's Response

In its response, the Executive informed the Committee that there was a high risk of revenue loss due to undervaluation. The Customs valuation database was meant to enhance efficiency in valuation of imported goods. The project roll out had been done on selected products and values for more products to add to the data base was being developed.

Committee's Observations and Recommendations

In noting the response, the Committee resolves to await a progress report on the finalisation of the customs data base.

viii) Systematic Interface with Other Institutions

In the previous Session, the Committee observed that there was lack of a systematic interface amongst institutions such as the Patents and Companies Registration Agency (PACRA), National Pension Scheme Authority (NAPSA) and Road Transport and Safety Agency (RTSA) so as to adequately manage the use of third-party data in taxpayer compliance management.

In this regard, the Committee urged the Government to devise mechanisms that would strengthen the implementation of systematic interface among institutions such as PACRA, NAPSA, and RTSA to enhance third-party data in taxpayer compliance management.

Executive's Response

In response, the Executive submitted that the intention of Government with regard to integration was to have all information systems for public service institutions integrated and interfaced to the National Public Service Integrated Electronic Platform, being developed by SMART Zambia Institute. This National Public Service Integrated Electronic Platform would comprise the interfacing of the Zambia Electronic Single Window, Electronic National Identity, e-Pamodzi Transaction Portal, Payment and Revenue Gateway, Integrated Financial Management Information System (IFMIS), One Stop Shop Information System (OSSIS) and other Public Service Information Systems.

The Committee was further informed that, as at 31st December, 2018, the OSSIS integrated and interfaced via web serviced the following institutions:

a) Patents and company Registration Agency-e-PACRA information System;
b) Zambia Revenue Authority (ZRA)-Tax online System and Asycuda World Information Systems;
c) National Pensions Scheme Authority-my NAPSA Information System;
d) Workers compensation Fund Board-WCFB information Systems;
e) Financial Intelligence Centre-FIC Information Systems;
f) Zambia Public Procurement Authority –eGP information systems; and
g) Zambia Immigration Department-consolidated immigration system and eVisa

In addition, the Zambia Integrated Land Management Information System (ZILMIS) under Ministry of lands and the Electronic Zambia Transport Information System (eZAMTIS) under the Road Transport and safety Agency (RTSA) was planned to be connected to the OSSIS by 31st March, 2019.

Committee's Observations and Recommendations

In noting the submission from the Executive, the Committee resolves to await a progress report on the public inter-institutional systematic interface.

ix) Mineral Value Chain Monitoring

The Committee noted that the Government had for a long time under-collected taxes from the mining sector.

In that regard, the Committee urged the Government to put in place measures that would strengthen the implementation of the mineral value chain monitoring project, which would monitor the mineral value chain from exploration to exportation in order to enhance revenue collection from the mining sector.

Executive's Response

In its response, the Executive submitted that twelve large mines had continued to report their production data using the Output Statistical Evaluation System (MOSES), a mineral production reporting tool which enabled mining players to make online submissions of the mandatory monthly mineral production reports to the Ministry of Mines and Minerals Development, and to

other government agencies. The Committee was also informed that the Mineral Export Permit Module, targeting copper, cobalt and precious metals exports, which was rolled out in March, 2018, had performed to expectation.
Furthermore, the Interface of Laboratory Information System and Laboratory equipment had been done and rolled out.

All the above interventions were aimed at ensuring that Government was able to confidently verify mine production in terms of value, content, and quantity of minerals produced at each mine and in the sector in general.

Committee's Observations and Recommendations

The Committee notes the detailed submission and resolves to close the matter.

x) Gross International Reserves

The Committee noted with concern the continued decline in Zambia's Gross International Reserves from US$2.4 billion by the end of second quarter of 2017 to US$1.8 billion which was largely triggered by the need to finance the country's widening current account deficit.

In this regard, the Committee urged the Government to put in place measures that would raise the country's reserves to a minimum of three months import cover from 2.1 months import cover as at end of March, 2018.

Executive's Response

In its response, the Executive submitted that Government's macroeconomic objectives for 2018 were to achieve the international reserves target of 3.0 months import cover. Therefore, Government was working on various strategies to attain this objective such as exploring the possibility of using gold in the medium to long term as part of the reserves. Given the supportive external sector environment, including favourable commodity prices, the target was feasible.

Committee's Observations and Recommendations

The Committee notes with concern that the target of attaining 3 months of import cover might not be achieved in the face of excessive payments towards interest which was higher than spending on personal emoluments in the first quarter of 2019 at K5.1 billion against K4.8 billion spent on personal emoluments in the same period. The Committee in this regard urges the Government to clearly state its short and long term plans to improve the reserve position and ensure that there is total adherence and commitment from all government departs to achieve the set targets. The Committee will await a progress report.

CONCLUSION

The Committee notes that the budget performance for the second quarter of 2019 was generally better than the first quarter. Further, most macroeconomic objectives for the 2019 budget underperformed except for the revenue targets which were at 11 per cent of GDP by midyear against a target of 18.7 per cent of GDP, representing 59 per cent of the revenue targets.

It is the view of the Committee that further improvements in economic performance could be achieved by aligning the actions and activities in all line ministries, provinces and spending agencies with various policy documents such as the Seventh National Development Plan and

Medium Term Expenditure Framework coupled with strict fiscal discipline. It is also the Committee's strong recommendation that the Planning and Budgeting Bill be presented to Parliament before the end of 2019 so as to enhance transparency and accountability in budget execution.

Lastly, the Committee wishes to pay tribute to all the stakeholders who appeared before it and tendered both oral and written submissions. The Committee is also thankful to you, Mr Speaker, for the guidance rendered to it throughout the Session. The Committee also appreciates the services rendered to it by the Office of the Clerk of the National Assembly.

The Committee is hopeful that the observations and recommendations contained in this Report will receive necessary attention and action for the benefit of this country.

M Simfukwe, MP — July, 2019
Chairperson — **Lusaka**

APPENDIX I

List of Witnesses

Ministry of Finance
Ministry of Higher Education
Ministry of Local Government
Ministry of Health
Ministry of Agriculture
Ministry of Water Development, Sanitation and Environmental Protection
Bank of Zambia
Zambia Revenue Authority
Office of the President, Provincial Administration - Western Province
Office of the President, Provincial Administration - Southern Province
Zambia Institute for Policy Analysis and Research (ZIPAR)
Zambia National Education Coalition (ZANEC)

APPENDIX II

List of National Assembly Officials

Ms C Musonda, Principal Clerk of Committees
Mr F Kateshi, Principal Clerk - Parliamentary Budget Office
Mr H Mulenga, Deputy Principal Clerk of Committees (FC)
Mr S Mtambo, Deputy Principal Clerk – Parliamentary Budget Office
Mrs C K Mumba, Senior Committee Clerk (FC)
Mr D Kunda, Committee Clerk
Mr F Chikambwe, Budget Analyst
Ms L Chilala, Typist
Mr M Kantumoya, Parliamentary Messenger
Mrs P Nambeya, Intern