



REPUBLIC OF ZAMBIA

REPORT

OF THE

BUDGET COMMITTEE

**ON THE REVIEW OF THE FIRST QUARTER PERFORMANCE OF THE 2018
BUDGET FOR SELECTED MINISTRIES AND PROVINCES**

FOR THE

**SECOND SESSION OF THE TWELFTH NATIONAL ASSEMBLY
APPOINTED ON WEDNESDAY 20TH OCTOBER, 2017**

Printed by the National Assembly of Zambia

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REPORT OF THE BUDGET COMMITTEE ON THE REVIEW OF THE FIRST QUARTER PERFORMANCE OF THE 2018 BUDGET FOR SELECTED MINISTRIES AND PROVINCES FOR THE SECOND SESSION OF THE TWELFTH NATIONAL ASSEMBLY APPOINTED ON WEDNESDAY 20TH OCTOBER, 2017

Consisting of:

Mr M Simfukwe, MP (Chairperson); Ms M 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 Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

Your Committee has the honour to present its report on the review of the first quarter performance of the 2018 budget for selected ministries and provinces for the Second Session of the Twelfth National Assembly.

2.0 FUNCTIONS OF THE COMMITTEE

The functions of your 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

Your Committee held six meetings to review the performance of the national budget in the first quarter of the 2018 with respect to selected ministries.

4.0 PROCEDURE ADOPTED BY THE COMMITTEE

Your Committee considered budgets for the Ministries of Transport and Communications; Tourism and Arts; and Higher Education and also reviewed budgetary performance in the first quarter of selected provinces namely Central; Copperbelt; Eastern; and Muchinga. Your Committee also reviewed the performance of revenue for the period under review for these selected ministries and provinces. Your Committee requested detailed written memoranda from the ministries and provinces under review and also from other stakeholders and thereafter invited them to provide oral submissions and clarifications on issues arising from their memoranda.

5.0 ARRANGEMENT OF THE REPORT

Your Committee's Report is organised in six parts: Part I gives an overview of the general performance of the economy in the first quarter of 2018; Part II assesses the performance of revenues and expenditure in the first quarter of 2018; Part III presents the findings of your Committee on the quarterly review of the performance of the budget for the first quarter of 2018 for selected ministries and provinces; Part IV reviews the relationship between the national budget and national development plans; Part V presents other information that was submitted to your Committee by stakeholders; and Part VI gives your Committee's observations and recommendations.

PART I

6.0 GENERAL PERFORMANCE OF THE ECONOMY IN THE FIRST QUARTER OF 2018

6.1 General Performance of Expenditure and Revenue

Your Committee conducted a review of the performance in the first quarter of the 2018 national budget. The review provided an opportunity for your Committee to study, inquire into and report on matters related to coordination, control and monitoring of the national budget as per its mandate. It also gave an opportunity to your Committee to gain insights into some of the challenges facing ministries and provinces in the execution of the budget.

At the outset, your Committee noted that the Treasury set out to attain the following objectives in 2018:

- i) achieve real Gross Domestic Product (GDP) growth of at least 5.0 per cent ;
- ii) maintain single digit inflation in the range 6.0 to 8.0 per cent;
- iii) maintain international reserves of at least three months of import cover;
- iv) maintain domestic revenue mobilisation of at least 17.7 per cent of GDP;
- v) limit the fiscal deficit, on a cash basis, to 6.1 per cent of GDP;
- vi) limit domestic financing to no more than 4.0 per cent of GDP;
- vii) accelerate implementation of measures towards diversification of the economy;
- viii) reduce the stock of arrears and curtail the accumulation of new arrears; and
- ix) slow down the contraction of new debt.

Your Committee was informed that in the first quarter of 2018, budget execution was largely consistent with planned spending. The total approved budget for 2018 was K71.6 billion. To

cover this budget, revenues and grants would amount to K51.5 billion while the remaining K20.1 billion was earmarked to be borrowed from both external and domestic sources.

An execution rate of 23 per cent was achieved for both revenue mobilisation and expenditure against a target of 24.0 per cent during the first quarter of 2018. First quarter revenues and grants were on target at 23.0 per cent of the 2018 approved figure. Tax revenues were 9.0 per cent higher than planned because of higher than expected collections in Value Added Tax (VAT). This was largely on account of increased compliance in VAT owing to measures to withhold the tax at source by appointed agents.

Expenditure (excluding amortisation) stood at K15.5 billion which was lower than the target of K16.4 billion. The failure to attain the forecast expenditure was mainly due to reduced capital spending and personal emoluments. Capital spending was 29.0 per cent lower than projected while personal emoluments were also lower than projected. The wage bill reduced from 54.0 per cent of domestic revenues in the first quarter of 2017 to 46.0 per cent of domestic revenues in the first quarter of 2018. The restricting of recruitments to frontline staff, mostly teachers and nurses, coupled with a payroll clean-up exercise, resulted in keeping the wage bill in check.

Table 1: Approved Budget v Releases (K' million) for First Quarter

2017 Q1			2018 Q1		
Approved Budget	Releases	%	Approved Budget	Releases	%
64,500	13,500	21.1	71,600	15,500	21.6

On the revenue side, your Committee learnt that the under collection of tax revenue in most revenue sources continued in the first quarter of 2018. This was particularly the case for personal income tax, non-mining company income tax, as well as customs and excise duties. The overall improvement in tax collection was supported mainly by the VAT. Non-tax revenue underperformed by 18.0 per cent and this poor performance was mainly because of low collections in user fees, fines and charges coupled with delayed implementation of some measures to enhance collection efficiency. The delayed measures include the implementation of the digital land titling programme that was announced in the 2017 budget but had not yet commenced. In addition, the country received lower than targeted foreign grants.

6.2 Economic Outlook for 2018

Your Committee was informed that a comprehensive analysis of economic activity in the first quarter of 2018 was constrained by limited data. However, an assessment of developments in some key sectors indicated a positive outlook as illustrated below.

- i) The growth target for 2018 was to achieve real GDP of 5.0 per cent. While this target remained tenable during the first quarter, it may not continue on the same growth trajectory because of a lower crop forecast for the 2017/18 farming season, high cost of credit, widening fiscal deficit; and the structural challenges in the financial sector associated with high non-performing loans.
- ii) Copper output increased by 16.0 per cent at 200,339 metric tonnes in the first quarter of 2018 compared to 172,676 metric tonnes during the same period in 2017. The increase was on account of the high prices which averaged US\$6,961 per metric tonne compared to US\$6,811 per metric tonnes during the last quarter of 2017.

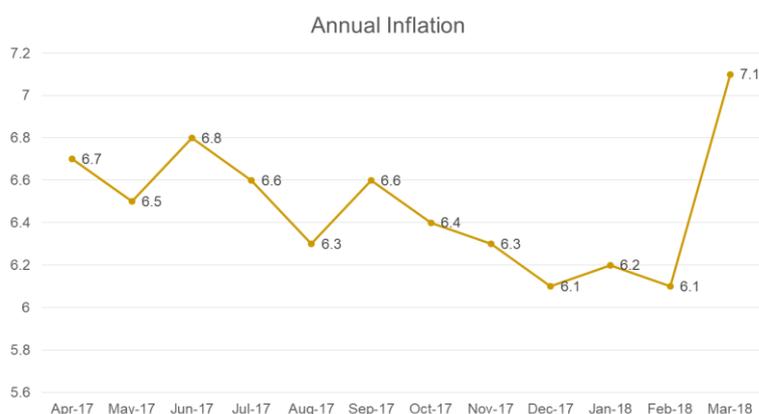
iii) Cement production was higher by 25.6 per cent at 523, 041 metric tonnes compared to 416, 380 metric tonnes during the same period in 2017.

iv) Electricity generation in the first quarter of 2018 was 11 percent higher at 3.615 million megawatt hours compared to 3.245 million megawatt hours during the same period in 2017. Electricity consumption was also higher.

6.3 Inflation Outturn and Projections

Your Committee was informed that inflation in the first quarter of 2018 averaged 6.5 per cent compared to an average of 6.3 per cent recorded in the fourth quarter of 2017. This was largely on account of the increase in fuel prices which drive transport fares and feed into food prices. For the remainder of 2018, the Ministry of Finance projected the inflation rate to remain within the medium term range of 6 – 8 percent. This was premised mainly on the relative stability of the Kwacha, which was underpinned by high copper prices. In addition, steady supply of food items arising from adequate carry-over and production from the 2017/18 farming season would help ease inflation pressures.

Figure 1: Inflation Rates



6.4 Exchange Rate

Your Committee was informed that the exchange rate of the Kwacha against major tradable currencies was relatively stable in the first quarter of 2018. The Kwacha appreciated marginally by 1.9 per cent against the United States Dollar averaging K9.75 per Dollar from K9.94 per Dollar recorded in the last quarter of 2017. The Kwacha, however, depreciated against the Pound, Euro and the South African Rand averaging K13.58 per Pound, K11.99 per Euro and K0.81 per South African Rand from K13.19 per Pound, K11.71 per Euro and K0.73 per South African Rand, respectively.

6.5 Lending Rates

Your Committee was informed that during the first quarter of 2018, the Bank of Zambia reduced the policy rate by 50 basis points to 9.75 per cent from 10.25 per cent in the fourth

quarter of 2017. The statutory reserve ratio was also reduced by 300 basis points to 5.0 per cent from 8.0 per cent in the fourth quarter of 2017. The combined effects of these measures saw a slight decrease in the average lending rates, closing the quarter at 24.3 per cent from 25.2 per cent as at close of the fourth quarter of 2017.

6.6 Trade Performance

Your Committee was informed that during the first quarter of 2018, exports of goods and services increased by 5.6 per cent to K25, 313 million in the first quarter of 2018 from K23, 966 million in the fourth quarter of 2017. Imports of goods and services also increased by 2.8 per cent to K24,638 million from K23,960 million recorded in the fourth quarter of 2017. This translated into a trade surplus of K675 million recorded in the quarter from a surplus of K6 million recorded in the previous quarter.

PART II

7.0 REVIEW OF THE REVENUE AND EXPENDITURE PERFORMANCE

7.1 Review of Revenue Performance

7.1.1 First Quarter 2018 Compared to First Quarter 2017 Revenue Performance

Your Committee was informed that during the first quarter of 2018, the net revenue collection by the Zambia Revenue Authority (ZRA) amounted to K11, 164.5 million which was K2, 790.8 or 33.3 per cent higher than the K8, 373.7 million collected in the corresponding period in 2017. Your Committee was further informed that the stronger revenue collection was mainly on account of improved collections in the domestic VAT. This was as a result of the implementation of the withholding VAT mechanism complemented by the implementation of other revenue mobilisation strategies by ZRA.

Though tax revenues as a whole fared quite well and surpassed the anticipated amounts for the quarter by 8.6 per cent, there was mixed performance from individual revenue sources. Most of the taxes were below target except for VAT and mining company income tax (CIT). This differs from previous years where income tax had been the major contributor to tax. These two tax categories together contributed 84 percent of taxes while revenues from international trade were at 14 per cent in the first quarter of 2018.

Although the contribution from CIT was expected at 19.0 per cent of revenues in the first quarter of 2018, the outturn was only 15.0 percent. Despite mining CIT being less than a tenth of revenue, it was the only other tax, aside from VAT, that was above target by 11.0 per cent. However, the target for mining CIT was very low for the quarter. The performance of most tax types was stronger in the first quarter of 2018 as compared to the first quarter of 2017. In particular Pay-As-You-Earn (PAYE), withholding tax, mineral royalty, domestic VAT, excise duty, import VAT and customs duty were higher as illustrated in Table 2.

Table 2: First Quarter 2018 v First Quarter 2017 Revenue Collections (K' million)

	Jan-Mar 2018Net Outturn	Jan-Mar 2017Net Outturn	Variance	Percentage Change
Total revenue	11,164.5	8,373.7	2,790.8	33.3%
1.Tax revenue	11,097.5	8,319.6	2,777.9	33.4%
A. Income taxes	5,196.0	4,564.0	632.0	13.8%
1. Company tax	709.7	793.0	(83.3)	-10.5%
2. PAYE	2,648.4	2,203.1	445.2	20.2%
3. Withholding taxes	953.7	796.6	157.1	19.7%
4. Mineral royalty tax	884.2	771.3	112.9	14.6%
Insurance Prem. Levy	46.8	23.5	23.3	100%
B. Excise taxes	785.7	718.3	67.4	9.4%
1. Excise Duties	544.2	489.7	54.4	11.1%
2. REF	22.8	42.5	(19.8)	-46.5%
C. VAT on domestic goods	1,960.1	470.0	1,490.0	317.0%
D. Trade taxes	3,108.9	2,543.7	565.2	22.2%
1. VAT on imports	2,351.6	1,838.6	512.9	27.9%
2. Customs duty	755.7	701.2	54.5	7.8%
3. Export duties	1.6	3.9	(2.3)	-59.0%
2.Non Tax revenue				
Skills Dev Levy	42.3	37.8	4.5	100.0%
Motor Vehicle Fees	21.8	16.3	5.5	33.9%

Source: Zambia Revenue Authority (ZRA)

7.1.2 First Quarter 2018 Compared to First Quarter 2017 Revenue Performance against Target

Your Committee was informed that during the first quarter of 2018, the net tax collected stood at K11, 165.5 million against a target of K10, 370 million. This represented a surplus of K794.5 million or 7.7 per cent above target. This is compared to a deficit of K451.8 million or 5.1 per cent below target that was recorded in the first quarter of 2017.

Table 3: First Quarter 2018 Collections against Parliament Target v First Quarter 2017 (K' million)

	Q1 2018 Net Outturn	Q1 2018 Target	Variance	Q1 2017 Net Outturn	Q1 2017 Target	Variance
Total Revenue	11,164.5	10,370.0	794.5	8,373.7	8,825.5	(451.8)
1. Tax revenue	11,097.5	10,304.9	792.5	8,319.6	8,687.4	(367.8)
A. Income taxes	5,196.0	5,709.5	(513.5)	4,564.0	4,724.4	(160.3)
1. Company tax	709.7	1,144.3	(434.6)	793.0	958.0	(165.0)
Non-mining	426.1	824.8	(398.7)	618.0	856.7	(238.7)
Mining	283.7	319.5	(35.9)	175.1	101.3	73.8
2. PAYE	2,648.4	2,657.6	(9.2)	2,203.1	2,576.9	(373.8)
3. Withholding taxes	953.7	1006.2	(52.4)	796.6	709.6	87.0
4. Mineral royalty	884.2	901.4	(17.2)	771.3	467.1	304.2
Insurance Premium Levy	46.8	22.2	24.5	23.5	12.8	10.7
B. Excise duty	785.7	1,063.9	(278.2)	718.3	1,041.3	(323.0)
Import Excise	146.2	216.4	(70.3)	127.4	324.9	(197.5)
Local Excise	398.0	615.5	(217.6)	362.3	438.5	(76.2)
Local Excise - Cement	10.1	-	10.1	-	-	-
REF	22.8	72.3	(49.6)	42.5	39.3	3.3
Import Fuel levy	102.6	97.8	4.7	120.4	109.0	11.3
Local Fuel Levy	97.7	47.7	50.0	58.6	119.0	(60.3)
Carbon Tax	8.4	14.0	(5.6)	7.1	10.7	(3.6)
C. Domestic VAT	1,960.1	852.6	1,107.5	470.0	188.3	281.8
D. Trade Taxes	3,108.9	2,656.7	452.2	2,543.7	2,733.5	(189.8)
1. Import VAT	2,351.6	1,854.9	496.7	1,838.6	1,962.7	(124.1)
2. Customs duty	755.7	788.8	(33.1)	701.2	756.6	(55.5)
3. Export duty	1.6	12.9	(11.3)	3.9	14.2	(10.2)
o/w Maize	-	-	-	0.0	-	0.0
Timber	-	8.9	(8.9)	1.6	-	1.6
Copper concentrates	1.6	4.1	(2.5)	2.3	14.2	(11.9)
2. Non Tax Revenue						
1. Skills Dev Levy	42.3	46.8	(4.5)	37.8	42.4	(4.6)
2. Tourism Levy/Border Fee	2.9	2.8	0.1	-	73.9	(73.9)
3. Motor Vehicle Fees	21.8	15.4	6.4	16.3	21.8	(5.5)

Source: Zambia Revenue Authority (ZRA)

7.2 Review of Expenditure Performance

Your Committee was informed that total releases in the first quarter of 2018 amounted to K15.5 billion (excluding amortisation), representing 21.6 per cent of the approved budget of K71.6 billion. In comparison to 2017, the expenditure remained relatively constant for the first quarter. In terms of expenditure by category during the quarter, the largest component of the releases went to personal emoluments, debt payments and grants, which together accounted for 79.0 per cent of the releases. This is an increase of 12 percentage points from the 2017 level of 67.0 per cent, considering that total expenditures for the two quarters were comparatively constant. In particular, debt payments increased from 19 per cent of total releases in 2017 to 32 per cent in 2018.

Table 4: First Quarter expenditure of the 2018 Budget (K'million)

	Approved Budget 2018	% of Total Budget	Expenditure in Q1 2018	Expenditure % of Total budget
Expenditure (incl. amortisation)	71,662	100%	16,377	23%
Expenditure	68,445	96%	15,490	23%
EXPENSES	52,452	73%	12,991	25%
Personal Emoluments	23,104	32%	5,235	23%
Use of Goods and Services	7,340	10%	1,163	16%
Interest Payments	10,923	15%	4,079	37%
Domestic debt	6,764	9%	2,282	34%
External debt	4,159	6%	1,798	43%
Grants and Other Payments	8,073	11%	2,093	26%
Social Benefits	1,782	2%	292	16%
Social Cash Transfers	721	1%	92	13%
Other Expenses	1,230	2%	129	11%
ASSETS	14,663	20%	2,470	17%
Non-Financial Assets	14,201	20%	2,410	17%
o/w: Roads	3,517	5%	885	25%
Financial Assets	462	1%	60	13%
LIABILITIES	1,330	2%	30	2%
FISCAL BALANCE: Surplus(+)/Deficit (-)	-16,919		-3,486	21%
Primary Balance	-5,996		-593	10%

7.2.1 First Quarter Expenditure by Category

Your Committee was informed that in terms of expenditure by category, the largest component of the releases during the quarter went to personal emoluments, debt payments and grants, which together accounted for 79.0 per cent of the releases. This was an increase of 12 percentage points from the 2017 level of 67 per cent, considering that total expenditures for the two quarters were comparatively constant. In particular, debt repayments increased from 19.0 per cent of total releases in 2017 to 32.0 per cent in 2018.

Consequently, releases to all other categories of expenditure, apart from personal emoluments, were lower in the first quarter of 2018 compared to the same period in 2017. The increase of 2 percentage points in releases to personal emoluments was on account of the wage increment awarded to public service workers which took effect in January, 2018. Growth in the public sector wage bill was within the projected annual inflation rate. Personal emoluments rose by 5.9 per cent which was below the first quarter average inflation of 6.5 per cent. This was consistent with the growth in personal emoluments in 2017. As a share of domestic revenues, the wage bill reduced from 54 per cent in the first quarter of 2017 to 46 per cent in the first quarter of 2018. The Treasury, however, continued to lag behind on third party payments as was the case with grants to various institutions.

A point of concern that was noted by your Committee was the rise in interest payments on external debt which was inconsistent with the 2017-2019 Medium Term Debt Strategy which

sought to slow down external debt accumulation. Interest payments on debt were higher than spending on infrastructure. Against a projected spending of K3 billion on interest payments, the Government spent K4.1 billion which was K1 billion above the budgeted amount. This spending was over one and half times higher than the entire capital spending in the first quarter. Compared to the first quarter of 2017, interest payment in the first quarter of 2018 was 71.0 per cent higher. However, interest payment on external debt alone were 80.0 per cent higher, thereby raising the exchange rate risks. The Government had reduced spending on goods and services by 13.0 per cent in the first quarter of 2018 compared to the first quarter of 2017 and this was likely to lead to an increase in the accumulation of arrears.

Table 5: Expenditure Comparisons for First Quarters 2017 and 2018 (K' million)

	Q1 2017	Q1 2018	Difference	Change %
Expenditure (incl. amortisation)	15,689	16,377	689	4%
Expenditure	15,092	15,490	398	3%
EXPENSES	11,906	12,991	1,086	9%
Personal Emoluments	4,944	5,235	291	6%
Use of Goods and Services	1,332	1,163	-169	-13%
Interest Payments	2,382	4,079	1,697	71%
Domestic debt	1,385	2,282	896	65%
External debt	997	1,798	801	80%
Grants and Other Payments	2,482	2,093	- 389	-16%
Social Benefits	385	292	- 93	-24%
Social Cash Transfers	144	92	- 52	-36%
Other Expenses	150	129	- 21	-14%
ASSETS	3,025	2,470	- 555	-18%
Non-Financial Assets	3,006	2,410	- 596	-20%
o/w: Roads	622	885	264	42%
Financial Assets	19	60	41	216%
LIABILITIES	393	30	-363	-92%
FISCAL BALANCE: Surplus(+)/Deficit(-)	- 5,822	-3,486	2,335	-40%
Primary Balance	-3,439	- 593	- 4,032	117%

Your Committee was informed that other notable areas of expenditure during the first quarter included K109 million to mitigate the outbreak of cholera, K112 million for the Lusaka Water Sanitation Project contingency fund and K80 million for drugs and medical supplies.

Your Committee was further informed that in order to facilitate the payment by the Government to the Farmer Input Support Programme (FISP) through the e-voucher system, a total of K497 million was released during the quarter. As part of the Government's focus on social protection interventions, the Public Service Pension Fund received a total of K199 million while the Social Cash Transfer Programme received K92 million. Releases

amounting to K125 million were also made for the liquidation of arrears under the Compensations and Awards.

In terms of assets, releases mainly related to foreign financed projects, which recorded disbursements of K896.9 million. Domestically financed expenditure was largely limited to road infrastructure and the Rural Electrification Programme which received K382 million and K41 million, respectively. A total of K60 million was also released during the quarter towards capital shares in the World Bank.

PART III

8.0 QUARTERLY REVIEW OF THE PERFORMANCE OF THE 2018 BUDGET FOR THE SELECTED MINISTRIES AND PROVINCES

Your Committee reviewed the performance of the budgets for the Ministries of Transport and Communication; Tourism and Arts; and Higher Education. It also reviewed the budgets of Central, Copperbelt, Eastern and Muchinga Provinces. Your Committee's findings are presented in three categories:

- i) consolidated performance of selected ministries;
- ii) performance of individual selected ministries; and
- iii) performance of selected provinces.

8.1 Consolidated Performance of Selected Ministries

Below are the findings of your Committee on the consolidated performance of the selected ministries.

8.1.1 Approved Budget and Expenditure Performance for 2018

Your Committee noted that the approved 2018 budget provision for the ministries and provinces under review amounted to approximately K3.2 billion. The Table below shows the breakdown of the allocations to these institutions.

Table 6: Total Budget Provision for Institutions under Review

Institution	2018 Approved Budget (K)
Ministry of Transport & Communication	346,679,800.00
Ministry of Higher Education	1,974,006,709.00
Ministry of Tourism & Arts	303,669,870.00
Central Province	153,969,910.00
Copperbelt Province	160,588,120.00
Eastern Province	144,537,420.00
Muchinga Province	132,872,370.00
Total	3,216,324,199.00

8.1.2 Comparison of Releases – First Quarter 2018 and First Quarter 2017

Your Committee noted that during the first quarter of 2018, the total releases amounted to K517.3 million which translated into 16.0 per cent of total budget of K3.2 billion while that

for the first quarter of 2017 amounted to K464 million, translating to 20.0 percent of the total budget of K2.4 billion. This drop in expenditures was attributed to the Ministry of Tourism and Arts; and provincial administrations for Central, Copperbelt, Eastern and Muchinga Provinces which all recorded a drop in their expenditures.

Table 7: Expenditure Performance Q1 of 2017 and 2018

	2017 Approved Budget (K)	2017 First quarter out turn (K)	Percentage of Budget	2018 Approved Budget (K)	2018 First quarter Out turn (K)	Percentage of Budget
Ministry of Transport & Communication	382,651,210.00	71,831,911.44	19%	346,679,800.00	75,924,451.65	22%
Ministry of Higher Education	1,454,428,102.00	297,376,956.48	20%	1,974,006,709.00	319,631,267.44	16%
Ministry of Tourism & Arts	245,009,212.00	35,588,520.71	15%	303,669,870.00	46,937,392.15	15%
Central Province	75,522,328.00	16,499,360.76	22%	153,969,910.00	18,592,331.66	12%
Copperbelt Province	79,568,405.00	16,945,691.55	21%	160,588,120.00	19,723,471.70	12%
Eastern Province	71,520,895.00	15,366,073.05	21%	144,537,420.00	17,131,391.99	12%
Muchinga Province	58,494,806.00	10,389,402.70	18%	132,872,370.00	19,313,834.61	15%
Total	2,367,194,958.00	463,997,916.69	20%	3,216,324,199.00	517,254,141.20	16%

8.1.3 Actual Expenditure

Your Committee was informed that actual expenditure for the Ministry of Transport and Communications; Ministry of Higher Education; and Muchinga Province was slightly over 90.0 per cent. This meant that most of the funds released to these Expenditure Heads were utilised. However, the pattern was not the same with the remaining ones with the lowest expenditure reported by Central Province at only 56.0 per cent of the funds released.

Table 8: Statement C by Head for the First Quarter of 2018

HEAD	Institution	2018 Approved Estimates (K)	2018 First Quarter Funding	2018 First quarter (Reported) Expenditure	Actual Reported Expenditure as a % of Funding
51	Ministry of Transport & Communication	346,679,800.00	74,543,826.45	69,860,484.34	94%
65	Ministry of Higher Education	1,974,006,709.00	355,855,107.00	316,762,092.00	89%
68	Ministry of Tourism & Arts	303,669,870.00	13,581,318.64	10,576,230.58	78%
88	Muchinga Province	132,872,370.00	11,131,728.00	10,148,389.87	91%
91	Copperbelt Province	160,588,120.00	4,611,269.00	3,165,492.10	69%
92	Central Province	153,969,910.00	4,697,093.00	2,650,025.00	56%
95	Eastern Province	144,537,420.00	4,668,173.00	3,197,113.73	68%

8.1.4 Absorption Capacity of Each Institution in the First Quarter of 2017 Compared with the First Quarter of 2018

Your Committee was informed that absorption capacity for the institutions under review increased from an average of 85.0 per cent in the first quarter of 2017 to 89.0 per cent in the first quarter of 2018 as shown in Table 9 below. This was attributed to an improved resource predictability system that was implemented in 2018.

Table 9: Absorption Capacity

NAME	2017 First Quarter Funding (K)	2017 Actual Expenditure (K)	Absorption Capacity %	2018 First Quarter Funding (K)	2018 Actual Expenditure (K)	Absorption Capacity %
Ministry of Transport & Communication	66,443,243.40	66,443,243.40	100%	74,543,826.45	69,860,484.34	94%
Ministry of Higher Education	348,255,589.00	294,743,585.00	85%	355,855,107.00	316,762,092.00	89%
Ministry of Tourism & Arts	10,302,738.75	6,952,388.72	67%	13,581,318.64	10,576,230.58	78%
Central Province	5,854,465.00	2,571,786.08	44%	4,697,093.00	2,650,025.00	56%
Copper belt Province	6,667,667.00	2,726,827.94	41%	4,611,269.00	3,165,492.10	69%
Eastern Province	4,989,560.00	2,924,800.55	59%	4,668,173.00	3,197,113.73	68%
Muchinga Province	2,000,000.00	2,000,000.00	100%	11,131,728.00	10,148,389.87	91%
	444,513,263.15	378,362,631.69	85%	469,088,515.09	416,359,827.62	89%

8.2 Performance of Specific Ministries and Provinces

The budget performance of specific ministries in the first quarter of the 2018 budget is analysed below.

8.2.1 Ministry of Transport and Communication

i) Approved Budgetary Provision for the Ministry for 2017 and 2018

The Ministry of Transport and Communication had an approved budgetary provision of K297 million in 2017, compared to K346 million in 2018. The Ministry also had a supplementary budget of K85 million in 2017, bringing the total authorised estimates to K382 million as shown in Table 10 below.

Table 10: Approved Budget - Ministry of Transport and Communication

Expenditure Type	2017 (K)	2018 (K)
Personal Emoluments (PEs)	23,132,216	23,133,410
Recurrent Departmental Charges (RDCs)	29,281,956	79,246,080
Grants	245,237,038	244,300,310
Supplementary Budget	85,000,000	Nil
Total Authorised Provision	382,651,210	346,679,800

ii) Proportion of the 2017 and 2018 Budget Releases

Your Committee was informed that the Ministry received a total of K66 million from the Treasury during the first quarter of 2017, representing 17.4 per cent of the total budget provision of K382.7 million while it received a total of K74.7 million in the first quarter of 2018. This represents 21.6 per cent of K346.7 million budgeted for the year.

Table 11: Proportion of First Quarter Budget releases to the Total Budgets – Ministry of Transport and Communication

Year	2017			2018		
	Description	Budget (K)	Releases(K)	%	Budget(K)	Releases(K)
PEs (K)	23,132,216	5,783,054.00	1.51	23,133,410	5,783,352.48	1.67
RDCs	29,281,956	7,626,246.74	1.99	79,246,080	7,017,591.00	2.02
Grants	245,237,038	53,033,942.66	13.86	244,300,310	61,742,882.02	17.81
Total	382,651,210	66,443,243.40	17.36	346,679,800	74,543,826.45	21.50

i) Comparison of Releases and Absorption Capacity for First Quarter of 2017 and 2018

Your Committee was informed that the Ministry had a 100 per cent absorption rate in the first quarter of 2018, compared to 93.71 per cent during the same period in 2017.

Table 12: Absorption Capacity for First Quarter – Ministry of Transport and Communication

Period	Budget Provision(K)	Total Releases (1 st Quarter) (K)	Total Expenditure (1 st Quarter) (K)	% Expenditure Against Releases
2017	382,651,210.00	K66,443,243.40	K66,443,243.40	100.00%
2018	346,679,800.00	K74,543,826.45	K69,860,484.34	93.71%

8.2.2 Ministry of Tourism and Arts

i) Approved Budget for the 2017 and 2018

Table 13 below shows the budget for the Ministry of Tourism and Arts for 2017 and 2018.

Table 13: Approved Budget Estimates for the year 2018- Ministry of Tourism and Arts

Department	2017(K)	2018(K)
Human Resource and Administration	66,378,209	70,896,816
Planning and Information Department	8,404,346	6,542,890
Department of Tourism	24,956,810	39,758,439
Department of Arts and Culture	4,932,739	11,432,739
Department of National Parks and Wildlife -Headquarters	122,675,377	153,579,873
Department of National Parks - Regions	17,661,731	16,129,130
Finance Department	-	5,329,920
	245,009,212	303,669,807

ii) Proportion of the 2018 Budget Released During the First Quarter Compared To First Quarter 2017

Your Committee was informed that during the first quarter 2018, the Ministry received a sum of K53 million for non personal emoluments out of the planned K60 million, translating to 89.2 per cent. During the same period in 2017, the Ministry received K36 million for non personal emoluments compared to the planned amount of K37 million translating to 92 per cent of planned expenditure.

iii) Comparison of the Ministry's Absorption Capacity during the First Quarter 2017 and 2018

Your Committee was informed that of the K53 million received for non-personal emoluments, the Ministry spent a total of K42 million, translating to 79.5 per cent. On the other hand, during the same period, the Ministry received a sum of K36 million for non-personal emoluments and spent a total of K42 million.

iv) Actual Expenditure for the First Quarter of 2018

Statement C below depicts the actual expenditure for the first quarter.

Table 14: Statement C by Head for the First Quarter of 2018 – Ministry of Tourism and Arts

	Head	Total Authorised Provision 2017	Actual Expenditure 2017	Estimates 2018	Actual Expenditure 2017	Variance
	Overall Result	61,252,303.00	42,785,099.13	75,917,461.50	42,548,121.72	45,466,234.03
68	Ministry of Tourism and Arts	61,252,303.00	42,785,099.13	75,917,461.50	42,548,121.72	45,466,234.03
6801	Human Resource and Administration	17,113,780.67	16,756,178.68	17,724,202.50	18,939,207.61	-1,215,005.11
6802	Planning and Information and Department	2,101,085.35	6,065,634.56	1,635,717.50	775,318.97	860,398.53
6803	Tourism Development Department	6,239,202.50	4,261,119.29	9,939,606.50	9,618,154.92	321,454.58
6804	Arts and Culture	1,233,184.75	1,212,120.18	2,858,186.75	1,610,014.28	1,248,172.47
6805	National Parks and Wildlife Area Management	34,342,274.57	10,224,231.00	38,394,969.50	7,679,331.94	30,715,637.56
6806	National Parks and Wildlife Regions	4,415,433.50	4,265,815.41	16,129,190.00	3,926,094.00	12,203,096.00
6807	Finance Department			1,332,480.00		1,332,480.00

v) Implementation Timelines of Programmes and Projects

Your Committee was informed that despite a funding release of 89.2 per cent, implementation of certain programmes was negatively affected due to delayed funding. Below is a highlight of some of the programmes and projects that were carried out during the first quarter of 2018.

a) Development of the Zambia Tourism Master Plan

The Ministry finalised the development of the 2018-2038 Zambia Tourism Master Plan, at a cost of K25,000. The development process was co-funded by the Government of the Republic of Zambia and the European Union (EU). The European Union contributed a sum of EURO 300, 000 towards the procurement of consultancy services.

b) Implementation of the Tourism Development Fund

In line with the *Tourism and Hospitality Act, No 13 of 2015*, the Ministry continued with the implementation of the tourism levy. During the first quarter, a sum of K3 million was raised

c) Tourism Destination Marketing

Zambia successfully participated in the International Tourism Fair in Berlin, Germany, at a cost of K2 million. Further, the country was marketed at two tourism conventions; one in the United States of America at a cost of K182,463 and the other in the Netherlands at a cost K167,598.

d) Tourism Standard and Regulation

In line with the *Tourism and Hospitality Act, No. 13 of 2015*, the Ministry, through the Zambia Tourism Agency, continued to enforce the law to ensure that operators were licensed. During the period under review, K283,159 was collected through licensing from operators who were registering for the first time and K414.552 from operators who were renewing their licenses. In addition, the Ministry issued Statutory Instrument No. 14 of 2018, the Accommodation Establishment Regulations to compel all accommodation establishments to have their establishments classified and graded.

e) Finalisation of the Heritage Policy

During the period under review, the Ministry finalised the National Heritage Policy, which policy seeks to promote the development of the natural heritage and improve coordination of partners in the sector.

Your Committee was informed that the breakdown of the Integrated Financial Information System (IFMIS) greatly affected the operations of the Ministry to an extent that it took more than one month to process and complete a financial transaction through the Treasury Single Accounts (TSA). This greatly hampered the implementation of Government funded programmes and activities

8.2.3 Ministry of Higher Education

i) Approved Budgetary Provision for the Ministry for 2017 and 2018

The Ministry of Higher Education was allocated a total of K1.4 billion in 2017. In 2018, the Ministry had an approved budgetary provision of K1.9 billion.

Table 15: Approved Budgetary Provision for 2017 and 2018-Ministry of Higher Education

Programme	2017 (K)	2018 (K)
University Education	23,132,216	23,133,410
Skills Development	29,281,956	79,246,080
Science Technology and Innovation	245,237,038	244,300,310
Management and Support Services	85,000,000	Nil
Total	1,454,427,010	1,974,006,709

i) Proportion of the 2017 and 2018 Budget Releases

The Ministry received a total of K348 million from the Treasury during the first quarter of 2017 representing 24.0 per cent of the total budget provision of K382.6 million while it received a total of K355.8 million in the first quarter of 2018 representing 18.0 per cent of the total budget for the year.

Table 16: Proportion of First Quarter Budget releases to the Total Budgets – Ministry of Higher Education

Programme	2017 Budget (K)	2017 Q1 Release (K)	2018 Budget (K)	2018 Q1 Release (K)	% of 2017 Release	% of 2018 Release
University Education	949,993,042	270,050,119	1,434,081,084	286,247,548	28%	20%
Skills Development	403,626,652	49,914,963	360,966,283	37,051,881	12%	10%
Science Technology and Innovation	74,209,644	18,540,778	127,223,807	26,421,657	25%	21%
Management and Support Services	26,777,672	9,749,730	51,735,335	6,134,021	36%	12%
Total	1,454,427,010	348,255,589	1,974,006,709	355,855,107	24%	18%

ii) Comparison of Releases and Absorption Capacity for First Quarter of 2017 and 2018

The Ministry had an 89.0 per cent absorption rate in the first quarter of 2018 compared to 85.0 per cent during the same period in 2017.

Table 17: Absorption Capacity - Ministry of Higher Education

Programme	2017 Q1 Release (K)	2017 Q1 Expenditure (K)	2018 Q1 Release (K)	2017 Q1 Expenditure (K)	% of 2017 Absorption	% of 2017 Absorption
University Education	270,050,119	223,783,085	286,247,548	259,374,337	83%	91%
Skills Development	49,914,963	50,108,655	37,051,881	35,053,449	100%	95%
Science Technology and Innovation	18,540,778	17,200,467	26,421,657	18,541,823	93%	70%
Management and Support Services	9,749,730	3,651,378	6,134,021	3,792,483	37%	62%
Total	348,255,589	294,743,585	355,855,107	316,762,092	85%	89%

iii) Project implementation

Your Committee was informed that funding in first quarter of 2018 was not sufficient to cater for all the planned activities by the Ministry of Higher Education. In any case, the Ministry carried out the activities outlined below during the period under review.

a) University Education

Your Committee was informed that all universities received their grants for the first quarter of 2018 amounting to K264.4 million. About K89.9 million was paid out to the Loans and Scholarships Board for students both in local and foreign universities. The projected funding of K100 million for infrastructure projects was not received and as such no contractor was

paid in the first quarter. In addition, the projected amount of K60 million for dismantling of arrears under university education was not received, hence no arrears were paid in the first quarter.

b) Skills Development

All TEVET institutions received their operational grants for the first quarter amounting to K16.1 million.

c) Science Technology and Innovation

All institutions under science technology and innovation received the operational grants for the first quarter of 2018 amounting to K26.4 million

8.3 PERFORMANCE OF SELECTED PROVINCES

8.3.1 Office of the President – Central Province Administration

i) Approved Budget for Central Province

The total approved budget for the Province was K154 million in 2018, compared to K75.5 million in 2017, representing an increase of K78.4 million or 104 per cent. The significant increase in the provincial budget was mainly on account of the deconcentration of the budgets for the Ministries of Agriculture; and Livestock and Fisheries from the line ministries to the Province.

ii) Comparison of Budget Releases – First Quarter 2018 and 2017

Your Committee was informed that a total of K4.6 million was released in the first quarter of 2018 representing 3.0 per cent of the total annual budget of K153.97 million. In the corresponding period in 2017, an amount of K5.8 million or 8.0 per cent of the annual budget of K75.5 million was released. This represented an absolute decrease of K1.157 million.

Table 18: Comparison of First Quarter Budget Releases – Central Province

Period	Budget Provision (K)	Total Releases (1 st Quarter) (K)	% of Annual Budget
2017	75,522,328	5,854,465	8%
2018	153,969,910	4,697,093	3%

iii) Absorption Capacity

Your Committee was informed that out of the K4.6 million which was released in the first quarter of 2018, an amount of K2.6 million was spent, indicating an absorption capacity of 56.4 per cent. In the corresponding period in 2017, K2.6 million was spent out of the K5.9 million released, representing an absorption capacity of 44.0 per cent.

Table 19: Absorption Capacity- Central Province

Period	Budget Provision (K)	Total Releases (1 st Quarter) (K)	Total Expenditure (1 st Quarter) (K)	% Expenditure Against Releases
2017	75,522,328	K5,854,465	K2,571,786	44%
2018	153,969,910	K4,697,093	K2,650,025	56.4%

Table 20: Statement C for First Quarter 2018– Central Province

Total Provision(K)	Personal Emoluments(K)	Recurring Departmental Charges(K)	Recurring Departmental Charges Expenditure(K)	% Expenditure Against Recurring Departmental Charges Provisions
153,969,910	98,725,020	55,444,890	4,697,093	8.47%

Your Committee was informed that delayed release of funding from the Treasury, coupled with the breakdown of IFMIS had severely hampered the absorption of funds in the Province.

8.3.2 Office of the President – Copperbelt Province Administration

i) Approved Budgetary Provision for 2017 and 2018

The total approved budgetary provision for the Copperbelt Province in 2017 was K79.6 million and in 2018 it was ZMK160.6 million. The 2018 approved budget provision was inclusive of the approved budget provisions for the provincial and district coordinating offices of the Ministry of Agriculture and the Ministry of Fisheries and Livestock whose budgets had since been deconcentrated to the province. The total budget for these two Ministries accounted for 40.97 per cent of the budget for the province.

Table 21: Approved Budget for 2017 and 2018 – Copperbelt Province

	2017(K)	2018(K)
Personal Emoluments	57,452,735	109,522,110
Non- Personal Emoluments	22,115,670	51,066,010
Total	79, 568,405	160, 588,120

ii) Proportion of 2017 and 2018 First Quarter Budget Releases

Your Committee was informed that in the first quarter of 2017, the Province received K6.7 million of the total non- personal emoluments budget for 2017. During the first quarter of 2018, the Province received a total of K4.2 million for non-personal emoluments. In the first quarter of 2017, the Province received 30.14 per cent of the non-personal emoluments budget while in 2018 it only received 8.3 per cent during the same period.

Your Committee was further informed that in the first quarter of 2017, the Province received funding in the month of January and February while in 2018 during the same period, the Province only received funding in February.

Table 22: Comparison of First Quarter Budget Releases –Copperbelt Province

Period	Budget Provision Non Personal Emoluments(K)	Total Releases (1 st Quarter) (K)	% of Annual Budget
2017	22,115,670	6, 667,667	30.14%
2018	51,066,010	4, 243,834	8.31%

vi) Actual Expenditure for the First Quarter of 2018

Your Committee was informed that the total budget for the Copperbelt Province for non-personal emoluments was K51 million disaggregated as K46.6 million for recurrent departmental charges and K4.5 million for infrastructure development. The Province had received K4.2 million for which translated to 8.31 per cent of the total non-personal

emoluments budget. The departments in the Province spent K4.2 million of their funding allocations of the first quarter representing 98.91 per cent. There were delays in payments from the Ministry of Finance due to the breakdown of IFMIS.

Statement C below depicts the actual expenditure for the first quarter.

Table 23: Statement C for First Quarter 2018– Copperbelt Province

Total Provision for Non Personal Emoluments(K)	Q1 Release for Non Personal Emoluments(K)	% of Total Provision	Actual Expenditure(K)	% Expenditure of Non Personal Emoluments Provision
51,066,010	4,243,834	8.31%	4,197,419	98.91%

iii) Comparison of the Absorption Capacity

Your Committee was informed that the absorption capacity of the Province in the first quarter for non-personal emoluments was 100 per cent in 2017 and 98.91 per cent in 2018. The slightly lower absorption capacity in 2018 was attributed to the breakdown of IFMIS.

iv) Budget Performance for 2018 First Quarter Compared with Objectives

Your Committee was informed that the Province planned to spend K7.1 million in the first quarter of 2018 as per departmental profiles. However, the Province only received 59.82 per cent of the planned amount and managed to undertake all planned events in the first quarter of 2018. It also managed to partly clear arrears amounting to ZMK429,643 which translated to 18.58 per cent of the planned K2.3 million. In addition, the Province managed to fund core mandate programmes of departments.

Your Committee learnt that the budgeted amount for planned infrastructure development in the first quarter amounted to ZMK782,900. However of this amount, only ZMK 77,500 was funded which translated to 9.89 per cent of the planned amount. The partial funding of planned programmes and projects negatively impacted their successful implementation hence affecting the achievement of the intended objectives.

v) Timelines of the Programmes and Projects and the Progress Regarding the Implementation

Your Committee was informed that projects in the Province were at various stages and only those that were near completion level were targeted. The Copperbelt Provincial Administration had planned to start some infrastructure development in the first quarter of 2018 but this did not happen because of the inadequate funds received.

8.3.3 Office of the President - Muchinga Province Administration

i) Approved Budgetary Provision for 2018 and 2017

Your Committee was informed that Muchinga Province was allocated a total of K132.9 million in the 2018 budget, out of which K65.2 million was for non personal emoluments and K67.7 million was for personal emoluments. By comparison, the total budget allocation for Muchinga Province in 2017 stood at K58.4 million out of which K23.3 million was for non personal emoluments and K35.2 million was for personal emoluments.

The 2018 annual budgetary allocation for the Province was increased by 127 per cent from the 2017 allocation. The increase in the 2018 budget allocation was as a result of the deconcentration of the Provincial Agriculture Coordinating Office, Provincial Fisheries and Livestock Coordinating Office, SMART Zambia, Finance Department and the District Coordinating offices for the Ministries of Agriculture; and Fisheries and Livestock to the Muchinga Provincial Administration. The increase was also in part due to the budgetary allocation for infrastructure development in newly created districts of Lavushimanda and Kanchibiya.

Table 24: Approved Budgetary Allocation – Muchinga Province

	2018 Annual Budget(K)	2017 Annual Budget(K)	Variance(K)	Percentage Increase
Total Annual Budget Allocation	132,872,370.00	58,494,806.00	74,377,564.00	127%
Non Personal Emoluments	62,409,440.00	23,307,833.00	39,101,607.00	168%
*Personal Emoluments	70,471,640.00	35,186,973.00	35,284,667.00	100%

**This included 2,759,480.00 meant for dismantling of personnel related arrears*

ii) Proportion of the 2018 Budget estimates that was Released during the First Quarter of 2018 in Comparison with First Quarter 2017

Your Committee was informed that in the first quarter of 2018, the Province was funded K11.1 million out of which K5.7 million was released in January for infrastructure development and K5.4 million in February for non personal emoluments and personal emoluments. By comparison, in the first quarter of 2017, the Province was funded K5.98 million, out which K1.97 million was released in January for non personal emoluments, K1.0 million in February for clearing of personal emoluments related arrears and K3.0 million in March for non personal emoluments.

Table 25: Proportion of Quarter 1 of 2018 and 2017 Releases- Muchinga Province

	Annual Budget Estimates(K)	Quarter 1 Releases (K)	Proportion
Non Personal Emoluments 2018 Q1	62,409,440	11,131,728	17.83%
Non Personal Emoluments 2017 Q1	23,307,833	5,978,278	25.64%

iii) Absorption Capacity of Muchinga Province in terms of Actual Expenditure Compared to Releases in the First Quarters of 2018 and 2017

The table below shows the actual expenditure for the first quarters of 2017 and 2018.

Table 26: Absorption Capacity of Expenditure – Muchinga Province

Quarter 1	Total Budget (Non PEs) (K)	Releases (K)	Expenditure (K)	Balances (K)	% Expenditure
2018	62,409,440.00	11,131,728.00	9,744,617.68	1,387,110.32	88%
2017	23,307,833.00	5,978,278.00	3,124,212.07	2,854,065.93	52%

iv) Actual Expenditure for the First Quarter of 2018

Table 27 below shows a simplified analysis of Statement C for the first quarters of 2018 and 2017.

Table 27: Statement C- Muchinga Province

2018 Approved Estimate (K)	2017 Approved Estimate (K)	2018 Q1 Funding	2017 Q1 Funding	2018 Q1 Actual Expenditure	2017 Q1 Actual Expenditure	Actual Expenditure as a % of Funding	Actual Expenditure as a % of Funding
62,409,440	23,307,833	11,131,728	5,978,278	9,744,617.68	3,124,212.07	88%	52%

v) Implementation Schedule of Programmes and Projects in the First Quarter of 2018

Your Committee was informed that since the creation of Muchinga Province in 2011, the Provincial Administration had embarked on a number of infrastructure programmes and projects. Despite some projects being successfully completed, a lot of them had stalled for some time. Key among them was the construction of four and six storey administration buildings for the Provincial Administration in Chinsali; construction of post offices in Shiwang’andu and Mafinga; and construction of housing units in Chinsali and Mafinga. Stalled works also included the construction of district roads such as the Isoka-Muyombe Road, Muyombe-Chama Road and Mpika-Nabwalya Road. This also included other key road infrastructure projects such as bridges. These projects had stalled due to inadequate funding which had led to the abandonment of works by the contractors. In addition, the inconsistent and untimely release of funds had also adversely affected the undertaking and implementation of the core programmes of the various departments in the Province.

8.3.4 Office of the President – Eastern Province Administration

i) Approved Budgetary Provision for 2017 and 2018

Your Committee was informed that the approved budget provision for Eastern Province for 2018 was K144.7 million compared to K71.5 million in 2017. There was an increase of 51.0 per cent in 2018. Your Committee was informed that 37.4 per cent of the 2018 approved budget provision for Eastern Province which represented K54.1 million was an additional amount as a result of the deconcentration of budgeting in the Ministry of Agriculture and the Ministry of Fisheries and Livestock. The approved budgetary provision is illustrated in Table 28 below.

Table 28: Approved Budgetary Provision for 2017 and 2018- Eastern Province

Programme	2017 Provision (K)	2018 Provision (K)	Variance(K)	Increase %
Personal Emoluments	49,739,992	92,435,180	42,695,188	46%
Non-Personal Emoluments	21,781,563	52,302,240	30,520,677	58%
Totals	72,521,555	144,737,420	73,215,865	51%

ii) Actual Expenditure for the First Quarter of 2018

Your Committee was informed that with the exception of the districts that had received funding under the two ministries that had deconcentrated their budgets, all the departments in the Province had spent all the funds released to them.

Table 29: Simplified analysis of Statement C - Eastern Province

Programme	Budget Provision (K)	Budget Releases(K)	%of Funds Released
Recurring Departmental Charges	42,123,430	4,668,173	11%
Infrastructure Development	10,178,810	-	-
Total	52,302,240	4,668,173	9%

iii) Comparison of the 2017 and 2018 Absorption Rate

Your Committee was informed that in 2017, the Province had an absorption rate of 100 per cent in the first quarter, which reduced to 96.0 per cent in the first quarter of 2018. This was attributed to districts that were yet to have bank accounts for the Ministries whose funding had been deconcentrated to the Province.

Comment [s1]: Need to clear this point.

iv) Budget Performance for 2018 First Quarter Compared to Objectives

Your Committee was informed that the Province planned to spend K15.8 million on a number of projects and programmes. However, out of what was profiled, only K4.7 million was released to the Province, translating to 30 per cent of budgetary allocation for the first quarter of 2018.

v) Programme and Projects Implementation Schedule for 2018 First Quarter

Your Committee was informed that the province managed to fund all activities undertaken in the first quarter of 2018 and to clear outstanding arrears amounting to K635 million which translated to 29 per cent out of the planned provision of K2.1 million. In addition, the Province managed to partly fund some core programmes of selected departments.

PART IV

9.0 THE RELATIONSHIP BETWEEN THE NATIONAL DEVELOPMENT PLAN AND THE NATIONAL BUDGET

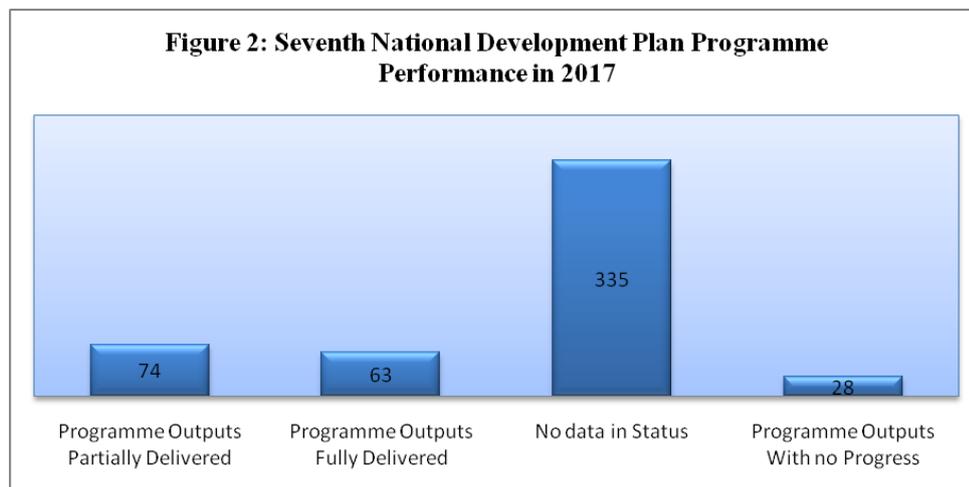
In order to more effectively analyse the performance of the budget, your Committee reviewed the performance of the first quarters of the 2017 and 2018 budgets, in relation to the Seventh National Development Plan (7NDP). Your Committee was informed that although development plans were usually medium term in nature, covering a period of five years, they were operationalised through the national budget from year to year. In order to effectively implement a national development plan, adequate funds needed to be appropriated through the national budget and released to implementing agencies of the Government in a timely manner.

9.1 Overall Performance of Seventh National Development Plan Implementation in 2017

Your Committee was informed that the preparation of the 2017 national budget was concluded before the official launch of the 7NDP. The implementation of the 7NDP in 2017 was mainly affected by weak alignment of Ministries, Provinces and Other Spending Agencies (MPSAs) of the Government to programmes and activities in the 7NDP. Although guidance had been given to MPSAs to align their budgets for 2017 to the Pillars of the Plan, this was not fully achieved. It required a shift from the current activity based budgeting (ABB) to output-based budgeting (OBB). The budgeting process also required an integrated approach to budgeting and allocation of resources, away from the sectoral based approach.

Progress on the implementation of the 7NDP in 2017 was assessed in relation to 500 targets or outputs meant to have been delivered by the end of the year. Achievements for the year were very low. Only sixty three targets or outputs were fully delivered in 2017, while seventy four were partially delivered. Among the targets fully met was the turnaround in the country's trade balance from a deficit experienced in 2016. This was mainly on account of high copper prices and the increased value of non traditional exports. A total of twenty eight targets were reported not to have been met by the end of the year 2017. Among these were the annual targets on unemployment which increased to 41.2 per cent during the year 2017. This was mainly on account of the change in the definition and methodology of computing the unemployment rate by the Central Statistical Office, in line with recommendations by the International Labour Organisation. Other missed targets included the percentage share of manufacturing to GDP at 7.8 per cent against the 7NDP target of above 8.0 per cent; domestic revenue as a percent of GDP at 17.4 per cent against the 7NDP target of above 18.0 per cent; foreign direct investment as a share of GDP at 3.58 per cent against the 7NDP target of greater than 5.0 per cent; and domestic borrowing as percent share of GDP at 4.9 per cent of GDP against the 7NDP target of less than 2.0 percent.

Your Committee was further informed that the lack of necessary information for assessing performance from implementing agencies was a major problem. Your Committee learnt that a total of 335 targets or outputs could not be assessed due to the lack of data for the period under review.



Some programmes relating to the performance budget in the 2017 national budget in relation to the 7NDP are attached at Annex 1.

9.2 Performance of the National Budget in the First Quarter of 2018 in Relation to the Seventh National Development Plan

Your Committee was informed that some programmes under the 7NDP included the ones outlined below.

- i) Under the Social Protection Programme, the Treasury in the first quarter of 2018 spent a total of K92 million, representing 12.7 per cent of the total approved budget for the programme in 2018. The Treasury also spent K497 million, representing 27.8 per cent, on the Farmer Input Support Programme during the same period.
- ii) To support development in rural areas, the Treasury spent K41 million under the Rural Electrification Programme, representing 16.3 percent of the total approved budget of K251 million for the programme in 2018. The budgeted amount was what was envisioned for the programme in the 7NDP for 2018.
- iii) Debt servicing during the period amounted to K4.1 billion, representing 37.4 per cent of the total approved budget for servicing both external and domestic debt in 2018.

Comment [s2]: Please confirm the amount

Some programmes relating to the performance of the budget in the first quarter of 2018 in relation to the 7NDP are attached at Annex 2.

9.3 Releases to Ministries, Provinces and Spending Agencies

Your Committee was informed that budget releases to MPSAs had been inadequate and untimely mainly because of the reduced resource envelope for discretionary spending. The Ministry of National Development Planning had given guidance to MPSAs on the need to prioritise programmes and projects that were nearing completion and to halt the commencement of new ones. Further, guidance had been given to prioritise programmes and projects that were economic in nature in order to support domestic wealth creation and revenue collection opportunities. The poor fiscal position in the Treasury was likely to adversely affect the implementation of some programmes in the 7NDP. However, with effective prioritisation, the core programmes would be implemented so as to support the realisation of the 7NDP objectives and milestones set to be achieved by 2021.

Your Committee was further informed that if the Ministry of Finance moved to rollout the output-based budgeting, MPSAs would be forced to align their budgets to programmes in the 7NDP.

PART V

10.0 OTHER UPDATES IN THE FIRST QUARTER OF 2018

Presented below are some issues that had an effect on the performance of the budget in the first quarter of 2018 as submitted by various stakeholders who appeared before your Committee.

10.1 Status of the Integrated Financial Management Information Systems

Your Committee was informed that the IFMIS was the main financial transaction processing system for the Government and had so far been implemented in forty-five MPSAs. Five sites namely; State House, Office of the President – Special Division, Zambia Army, Zambia Air Force and Zambia National Service were yet to be connected to IFMIS. The Joint Steering Committee which had been set up to spearhead the rollout of IFMIS to these sites had projected to complete the implementation by August, 2018. However, due to the downtime the system experienced in January, 2018, the target to connect the remaining sites had been shifted to the end of December, 2018.

The IFMIS which had failed in January, 2018 was restored in May, 2018 and had been opened for transaction processing in the Ministry of Finance and in the Judiciary on a pilot basis. The technical team was conducting data consistency tests before all the MPSAs could be granted access to IFMIS.

10.2 Measures Being Implemented to Improve Revenue Collection

Your Committee was informed that the Zambia Revenue Authority was implementing a number of tax administration strategies and initiatives that were aimed at optimising revenue collection in 2018 and beyond. These included:

- i) implementation of electronic fiscal devices (EFDs) for all taxpayers registered for VAT in order to ensure that suppliers made correct declarations;
- ii) implementation of transaction monitoring devices for firms operating in the mobile network telecommunications sub-sector aimed at ensuring that correct declarations were made by the taxpayers;
- iii) benchmarking Zambia Revenue Authority performance against well performing tax administrations around the world in order to implement good international practices that enhanced efficiency;
- iv) engagement of the Government through the Ministry of Finance in order to find means of enhancing tax compliance among Government ministries and state owned enterprises;
- v) enhanced capacity development for members of staff in order to equip them with the needed expertise in adapting to the ever evolving business environment;
- vi) establishment of a customs valuation database in order to curb under-declarations of imports;
- vii) establishment of a dedicated refund processing office in order to minimise refund fraud;
- viii) implementation of withholding VAT by some agents that had been appointed by the Commissioner General;
- ix) implementation of system interfaces with other institutions, including the Patents and Companies Registration Agency, National Pension Scheme Authority and Road Traffic and Safety Agency in order to maximise the use of third party data in taxpayer compliance management;
- x) implementation of the taxpayer identification number requirement through all commercial banks which would enhance information sharing with commercial banks and assist the Authority in maximising revenue collection from the informal sector; and

- xi) implementation of the Mineral Value Chain Monitoring Project which was meant to monitor the mineral value chain exploration to exportation and consequently enhance tax revenue uptake from the mining sector.

PART VI

11.0 COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee makes the observations and recommendations set out below.

11.1 Resource Allocation in the Budget

Your Committee observes that the Government has deconcentrated budgeting in the Ministry of Agriculture and the Ministry of Livestock and Fisheries to the provinces.

Your Committee recommends that the Government should speed up the implementation of the fiscal decentralisation which requires devolution of functions from the Central Government to local authorities to allow for effective and efficient deployment of resources at the local government level.

11.2 Inadequate, Untimely and Unpredictable Release of Budgeted Funds

Your Committee notes that the release of budgeted funds to Ministries, Provinces and Spending Agencies (MPSAs) has continued to be inadequate, untimely and unpredictable, thereby making it difficult for them to effectively implement planned activities and, therefore, undermining budget credibility. This is highly unacceptable, particularly in light of the need for these MPSAs to implement programmes in line with the 7NDP. While appreciating that the Government is faced with competing needs, your Committee is of the view that there is need for prioritisation and sequencing in order to prevent the unacceptable situation of having stalled projects.

Your Committee, therefore, recommends that the Government should ensure adequate, timely and predictable release of funds for effective project implementation. It further recommends that the Government should show more commitment to ensuring releases in view of concise linkages between the 7NDP, Vision 2030 and other national priorities to the annual budget cycles.

11.3 Failure to Fully Implement Output Based Budgeting (OBB)

Your Committee observes that the implementation of the Output Based Budgeting is still at pilot stage. Your Committee is of the view that the implementation of OBB will promote accountability on the part of responsible officers and enhance monitoring of projects.

In light of the above, your Committee recommends that output based budgeting should, as matter of urgency, be implemented in all ministries, at provincial and district level in order to ensure accountability, effective monitoring of resource utilisation and ensure that the implementation of programmes and projects by MPSAs contributes to the attainment of the country's long term goals.

11.4 Fiscal Consolidation

Your Committee observes that the Government has made commitments towards fiscal consolidation and that the first quarter of 2018 has been on a path to achieve these commitments. This is evidenced by the measures taken to contain growth of the public sector wage bill by restricting recruitments to frontline workers mainly in health, education and agriculture; and the removal of fuel and electricity subsidies, among others.

Your Committee, however, recommends that the Government should step up fiscal consolidation efforts by reigning in unsustainable spending; enhancing domestic resource mobilisation; and rationalising borrowing for capital projects.

11.5 Debt Accumulation

Your Committee is concerned that Zambia's debt grew from US\$6.9 billion in 2016 to US\$8.7 billion in 2017. The rising debt has led to increased spending on interest payments which increased from 3.4 per cent of GDP in 2016 to 4.0 per cent of GDP in 2017. Your Committee wishes to point out that high interest payments exert significant pressure on the budget and has the effect of crowding out other critical spending such as capital expenditure and spending on social protection programmes.

Your Committee, therefore, recommends that the Government should strengthen public financial management 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. Your Committee also recommends that borrowing should be restricted to projects with high economic returns and not for recurrent expenditure.

11.6 Data Collection

Your Committee notes with concern that due to data limitations, the analysis of economic performance in the first quarter of 2018 was constrained. The lack of necessary data needed for assessment of the performance of implementing agencies was a major challenge. Numerous targets or outputs could not be assessed due to the lack of data for the period under review, a situation which your Committee finds unacceptable as it makes it impossible to accurately monitor and measure performance.

Your Committee recommends that, as a matter of urgency, data collection systems and capacities should be built and strengthened in MPSAs, especially in the Central Statistical Office (CSO) so that they are able to report accurately and timely regarding the implementation of national plans, programmes and projects.

11.7 Integrated Financial Management Information System

Your Committee notes that the IFMIS was set up to support Government's business processes by ensuring accountability, transparency and consequently enhancement of public service delivery. It further notes that IFMIS integrates the Government's main business processes such as budgeting, procurement, accounting, fleet management, asset management, audit and project management into one platform. In light of this, your Committee is concerned that all the institutions that were reviewed submitted that their implementation of programmes and projects was negatively affected because the IFMIS was not working for most of the first quarter of 2018.

Your Committee recommends that as a matter of urgency, the problem that caused the breakdown of the IFMIS should be resolved and the system be fully restored. Further, your Committee implores the Government to institute stringent measures, including appropriate disciplinary action against erring officers, to ensure that such a serious problem does not recur or at least is mitigated if it cannot be avoided.

11.8 Mechanisms for Repaying Eurobonds

Your Committee notes that Zambia issued a number of sovereign bonds (popularly known as Eurobonds): \$750 million maturing on 20th September, 2022; \$1 billion maturing on 14th April, 2024; and \$1.25 billion maturing on 30th July, 2027. It observes that one of the Government's strategies for repaying these loans is through the establishment of a Sinking Fund. Your Committee is concerned that there is no clear information regarding the status of the Sinking Fund.

Your Committee, therefore, recommends that the Government should provide clear information on the status of the Sinking Fund. It further recommends that disbursements into the Fund be increased and be remitted consistently so as to ensure that adequate resources are available to make a payment when these sovereign bonds mature and the debts fall due.

11.9 Diversification of the Economy

Your Committee notes that for many years the Government has been aspiring for economic diversification. However, the country still relies heavily on the copper mining industry as the mainstay of the economy.

Your Committee urges the Government to accelerate the economic diversification programme and recommends that an effective mechanism that transfers economic rents from mining to growth sectors such as manufacturing, agriculture and agro-processing should be put in place. In addition, there should be an effective mechanism that will ensure forward and backward linkages within mining sector itself and also between the mining and other sectors.

11.10 Tax Regime

Also of major concern to your Committee is the amount of tax collected from the mining sector. For example, mineral royalty tax bands are as follows: below US\$4,500 royalty is at 4 per cent; between US\$4,500 and US\$6,000 royalty is at 5 per cent; and above US\$6,000 royalty is at 6 per cent meaning that Government revenue from mineral royalty tax does not increase much after hitting US\$6,000 copper prices. In addition, mineral royalty is not a final tax because it is deductible for tax purposes. This means that it is just an advance to the Government as the mining companies claim it as a cost later. Your Committee further observes that Pay-As-You-Earn has for many years been the major contributor to the country's income tax revenues. This is a huge contrast with the contribution from big corporations which have continued to enjoy tax exemptions, thereby declaring low taxable profits.

In light of the above observations, your Committee recommends that the Government should consider carrying out another review of mining taxation. However, in so doing, proper care must be taken to ensure that the sector does not experience uncertainty exhibited in the past. Your Committee recommends that consideration should be given to making the first 3 per cent mineral royalty non - deductible.

12.0 CONCLUSION

Your Committee wishes to pay tribute to all the stakeholders who appeared before it and tendered both oral and written submissions. It also wishes to thank you, Mr Speaker, for the guidance rendered during the Second Session of the Twelfth National Assembly. Your Committee also appreciates the services rendered by the Office of the Clerk of the National Assembly throughout its deliberations.

M Simfukwe, MP
CHAIRPERSON

June, 2018
LUSAKA

Annex 1: Performance of the 2017 National Budget in relation to the Seventh National Development Plan

	Seventh National Development Plan			2017 Budget Execution		
	7NDP Pillar	7NDP Key Result Area	7NDP Programmes benefiting in that Pillar	2017 Approved Budget ('000)	Total Releases- Preliminary estimate ('000)	Quarter 1 Budget Performance (Percent Releases against Approved Budget)
1. Debt servicing (Interest Payments)	Pillar V	Improved Transparency and Accountability	Public Finance Management Reforms	8,407,567.21	9,826,179.06	116.9%
2. Local Government Equalisation Fund	Pillars II, III, IV & V	Improved Policy Environment	Implementation of Decentralisation Policy	887,848.79	918,012.48	103.4%
3. By-elections	Pillar V	An inclusive and democratic system of governance	Electoral reforms	25,000	43,000.00	172.0%
4. Farmer Input Support Programme	Pillar I & II	Enhanced welfare and livelihoods of the poor and vulnerable	Farmer input support enhancement	2,824,339.25	2,801,078.65	99.2%
5. Social Cash Transfer	Pillar II	Enhanced welfare and livelihoods of the poor and vulnerable	Basic social protection	717,000.00	417,458.05	58.2%
6. Strategic Food Reserve (FRA)	Pillar I & II	A diversified and export-oriented agriculture sector	Storage facilities development	942,500.00	965,760.60	102.5%
7. Rural Electrification Programme	Pillar I & III	Improved Energy Production and Distribution for Sustainable Development	Rural Electrification Promotion	114,516.31	114,516.30	100.0%
8. Roads	Pillar I, III & V	Improved Transport Systems and Infrastructure	Road Infrastructure construction, rehabilitation and maintenance	2,704,101.16	3,705,101.98	137.0%
9. Water and Sanitation	Pillar IV	Improved Water Resources	Water Resources Infrastructure Development	275,185.29	120,927.47	43.94
10. Irrigation Development	Pillar I	Improved Production and Productivity	Irrigation Development	430,500	102,300	23.76
11. Geological Surveys	Pillar I	Increased exploitation of Gemstones and industrial minerals	Geological information generation and provision	54,500	8,587.46	15.76
12. Tourism Source Market Segmentation	Pillar I	Increased tourist visits	Tourism promotion and marketing	119,700	117,300	

Annex 2: Performance of the 2018 First Quarter Budget in relation to the Seventh National Development Plan

Budget Profile	Seventh National Development Plan (7NDP)				2018 Budget Execution				
	7NDP Pillar	7NDP Key Result Area	7NDP Programmes benefiting in that Pillar	2018 Approved Budget ('000)	January Releases- Preliminary estimate ('000)	February Releases- Preliminary estimate ('000)	March Releases- Preliminary estimate ('000)	Total Quarter 1 Releases- Preliminary estimate ('000)	Quarter 1 Budget Performance (Percent Releases against Approved Budget)
1. Debt servicing (Interest Payments)	Pillar V	Improved Transparency and Accountability	Public Finance Management Reforms	10,923,277.25	1,482,407.23	1,446,038.14	1,150,895.88	4,079,341.25	37.4%
2. Local Government Equalisation Fund	Pillars II, III, IV & V	Improved Policy Environment	Implementation of Decentralisation Policy	1,078,428.00	89,869.00	89,869.00	89,869.00	269,607.00	25.0%
3. By-elections	Pillar V	An inclusive and democratic system of governance	Electoral reforms	16,000	-	-	16,900.00	16,900.00	105.6%
4. Farmer Input Support Programme	Pillar I & II	Enhanced welfare and livelihoods of the poor and vulnerable	Farmer input support enhancement	1,785,000.00	405,000.00	92,000.00	-	497,000.00	27.8%
5. Social Cash Transfer	Pillar II	Enhanced welfare and livelihoods of the poor and vulnerable	Basic social protection	721,180.00	45,833.33	45,833.33	-	91,666.67	12.7%
6. Strategic Food Reserve (FRA)	Pillar I & II	A diversified and export-oriented agriculture sector	Storage facilities development	1,051,200.00	20,000.00	30,000.00	-	50,000.00	4.8%
7. Rural Electrification Programme	Pillar I & III	Improved Energy Production and Distribution for Sustainable Development	Rural Electrification Promotion	251,331.67	-	-	41,000.00	41,000.00	16.3%
Roads	Pillar I, III & V	Improved Transport Systems and Infrastructure	Road Infrastructure construction, rehabilitation and maintenance	3,516,714.68	572,231.79	141,349.56	171,797.02	885,378.36	25.18
9. Water and Sanitation	Pillar IV	Improved Water Resources	Water Resources Infrastructure Development	479,208.86	112,000.00	-	-	112,000.00	23.37

APPENDIX I

List of Witnesses

Ministry of Finance
Ministry of Transport and Communications
Ministry of Tourism and Arts
Ministry of Higher Education
Ministry of National Development Planning
Zambia Revenue Authority
Office of the President, Provincial Administration - Central Province
Office of the President, Provincial Administration - Copperbelt Province
Office of the President, Provincial Administration - Eastern Province
Office of the President, Provincial Administration - Muchinga Province
Zambia Institute for Policy Analysis and Research
Action Aid Zambia

APPENDIX II

List of National Assembly Officials

Ms C Musonda, Principal Clerk of Committees

Mr H Mulenga, Deputy Principal Clerk of Committee (FC)

Mr S Mtambo, Senior Committee Clerk (FC)

Mrs D C Mukwanka, Committee Clerk

Ms A Phiri, Typist

Mr M Chikome, Committee Assistant

Mr D Lupiya, Committee Assistant