



**REPUBLIC OF ZAMBIA**

**REPORT**

**OF THE**

**COMMITTEE ON ESTIMATES**

**ON THE PERFORMANCE OF THE FIRST QUARTER OF THE 2017 BUDGET FOR  
SELECTED MINISTRIES, PROVINCES AND SPENDING AGENCIES**

**FOR THE**

**FIRST SESSION OF THE TWELFTH NATIONAL ASSEMBLY  
APPOINTED ON WEDNESDAY, 5<sup>TH</sup> OCTOBER 2016**

**Printed by the National Assembly of Zambia**

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**REPORT OF THE COMMITTEE ON ESTIMATES ON THE PERFORMANCE OF THE FIRST QUARTER OF THE 2017 BUDGET FOR SELECTED MINISTRIES, PROVINCES AND SPENDING AGENCIES FOR THE FIRST SESSION OF THE TWELFTH NATIONAL ASSEMBLY, APPOINTED ON WEDNESDAY, 5<sup>TH</sup> OCTOBER 2016**

*Consisting of:*

Mr M Simfukwe, MP (Chairperson); Mr L A Lufuma, MP; Mr S K Kakubo, MP; Ms N M Subulwa, MP; Mr P Phiri, MP; Mr F C Chaatila, MP; Mr D Mumba, MP; Ms K M Chilumba, MP ; and Mr J Siwale, MP.

The composition of the Committee changed following the appointment of Ms K M Chilumba to ministerial position. The Member was subsequently replaced by Mr M L Kafwaya, MP.

The Honourable Mr Speaker  
National Assembly  
Parliament Buildings  
**LUSAKA**

Sir,

Your Committee has the honour to present its report on the first quarter review of the 2017 budget for selected ministries, provinces and spending agencies for the First 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. exam 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 five (5) meetings to review the performance of the first quarter of the 2017 Budget for the Ministries of Finance; Health; Agriculture; and General Education. Your Committee also reviewed the first quarter performance of selected Provinces: Southern; Western; North-Western; and Luapula. Further, your Committee reviewed the performance of the Zambia Revenue Authority and the Food Reserve Agency.

### **4.0 Report of the Committee**

The Report of your Committee is divided into nine parts. Part I highlights the general performance of the economy in the first quarter of 2017. Part II assesses the performance of revenues in the first quarter of 2017. Parts III and IV present the findings on the quarterly review of the performance of the 2017 Budget for selected ministries, provinces and spending agencies. Parts V and VI give other updates and the performance from other stakeholders' perspective. Part VII highlights findings of your Committee during the local tour while your Committee's observations, recommendations and conclusion are in parts VIII and IX.

## PART I

### 5.0 General performance of the Economy in the First Quarter of 2017

Your Committee conducted a review of the first quarter of the performance of the 2017 national budget. The review provides 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. Regular monitoring of budget implementation, also called budget follow-up, is a cornerstone of effective financial management. Budget follow-up is important to ensure that appropriated funds are spent in accordance with budget intentions and forms the basis of necessary in-year supplementary appropriations prompted by unforeseen changes in budget assumptions and forecasts.

The review gave an opportunity to your Committee to gain insights into some of the challenges facing ministries, provinces and spending agencies in the budget execution process. The early involvement of your Committee may help to mitigate the possible abuse of resources by spending agencies early enough at the execution stage of the budget process and thereby minimise adverse post-budget audit queries.

In conducting the review, the Ministry of Finance was given an opportunity to highlight recent macroeconomic developments and to verify the accuracy and consistency of submissions by the spending agencies whose budgets were under review. The overview of the macroeconomic developments explained the environment influencing the performance of budgets of selected ministries, provinces and spending agencies.

In this regard, your Committee was informed that at the time of formulating the 2017 Budget, the Treasury had to consider the need to put in place bold measures to stabilise the economy, and at the same time devise a strategy on how to stimulate the economy. To this end, the Treasury set out to attain the following objectives in 2017:

- i) to achieve real Gross Domestic Product (GDP) growth of at least 3.4 percent;
- ii) to attain end year inflation of no more than 9.0 percent;
- iii) to attain domestic revenue mobilisation of at least 18.0 percent of GDP;
- iv) to limit the overall fiscal deficit to no more than 7.0 percent of GDP on a cash basis;
- v) to maintain domestic borrowing at no more than 2 percent of GDP;
- vi) to build up foreign exchange reserves to at least 3 months of import cover by end 2017; and
- vii) to support the creation of at least 100, 000 decent jobs.

Your Committee was informed that the economic performance in 2016, exerted pressure on the 2017 projections. The year 2016, was characterised by unfavourable performance of most of the macroeconomic variables, key among them, the persistent depreciation of the Kwacha exchange rate against major currencies, reduced electricity supply, higher than desired inflation and high domestic interest rates. In terms of external factors, 2016, was also characterised by low metal prices particularly that of copper - the country's major export commodity - and reduced economic growth in partner economies such as China. According to the World Bank's 'Africa's Pulse,' growth in Sub-Saharan Africa had stalled as a consequence of the continued fragility of the global economy. These factors, together with the August, 2016 General Election, stifled economic growth in 2016, to an estimated rate of 3.1percent from the projected rate of 5.0 percent profiled at the beginning of the year.

However, the performance of the economy in the first quarter of 2017, was on a positive trajectory with annual growth projected to be about 3.9 percent from the 3.4 percent outturn

in 2016. The macroeconomic environment continued to stabilise in the first quarter aided by continued fiscal consolidation, easing of monetary policy and continued implementation of structural reforms.

The inflation rate declined to 6.7 percent as at end March, 2017, from 7.5 percent at the end of December, 2016, mainly driven by relatively tight monetary policy and the appreciation of the Kwacha. The exchange rate relatively stabilised against major trading currencies posting an average of K9.69/US\$ compared to an average of K10.2/US\$ in 2016, supported by relative easing of liquidity conditions, which improved market confidence and increased participation by non-resident investors in Government securities. During the quarter, the Central Bank loosened monetary conditions by reducing the Policy Rate to 14.0 percent from 15.5 percent, Statutory Reserve Ratio to 15.5 percent from 18.0 percent and Overnight Lending Facility rate to 6 percent from 10 percent. All these measures have helped maintain stability in the economy.

Lending rates, however, remained elevated in the first quarter averaging 28.9 percent from an average of 29.2 percent in the last quarter of 2016. Related to this, domestic credit to the private sector remained subdued in the quarter.

Your Committee was informed that budget performance was by and large in line with the projections, despite revenue collections being lower at K9.13 billion than the target of K10.20 billion. The challenges in the revenue collection in the quarter related to the delayed implementation of announced measures, such as electronic fiscal devices, combined with low tax compliance. Expenditure at K12.9 billion was also below the quarterly target of K14.5 billion. A key expenditure item for the quarter was the front loading of payments of K1.5 billion against year target of K5.0 billion towards clearance of domestic arrears owed to different suppliers of goods and services. At the end of March, 2017, the fiscal deficit stood at 1.5 percent of GDP.

In the real sector, improved performance was also recorded in electricity generation. Thus, electricity supply increased by 25.2 percent in the first quarter. Agricultural output in terms of maize was expected to increase to above 3 million tons (Mt). This was aided by good rainfall during the 2016/2017 rain season. Copper production, however, declined to 166,647 Mt compared to 183,321 Mt produced in the first quarter of 2016. This was despite the rebound in the copper prices on the international market averaging US\$5,840 per ton.

In the external sector, exports of goods and services increased to K7.6 billion in February, 2017, compared to K5.9 billion in December, 2016. Similarly, imports of goods and services increased to K8.7 billion in February, 2017, from K6.6 billion in December, 2016. The trade deficit widened to K1.1 billion in February, 2017, from K227.3 million in January, 2017. Your Committee was informed that the widening of the trade deficit was explained by the increase in the importation of capital and consumer goods.

In the financial sector, K37.0 billion worth of Government securities were mobilised at the end of the first quarter compared to K33.0 billion at the end of December, 2016. The rise was explained by increased demand attributed to the participation of non-resident investors and upward adjustment in Government uptake. This supported the increase in market confidence and relative stability of the exchange rate.

To deal with regulatory and institutional arrangements, an effort was made to enhance cash management in the public sector, by Government rolling out the Treasury Single Account

(TSA) to thirteen sites of Government institutions bringing the number on TSA to twenty-three.

As a result of all these developments, the outlook of the economic performance currently was positive. The positive outlook would be strengthened, among other factors, by the expected increase in copper production following the completion of expansionary projects by some mines and boosted by the rise in copper prices. The easing of monetary policy was expected to support the liquidity conditions, continued increase in foreign participation on Government securities, stability of the exchange rate and the downward trend in inflation. Moreover, the continued dismantling of domestic arrears was expected to revitalise economic activities. Finally, the expected impact of the implementation of revenue measures, such as tax amnesty and electronic fiscal devices and platforms, were all expected to provide impetus to the economy.

Conversely, your Committee was informed that the downside risks to the economic trajectory included the impact of an increase in electricity tariffs, which may lead to high cost of production and may impede price stability and general productivity in the economy. These and other challenges on the supply side of the economy threatened the effectiveness of monetary policy in containing inflation. Further, the continued high cost of borrowing may limit access to credit by the productive sectors.

According to the Zambia Economic Brief,<sup>1</sup> a World Bank publication, to shift to faster and inclusive growth, efforts were needed to overcome a set of interlinked economic policy challenges including and not limited to tax policy. If progress was to be made on some of them and not others, the desired outcome would not be achieved. The sequencing and coordination of measures was key in 2017 and over the course of the medium- term economic recovery plan.

## **PART II**

### **6.0 Quarterly Review of the Revenue Performance**

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<sup>1</sup> Zambia Economic Brief, Raising Revenue for Economic Recovery, December 2016.

After having established a broader overview of the recent performance of the economy, your Committee reviewed revenues. Your Committee noted that the performance of most tax types in nominal terms during the first quarter of 2017, relative to the same quarter in 2016, was stronger. Specifically, the 2017 collections of Pay-As-You-Earn (PAYE), Withholding Tax, Insurance Premium Levy, domestic Value Added Tax (VAT), import VAT, Customs Duty and Motor Vehicle Fees were higher than what was posted during the same period in 2016. However, the rest of the tax types recorded lower collections in nominal terms in the first quarter of 2017, as compared to the same quarter in 2016, as shown in Table 1 below. Despite this, in comparison with the same period in 2016, the total revenue in the first quarter of 2017, rose by 5.4 percent in nominal terms.

**Table 1: Jan - Mar 2017 Vs. Jan - Mar 2016 Revenue Collection (K' million)**

	<b>Jan-Mar 2017 Net Outturn</b>	<b>Jan-Mar 2016 Net Outturn</b>	<b>Variance</b>	<b>Percenta ge Change</b>
<b>Total revenue</b>	<b>8,373.7</b>	<b>7,947.3</b>	<b>426.4</b>	<b>5.4%</b>
<b>1.Tax revenue</b>	<b>8,319.6</b>	<b>7,935.9</b>	<b>383.7</b>	<b>4.8%</b>
<b>A. Income taxes</b>	<b>4,564.0</b>	<b>4,765.6</b>	<b>(201.5)</b>	<b>-4.2%</b>
1. Company tax	793.0	1,034.9	(241.9)	-23.4%
2. PAYE	2,203.1	2,129.4	73.7	3.5%
3. Withholding taxes	796.6	593.5	203.1	34.2%
4. Mineral royalty tax	771.3	1,007.7	(236.4)	-23.5%
<b>Insurance Prem. Levy</b>	<b>23.5</b>	<b>11.9</b>	<b>11.5</b>	<b>96.7%</b>
<b>B. Excise taxes</b>	<b>718.3</b>	<b>831.4</b>	<b>(113.1)</b>	<b>-13.6%</b>
1. Excise Duties	489.7	496.7	(7.0)	-1.4%
2. REF	42.5	31.8	10.7	33.5%
<b>C. VAT on domestic goods</b>	<b>470.0</b>	<b>74.0</b>	<b>396.1</b>	<b>535.3%</b>
<b>D. Trade taxes</b>	<b>2,543.7</b>	<b>2,253.1</b>	<b>290.7</b>	<b>12.9%</b>
1. VAT on imports	1,838.6	1,780.9	57.7	3.2%
2. Customs duty	701.2	463.1	238.1	51.4%
3. Export duties	3.9	9.0	(5.1)	-56.3%
<b>2.Non Tax revenue</b>				
Skills Devp Levy	37.8	-	37.8	100.0%
Motor Vehicle Fees	16.3	11.4	4.9	42.9%

Committee noted that during the first quarter of 2017, the Zambia Revenue Authority collected K10, 165.9 million in gross taxes while the refunds stood at K1, 792.2 million thereby resulting in net revenue collections of K8, 373.7 million. This net revenue collection of K8, 373.7 million was K140.0 million or 1.7 percent above period target of K8, 233.6 million. This positive outturn was largely explained by strong performance of domestic VAT,

Mineral Royalty, Customs Duty and Company Tax. In particular, domestic VAT, Mineral Royalty, Customs Duty and Company Tax were above their respective first quarter targets by K191.2 million, K93.4 million, K47.6 million and K179 million, respectively. Further, import VAT, the Insurance Premium Levy and the Skills Development Levy were above target by K11.7 million, K2.9 million and K5.8 million, respectively.

In contrast, PAYE, Withholding Tax, Excise Duties and Export Duty were all below the quarter targets. These tax types were 4.1 percent, 2.4 percent, 13.9 percent and 25.2 percent below target, respectively (See Table 2 below).

The ZRA Commissioner General informed your Committee that the target for the year would have to be adjusted as some measures which were not legislated, such as the proposed customs duty on copper ores and concentrates and the introduction of the boarder infrastructure fees on motor vehicles entering and exiting Zambia, but according to the Zambia Economic Brief for December, 2016, the Minister set the revenue target of at least 18 percent of GDP in 2017, even lower than the 2016 target of 20.1 percent. It was already worrying that this target was lower than the ambition of previous years.

**Table 2: Actual Revenue Collection against Operational Target January - March 2017 (K' m)**

	Jan-Mar 2017 Gross Outturn	Refunds	Jan-Mar 2017 Net Outturn	Jan-Mar 2017 Target	Variance	Percentage Variance
<b>Total Revenue</b>	<b>10,165.9</b>	<b>1,792.2</b>	<b>8,373.7</b>	<b>8,233.6</b>	<b>140.0</b>	<b>1.7%</b>
<b>1. Tax revenue</b>	<b>10,111.8</b>	<b>1,792.2</b>	<b>8,319.6</b>	<b>8,184.5</b>	<b>135.1</b>	<b>1.7%</b>
<b>A. Income taxes</b>	<b>4,574.8</b>	<b>10.8</b>	<b>4,564.0</b>	<b>4,585.8</b>	<b>1.7</b>	<b>0.0%</b>
1. Company tax	794.1	1.1	793.0	775.1	17.9	2.3%
Non-mining	618.1	0.2	618.0	601.7	16.2	2.7%
Mining	176.0	0.9	175.1	173.4	1.7	1.0%
2. PAYE	2,212.5	9.4	2,203.1	2,296.1	(93.0)	-4.1%
3. Withholding taxes	796.9	0.3	796.6	816.1	(19.5)	-2.4%
4. Mineral royalty	771.3	-	771.3	677.9	93.4	13.8%
<b>B. Insurance Premium Levy</b>	<b>23.5</b>	<b>-</b>	<b>23.5</b>	<b>20.6</b>	<b>2.9</b>	<b>14.2%</b>
<b>C. Excise duty</b>	<b>718.4</b>	<b>0.1</b>	<b>718.3</b>	<b>834.2</b>	<b>(115.8)</b>	<b>-13.9%</b>
Import Excise	127.5	0.1	127.4	191.9	(64.5)	-33.6%
Local Excise	362.3	-	362.3	389.8	(27.5)	-7.1%
REF	42.5	-	42.5	48.3	(5.8)	-12.0%
Import Fuel levy	120.4	-	120.4	124.8	(4.4)	-3.6%
Local Fuel Levy	58.6	-	58.6	71.0	(12.4)	-17.4%
Carbon Tax	7.1	-	7.1	8.3	(1.2)	-14.7%
<b>D. Domestic VAT</b>	<b>2,228.6</b>	<b>1,758.5</b>	<b>470.0</b>	<b>278.8</b>	<b>191.2</b>	<b>68.6%</b>

<b>E. Trade Taxes</b>	<b>2,566.6</b>	<b>22.8</b>	<b>2,543.7</b>	<b>2,485.7</b>	<b>58.0</b>	<b>2.3%</b>
1. Import VAT	1,838.6	-	1,838.6	1,826.9	11.7	0.6%
2. Customs duty	724.0	22.8	701.2	653.5	47.6	7.3%
3. Export duty	3.9	-	3.9	5.2	(1.3)	-25.2%
o/w Scrap metal	0.0	-	0.0	-	0.0	0.0%
Cotton seed	1.6	-	1.6	1.5	0.1	6.7%
Copper concentrates	2.3	-	2.3	3.8	(1.5)	-39.1%
<b>2. Non Tax Revenue</b>						
1. Skills Devpt. Levy	37.8	-	37.8	32.0	5.8	18.1%
2. Border Infr. Fee	-	-	-	-	-	0.0%
3. Motor Vehicle Fees	16.3	-	16.3	17.2	(0.9)	-5.3%

### 6.1 First Quarter 2017 Performance against Target versus First Quarter 2016 against Target

Your Committee was informed that in the first quarter of 2017, the Authority recorded a surplus of K140 million against the period target while in 2016, a deficit of K253.8 million was recorded.

**Table 3: First Quarter 2017 Variance versus First Quarter 2016 Variance, K' million**

	2017-Actual	2017-Target	Variance	2016-Actual	2016-Target	Variance
<b>Total Revenue</b>	<b>8,373.7</b>	<b>8,233.7</b>	<b>140.0</b>	<b>7,947.3</b>	<b>8,201.1</b>	<b>-253.8</b>
<b>1. Tax Revenue</b>	<b>8,319.6</b>	<b>8,184.5</b>	<b>135.1</b>	<b>7,935.9</b>	<b>8,193.4</b>	<b>-257.5</b>
<b>A. Income taxes</b>	<b>4,564.0</b>	<b>4,565.3</b>	<b>(1.2)</b>	<b>4,765.6</b>	<b>4,334.6</b>	<b>431</b>
1. Company tax	793.0	775.1	17.9	1,034.9	685.1	349.8
Non Mining Company Tax	618.0	601.7	16.2	581.8	564.6	17.2
Mining Company Tax	175.1	173.4	1.7	453.1	120.5	332.6
2. PAYE	2,203.1	2,296.1	(93.0)	2,129.4	2,171.7	-42.3
3. Withholding taxes & others	796.6	816.1	(19.5)	593.5	723.5	-130
4. Mineral royalty tax	771.3	677.9	93.4	1,007.7	754.2	253.5
Insurance Premium	23.5	20.6	2.9	11.9	11.0	0.9
<b>C. Excise taxes</b>	<b>718.3</b>	<b>834.2</b>	<b>(115.8)</b>	<b>831.4</b>	<b>908.6</b>	<b>-77.2</b>
1. Excise Duties	489.7	581.7	(92.0)	496.7	599.1	-102.4
2. Rural Electrification Levy	42.5	48.3	(5.8)	31.8	17.2	14.6
3. Fuel Levy	179.0	195.8	(16.8)	297.6	284.8	12.8
4. Carbon Tax	7.1	8.3	(1.2)	5.2	7.4	-2.2
<b>D. VAT on domestic goods</b>	<b>470.0</b>	<b>278.8</b>	<b>191.2</b>	<b>74.0</b>	<b>460.9</b>	<b>-386.9</b>
<b>E. Trade taxes</b>	<b>2,543.7</b>	<b>2,485.7</b>	<b>58.0</b>	<b>2,253.1</b>	<b>2,478.5</b>	<b>-225.4</b>
1. VAT on imports	1,838.6	1,826.9	11.7	1,780.9	1,869.0	-88.1
2. Customs duty (Import tariffs)	701.2	653.5	47.6	463.1	602.3	-139.2
3. Export duties	3.9	5.3	(1.3)	9.0	7.1	1.9
Export Duty on Scrap metals	0.0	-	0.0	-	-	-
Export Duty on Cotton seed	1.6	1.5	0.1	1.5	0.0	1.5
Export Duty on Copper Concentrate	2.3	3.8	(1.5)	7.5	7.1	0.4
<b>2. Non Tax revenue</b>						
Motor Vehicle Fees	16.3	17.2	(0.9)	11.4	7.7	3.7

### 6.2 Factors explaining Revenue Performance during First Quarter 2017

Your Committee notes that during the first quarter of 2017, there were a number of factors that explained the performance of revenues. Some of the factors are elaborated below.

**i. Company Tax**

Your Committee was informed that the unfavourable performance of Company Tax was largely as a result of the downward revision of the fourth quarter provisional income tax payments by some non-mining companies. The Copperbelt Energy Corporation (CEC) explained that they revised their 4<sup>th</sup> quarter provisional taxes downwards largely due to lower than projected business volumes during the third and fourth quarters of 2016, which adversely affected profitability. It was also generally observed that mining companies reduced their payments overtime due to low metal prices and reduction in electricity supply which affected production and profitability.

**ii. Pay As You Earn**

With regards to PAYE, your Committee was informed that its unfavourable performance was largely attributed to a decline in payments during the first quarter of 2017, when compared to the same period in 2016. This was largely as a result of retrenchments in the mining industry during the latter part of 2016, and also due to low payment compliance by other taxpayers.

**iii. Local Excise Taxes**

Your Committee was informed that during the first quarter of 2017, Local Excise Tax underperformed. The underperformance was mainly due to reduced payment compliance during the quarter under review.

**iv. Local Fuel Levy**

Your Committee was informed that Local Fuel Levy posted a negative performance. The negative performance was largely explained by non-collection of the tax on fuel uplifted from Tazama. For instance, during January, 2017, 72 percent of fuel was uplifted from Tazama and only 50 percent of uplifted quantities were collected. Table 4 below is a snap shot analysis of the upliftments. Your Committee noted that reviews and audits were underway to ensure that all unpaid taxes were collected.

Table 4: January 2017 Uplifts from INDENI

Period	Uplifted	Collectbn	Profle	Uplift% Profle	Collectbn % Uplift
21 Dec 2016 to 20 Jan 2017	24,039,058.47	16,848,515.00	33,437,902.77	72%	50%

**v. Mineral Royalty**

Your Committee noted that Mineral Royalty posted a strong performance. The strong performance was mainly due to increased receipts by the mining companies due to stability of the price of copper on the international market at an average of US\$5, 832.6 per metric tonne during the first quarter of 2017, compared to US\$5, 279.7 during the fourth quarter of 2016. This price entailed that Mineral Royalty was effectively being charged at 5 percent as opposed to the 4 percent.

**vi. Withholding Tax and others**

Your Committee was informed that the favourable performance of Withholding Tax was largely attributed to increased collections on interest and rent during the month under review. Withholding Tax on rental income was positively affected by the 2017 Budget measure, which made it mandatory for all statutory bodies to pay rental tax on all properties on rent. In addition, the Bank of Zambia payments of Withholding Tax on interest on Government securities positively affected the collections in the fourth quarter of 2016.

**vii. Domestic VAT**

Your Committee was informed that the positive performance of domestic VAT was largely on account of increased payment compliance during the period under review owing to introduction of withholding of output VAT by some agents in the 2107 Budget.

**viii. Insurance Premium Levy**

Your Committee was informed that the favourable performance of the Insurance Premium Levy was largely due to the mandatory requirement for motorists to display insurance, which led to increased consumption of insurance products during the quarter under review.

**ix. Skills Development Levy**

Your Committee was informed that the favourable performance of the Skills Development Levy was mainly due to the positive impact of engagements with taxpayers on the new measure. The engagements with taxpayers resulted in quicker than anticipated learning time for taxpayers on how to comply with this measure.

**x. Trade Taxes**

Your Committee was informed about the factors behind the performance of the individual trade taxes as highlighted below.

*Import VAT*

Your Committee was informed that the undesirable performance of import VAT was largely on account of the decline in import volumes of the key products subject to VAT. During the first quarter, there was a decline in revenue contribution from ten (10) revenue drivers which reduced by K161.5 million or 30.5 percent compared to the same quarter in 2016, as shown in Table 5 below.

**Table 5: Quarter 1 2017 Main Decliners in Import VAT by Product, K'Mn**

HS Code	Product	Import VAT Quarter I 2017	Import VAT Quarter I 2016	Variance	%
27090000	Petroleum oils and oils obtained from bituminous minerals, crude	183.8	212.5	-28.7	-13.5%
26030029		104.3	130.0	-25.7	-19.8%
87041000	Dumpers for off-highway use	2.7	20.6	-17.9	-86.8%
38249000	Chemical products and residual products of chemical	0.0	17.1	-17.1	-100.0%

	industries, nes				
15119020	Palm olein when imported in bulk for further processing, Of a kind used 0n construction or industrial...exceeding 61	3.2	18.8	-15.7	-83.1%
40116300	cm (24 inches)	2.9	17.6	-14.6	-83.4%
27101210	Motor Spirit	70.8	84.1	-13.3	-15.8%
85446000	Electric conductors, nes, for a voltage >1000 V Wood in the rough..., treated with paint, stains, creosote,	0.9	11.5	-10.6	-92.3%
44031000	etc.	0.0	9.5	-9.5	-100.0%
85030000	Parts suitable for machines of 85.01 or 85.02	0.3	8.6	-8.4	-97.0%
<b>Total</b>		<b>368.9</b>	<b>530.5</b>	<b>-161.5</b>	<b>-30.5%</b>

### *Customs Duty*

Your Committee was informed that the positive performance in Customs Duty was mainly explained by collections arising from assessments made prior to the period under review amounting to K52.8 million.

### *Export Duty-Timber, Mineral Ores and Concentrates*

Your Committee was informed that the weak performance of Export Duty could be largely attributed to the lower than projected export of mineral ores and concentrates, and also lower than projected exports of unprocessed timber products.

### *Import Excise Duty*

Your Committee was informed that the negative performance of Import Excise Duty was largely due to the ban on the importation of hydrocarbon oils such as petrol (motor spirit) and gas oil imposed by the Energy Regulation Board (ERB) on some Oil Marketing Companies (OMCs).

### *Import Fuel Levy*

Your Committee was informed that the unfavourable performance of Import Fuel Levy was largely due to the reduction in importations of hydrocarbon oils due to the ban invoked on some of these products by the Energy Regulation Board on Oil Marketing Companies.

### *Motor Vehicle Fees*

Your Committee was informed that the negative performance of the Motor Vehicle Fees was attributed to the reduction in importations of motor vehicles during the quarter under review. During the quarter under review, the Value for Duty Purposes for imported motor vehicles declined by 24 percent compared to the same quarter in 2016.

## **PART III**

### **7.0 Quarterly Review of the Performance of the 2017 Budget for the Selected Ministries and Provinces**

After reviewing the performance of the domestic economy and revenues in the first quarter of 2017, your Committee reviewed the performance of the budgets for the following ministries: Health; Agriculture; and General Education in the same quarter. The selection of these

ministries for consideration was informed by the size of their budgets in relation to the national budget and the number of programmes/projects in the sectors. Your Committee also reviewed budgets of some provinces namely: Southern; Western; North-Western and Luapula, to appreciate the implementation of the budget. Your Committee's findings are presented in three (3) categories: firstly, consolidated performance of selected ministries; secondly, performance of individual selected ministries; and thirdly, performance of selected provinces.

## 7.1 Consolidated findings on selected ministries

Below are the consolidated findings of your Committee.

### *i. Approved Budget for 2017*

Your Committee noted that the approved 2017 Budget provision for the Ministry of Health, Ministry of General Education, Ministry of Agriculture, Western Province, North-Western Province and Southern Province amounted to K20,597,044,130. The larger proportion of resources among the reviewed ministries and provinces went to Ministry of Education at K9,187,499,090 followed by Ministry of Health at K5,732,842,152 and then Ministry of Agriculture at K5,435,167,917. Table 6 shows the breakdown of the allocations to these institutions.

**Table 6: 2017 Approved Budget allocations**

<b>MINISTRY/INSTITUTION</b>	<b>AMOUNT (K)</b>
Ministry of Health	5,732,842,152
Ministry of General Education	9,187,499,090
Ministry of Agriculture	5,435,167,917
Western Province	80,771,180
North-Western Province	71,448,369
Southern Province	89,315,422
<b>Total of Selected MPSAs</b>	<b>20,597,044,130</b>

### *ii. Comparison of Releases – First Quarter 2017 and First Quarter 2016*

Your Committee noted that during the first quarter of 2017, total releases amounted to K13.5 billion, which represented 21 percent of the approved budget of K64.5 billion. However, the proportion released was lower compared to 32 percent released in 2016, during the same period. Your Committee was informed that the observed higher release in 2016, was driven by significant debt payments obligations that required settlement. A total of K6.2 billion of the first quarter releases in 2016, went towards debt payments, while only K3.9 million was released for debt payments in the first quarter of 2017.

In 2016, owing to auction failures on Government securities, a total of K1.1 billion in maturities (which was projected to be refinanced from the domestic market) had to be paid from the budget during the first quarter. The Government also released a total of K1.9 billion for the repayment of an outstanding bridge loan to the Bank of Zambia and hence the higher figure in 2016. In view of this, most of the resources were channeled to debt servicing, as opposed to developmental activities which had great impact on poverty reduction.

Your Committee was further informed that on account of the need to spend on emergency power importation and to ensure continued fuel supply, in the first quarter of 2016, huge

outlays of K1,015.9 million and K2,689.8 million were spent on the importation of electricity and fuel, respectively, through a Presidential Warrant. These funds were not originally in the budget. However, in the first quarter of 2017, Government only spent K402.0 million and K350.0 million on the importation of electricity and fuel, respectively, which showed a drastic reduction. It would, nevertheless, be prudent to provide for these expenditures for the Budget to credible.

**iii. Statement C**

Your Committee noted that on average, the actual reported expenditure as a percentage of funding for ministries and provinces was 90 percent. This meant that most of the funds released to the ministries and provinces were utilised. It was, however, necessary to trace the utilisation of resources to see if resources were put in appropriate programmes/projects. Table 7 below gives the breakdown of funding and expenditure.

**Table 7: Statement C by Head for the First Quarter 2017**

STATEMENT C BY HEAD FOR THE FIRST QUARTER 2017					
HEAD		2017 Approved Estimate (K)	2017 First Quarter Funding	2017 First Quarter Actual (Reported) Expenditure	Actual (Reported) Expenditure As a % of Funding
46	MINISTRY OF HEALTH	5,732,557,361	1,530,540,734	1,338,453,723	87.4%
80	MINISTRY OF GEN. EDUCATION	9,187,499,082	2,052,900,022	1,946,110,887	94.8%
89	MINISTRY OF AGRICULTURE	5,435,167,917	790,091,047	753,791,758	95.4%
94	O O P - WESTERN PROVINCE	80,771,180	19,291,205	17,545,762	91.0%
97	O O P - NORTH-WESTERN	71,645,750	16,387,470	14,342,682	87.5%
98	O O P - SOUTHERN PROVINCE	89,315,422	20,244,896	18,880,953	93.3%

**iv. Personnel Emoluments Allocation/Proportion**

Your Committee was informed about the proportion of the 2017 first quarter budget that was for emoluments in the three ministries as follows: Ministry of General Education received the highest portion of the emoluments at 20.2 percent of the first quarter budget to the total budget as expected due to its labour intensive nature followed by Ministry of Health at 14.4 percent. Ministry of Agriculture received the least at 2.4 percent. On the other hand, all the reviewed provinces received about 16 percent on average.

**v. Proportion of the budget for the first quarter of 2017 budget that was allocated for programmes and projects**

Your Committee was informed about the proportion of funding in the first quarter of 2017, that was released to the ministries and provinces as indicated in Table 8 below. The funding to ministries and provinces reviewed was generally low. In terms of programme funding, Health and Agriculture received 12.3 percent and 12.2 percent, respectively. However, Ministry of General Education only received 2.4 percent whilst all the reviewed provinces received 6 percent on average.

**Table 8: 2017 first quarter allocations for programme/projects**

2017 FIRST QUARTER ALLOCATION FOR PROGRAMMES/PROJECTS			
INSTITUTION	2017 BUDGET	FIRST QUARTER BUDGET	PERCENT OF Q1 BUDGET TO 2017 BUDGET
MINISTRY OF HEALTH	5,732,842,152	706,770,314	12.3%
MINISTRY OF GENERAL EDUCATION	9,076,499,090	214,933,840	2.4%
MINISTRY OF AGRICULTURE	5,435,167,917	662,120,460	12.2%
OOP - WESTERN PROVINCE	80,771,180	4,890,359	6.1%
OOP - NORTH-WESTERN PROVINCE	71,448,369	4,804,112	6.7%
OOP - SOUTHERN PROVINCE	89,315,422	5,715,414	6.4%

**vi. *The absorption capacity of each institution in the first quarter of 2016 compared with the first quarter of 2017***

Your Committee was informed that absorption capacity for the aforementioned institutions increased from an average of 88.5 percent in the first quarter of 2016 to 92.2 percent in the first quarter of 2017, due to improved resource predictability system that was implemented in 2017. This system allows MPSAs to match their expenditure plans with the projected resource envelope before receiving funds from the Treasury. Therefore, expenditure on planned programmes and projects occurs almost immediately upon receipt of funds from the Treasury, which has culminated into improved resource absorption among most MPSAs as shown in Table 9 below.

**Table 9: Absorption Capacity**

	2016 First Quarter Funding	2016 Actual Expenditure	Absorption Capacity %	2017 First Quarter Funding	2017 Actual (Reported) Expenditure	Absorption Capacity %
MINISTRY OF HEALTH	854,098,504	695,977,147	81.5%	1,429,893,736	1,237,806,725	86.6%
MINISTRY OF GENERAL EDUCATION	2,102,771,273	1,916,759,631	91.2%	2,104,219,233	1,997,430,098	94.9%
MINISTRY OF AGRICULTURE	378,940,678	339,922,393	89.7%	790,091,047	753,791,758	95.4%
O O P - WESTERN PROVINCE	16,476,691	14,781,299	89.7%	19,291,206	17,545,762	91.0%
O O P - NORTH-WESTERN PROVINCE	13,398,225	11,665,042	87.1%	16,385,737	14,340,949	87.5%
O O P - SOUTHERN PROVINCE	16,681,524	15,471,507	92.7%	20,244,896	18,880,953	93.3%
	<b>3,382,366,894</b>	<b>2,994,577,018</b>	<b>88.5%</b>	<b>4,380,125,855</b>	<b>4,039,796,245</b>	<b>92.2%</b>

**vii. *Expenditure Performance – National Budget***

Your Committee was informed that the total expenditures for the National Budget excluding amortisation in the first quarter of 2017, amounted to K13.5 billion and was below the planned amount by 12 percent. Releases towards expenses amounted to K11.8 billion. Releases towards personal emoluments were K4.7 billion (accounting for 40 percent); use of goods and services - K1.7 billion; grants and other payments - K2.4 billion; and interest payments on debt - K2.4 billion.

Your Committee was further informed that expenditures on grants and other payments amounted to K2.4 billion representing a 7 percent above planned target. Notable expenditures included K1.4 billion as grants to institutions such as the Zambia Revenue Authority, road

agencies, and grants to local authorities (excluding operational grant to the Pension Fund). Furthermore, K420.9 million was expended on dismantling of the arrears relating to the 2016/17 farming season under the Farmer Input Support Programme and the commencement of preparations for the 2017/18 farming season.

However, your Committee heard that releases towards social benefits amounted to K385.0 million, which was 32 percent below the target. This outturn was mainly on account of lower than projected releases towards the pension arrears due to resource constraints. Further, K143.8 million went towards the Social Cash Transfer Programme. Total releases towards acquisition of assets during the period under review stood at K923.3 million, which were below target by 67 percent. Furthermore, your Committee was informed that the fiscal deficit stood at K3.7 billion and was financed mainly from domestic borrowing due to the good performance of Government securities recorded in the quarter.

**viii. Progress in the implementation of the budgeted programmes by Ministry of Health, Ministry of General Education, Ministry of Agriculture, Western Province, North-Western Province and Southern Province**

Your Committee was informed that the function of monitoring and evaluation was re-assigned to the Ministry of National Development and Planning after the split of the Ministry of Finance in 2015. However, the function of budget monitoring still remained with the Ministry of Finance. Below was the update given by the Ministry of Finance.

- a) In the first quarter of 2017, K1,429.9 million was released to the Ministry of Health. Of this amount, K823.8 million was for Personal Emoluments relating to new and existing staff, K259.0 million was spent on the procurement of Drugs and Medical Supplies whereas K211.5 million was for Hospital Operations and K30.0 went to Health Infrastructure.
- b) In the first quarter of 2017, K2,104.2 million was released to the Ministry of General Education. Of this amount, K100.0 million was for Infrastructure, K155.0 million for schools operational activities which included the School Feeding Programme and acquisition of School requisites.
- c) In the first quarter of 2017, the Ministry of Agriculture received K790.1 million of which K420.0 million was for the Farmer Input Support Programme and K140.0 million for procurement of Strategic Food Reserves.
- d) In the first quarter of 2017, Western Province, North – Western Province and Southern Province were funded K19.3 million, K16.4 million and K20.2 million, respectively, for the operations of Provincial Administration.

## **7.2 Findings relating to specific Ministries and Provinces**

The budget performance of specific ministries in the first quarter of the 2015 budget is analysed below.

### **7.2.1 Ministry of Health**

Your Committee notes that the approved budgetary provision for the Ministry of Health for the year 2017, was K5,732,557,361 compared to K4,436,592,856 in 2016, excluding

supplementary appropriations. The approved budget including supplementary appropriations was K5,907,313,145.70 in 2017, compared to K4,616,294,932.08 in 2016. Your Committee notes that the health sector allocation as a percentage of total budget was 7.81 percent in 2017 and 7.52 percent in 2016, indicating a marginal increase of 0.29 percent.

**i. Proportion of the 2016 and 2017 Budget Releases**

Your Committee notes that the proportion of the 2016 and 2017 budgets that was released during the 1<sup>st</sup> quarter was 19 percent and 12 percent, respectively, showing a reduction of 7 percentage points as shown in Table 10 below. The decrease in the releases could be explained by the scaling down in infrastructure developments that were taking place in the Ministry such as the construction of various health posts.

**Table 10: Proportion of First Quarter Budget releases to the Total Budgets - Ministry of Health**

2016			2017		
Budget	Releases	% Releases	Budget	Releases	% Releases
4,616,294,932.00	854,098,503.83	19%	5,907,313,145.70	710,270,314.40	12%

Your Committee noted that the Ministry spent K514,490,498.05 out of the amount released in the quarter representing a 72 percent absorption rate. This was lower than the absorption rate in 2016, of 81 percent as shown in Table 11. Your Committee notes that K251,961,012.00 of the amount spent in the first quarter of 2017, was on drugs and medical supplies.

**Table 11: Releases vs. Actual Expenditure for 2016 and 2017 - Ministry of Health**

FRIST QUARTER 2016 EXPENDITURE			1 <sup>ST</sup> QUARTER 2017 EXPENDITURE		
Releases (ZMW)	Actual Expenditure (ZMW)	1 <sup>st</sup> Qtr % Expenditure	Releases (ZMW)	Actual Expenditure (ZMW)	1 <sup>st</sup> Qtr Expenditure
854,098,503.83	695,977,147.06	81	710,270,314.40	514,490,498.05	72

**ii. Project implementation**

Your Committee noted that the Ministry had a budget of K1,517,002,556.00 for implementation of various projects in 2017. In the first quarter, the Ministry received K435,161,100.37 for various projects representing 28.6 percent. Your Committee further notes that the Ministry had committed itself towards the construction of thirty-six district hospitals costing K111,391,906 and to spend on constructing a 3,000 student-capacity Health Training Institute at Levy Mwanawasa Hospital. During the first quarter, the Health Training Institute had spent K18 million from the K30 million released. Furthermore, your Committee noted that the Ministry planned to spend K732,253,878 on Drugs and Medical Supplies during the Financial Year and in the first quarter of 2017, an amount of K251,961,012 was received. This amount was at variance with the amount of K259 million which was reported by the Ministry of Finance and no explanation was given.

**7.2.2 Ministry of Agriculture**

Your Committee noted that the approved budgetary provision for the Ministry of Agriculture for the year 2017, was K5.4 billion representing 8.5 percent of the national budget compared

to 6.5 percent in 2016. This represented a 128 percent increase from the approved allocation in 2016, of K2.4 billion. Your Committee observed that an amount of K2, 856,399,170 had been allocated for the e-voucher Programme rollout in 2017, representing 52.6 percent of the Ministry budget compared to only 10.4 percent in 2016. The Budget does not provide for the conventional Farmer Input Support Programme (FISP) in 2017. Furthermore, the allocations given to programmes such as research and development, extension service delivery, grants and contributions and recurrent departmental charges (RDCs) had all decreased in 2017, compared to those of 2016. Table 12 below shows a breakdown of the Ministry's budget.

**Table 12: Ministry of Agriculture Budget Composition to key programmes 2016 and 2017**

PROGRAMME DESCRIPTION	Ministry Of Agriculture 2016 ZMW	% of National Budget	Ministry of Agriculture 2017 ZMW	% of National Budget	% Change 2017 vs. 2016
Ministry Allocation (% against National)	2,382,266,379	6.5	5,435,167,921	8.4	29.2
Personal Emoluments	237,523,434	10.0	434,359,412	8.0	20
Strategic Food Reserves (FRA)	750,000,000	31.5	942,500,000	17.3	25.7
Farmer Input Support Programme (FISP)	755,220,645	31.7	-	-	-
E-Voucher Pilot / Roll out	248,330,165	10.4	2,856,399,170	52.6	1,050.2
Donor funded Programmes	125,891,777	5.3	976,196,044	18.0	675.4
Grants & Contributions	86,131,072	3.6	84,344,651	1.6	-2.1
Research and Development	20,497,966	3.6	11,346,933	0.2	-44.6
Extension Service Delivery	38,643,375	0.9	21,105,984	0.4	-45.4
Other Programmes	120,027,945	1.6	108,915,727	2.0	-9.3

i. ***Proportion of the 2016 and 2017 Budget Released in the First Quarter***

Table 13 below provides a breakdown of the proportion of the 2017 Budget released during the first quarter and how it compared with the 2016 Budget in the same period.

**Table 13: 2016 First Quarter Budget Released vs Quarter One 2017**

DESCRIPTION / EXPENDITURE ITEM	YEAR					
	2016 Approved Budget	2016 (ZMW)	% of Total Releases	2017 Approved Budget	2017 (ZMW)	% of Total Releases
Budget Released	Budget figure?-	263,378,542	-	Budget figure?	662,120,460	-
FISP Conventional	755,220,645	130,000,000	49.3	-	-	-
FISP E Voucher	248,330,165	-	-	2,856,399,170	421,700,000	63.7
FRA	750,000,000	69,800,000	26.5	942,500,000	140,000,000	21.1
FRA Operations	80,000,000	13,333,333	5.1	80,000,000	20,000,000	3.0
Personal Emoluments	237,523,434	18,885,117	7.2	424,696,878	18,885,117	2.9
Donor Funded Projects	125,891,777	17,036,920	6.5	981,701,139	48,243,332	7.3
Support to Grant Aided Institutions	3,051,000	1,341,833	0.51	3,934,151	3,934,150	0.6
Recurrent Departmental Charges (RDCs)	182,249,358	12,981,339	4.93	144,936,569	9,357,861	1.4

Your Committee noted that the total releases for the Ministry in the first quarter of 2017, was K662 million representing 151 percent more than what was released during the same period of 2016. However, your Committee also notes that the amount reported as having been released was K790.1 million. Your Committee further observed that a large proportion of the funds released in the first quarter of 2017, went towards the Farmer Input Support Programme (FISP) and Food Reserve Agency (FRA). The amount released for the FISP and the FRA amounted to K581,700,000. No budget allocation was provided for conventional FISP. From the total amount released, only 1.4 percent was released to support the operational costs of the Ministry. Your Committee observed that the allocation of resources to programmes in the Ministry's approved budget and the distribution of resources released usually was biased towards FISP and FRA. This had often meant that resources were spread thinly across other programmes that, according to research findings, would have had the potential to drive growth in the sector.

**ii. *Farmer Input Support Programme (FISP) E-Voucher***

Your Committee was informed of the pending activation of e- Voucher cards for the 2016/2017 agriculture season in the thirty-nine districts. As at 31<sup>st</sup> March, 2017, a total of 490,269 e- Voucher Cards had been loaded and activated out of a total of 543,263 activation requests that were submitted to banks, corresponding to 90 percent implementation.

Your Committee was informed that the Ministry was waiting for the release of K265 million from the Treasury to complete all activations for the 2016/2017 agriculture season. Your Committee also learnt that a National FISP review meeting was held during the first quarter. Present in the meeting were officers from the Ministry and representatives from participating banks, agro dealers, national input suppliers and other stakeholders involved in the implementation of the Programme. Your Committee was informed that the implementation of e -Voucher had encountered a number of challenges including the following:

- a) agro dealers running out of stocks during the season;
- b) delayed activation of cards due to delays in funding from the Treasury;
- c) banks delaying delivery of cards; and
- d) arrears owed to Banks for the production of e-cards.

**iii. *Food Reserve Agency***

Two figures were reported as having been released to FRA – K120 million and K140 million by Ministry of Agriculture and Ministry of Finance, respectively. Going by the Ministry of Agriculture figures, a total of K95.3 million was used to settle arrears. The arrears settled included K56.5 million for payment of transporters, K14.2 million for payment of grain bag suppliers, K3 million for suppliers of other marketing requisites, K3 million for construction works, K6 million for rentals and K4.4 million for security services.

**iv. *Statement C***

Your Committee noted that the total authorised provision for 2017, was K5 billion of which K632 million was released. Actual expenditure amounted to K599,296,227 corresponding to 94.7 percent of released funds. Your Committee was informed that Statement C included personal emoluments.

## v. *Absorption Capacity*

Your Committee noted that the absorption capacity for the Ministry of Agriculture in the first quarter of 2017, was 90.5 percent compared to 79.5 percent in 2016, in the same period. Your Committee observed that K558,390,008 of the expenditure was absorbed by the Agribusiness and Marketing Department followed by Policy and Planning Department at K40,043,586. The said amounts were released in the first month of the quarter. Your Committee observed that the improvement in absorption capacity in 2017, when compared to 2016, was mainly due to the fact that the majority of funds released in the first quarter of 2017, were utilised for the overdue activation of the e-voucher cards from 2016.

**Table 14: MoA Absorption Capacity, Quarter 1 of 2016 and 2017**

DESCRIPTION	YEAR	
	2016 (ZMW)	2017 (ZMW)
Amount Received	263,378,542	662,120,460
Amount Spent	209,332,394	599,296,227
<b>Absorption Capacity (%)</b>	<b>79.5</b>	<b>90.5</b>

Source: Financial Management Unit 2017

### 7.2.3 *Ministry of General Education*

Your Committee noted that in 2017, the total budget allocation to the Ministry was K9,17,499,082 (K9.2 billion), representing an increase of 15.1 percent from the allocation of K7,980,412,362 in 2016, as shown in Table 15 below. Your Committee was informed that even if the Ministry had received increased funding, the resources were still not adequate to ensure effective and efficient implementation of its programmes. For instance, in the first quarter of 2016, the total funds released for the ministerial programmes and projects were K2.1 billion compared to K241 million released in the same quarter in 2017. The resources available to the Ministry to undertake projects and operations accounted for only 2 percent of the total budget for education. This made the Ministry to encounter challenges as it strove to fulfill its mandate.

In view of this, inadequate fund releases had made it very difficult for the Ministry to implement its programmes and projects to achieve all its set targets. Your Committee was further informed that the inconsistent release of funds from the Treasury had affected the Ministry's capacity to offset debt related to personnel emoluments, infrastructure, goods and services, utility bills and others. Your Committee was also informed that the Ministry had failed to allocate teachers, procure furniture, learning materials and equipment as well as to train teachers for some of the newly constructed schools.

**Table 15: Approved Budgetary Provision for the Ministry for the years 2016 and 2017**

	2016 Estimate Plus Donor funds pledged at budget time	2017 Estimate Plus Donor funds pledged at budget time	Donor pledges after 2017 budget time	Approved estimates plus Donor pledges made after 2017 budget approval
ECE	40,440,784	37,000,002.00	7,477,953.00	44,477,955.00
Primary	5,395,385,446	6,185,742,009.00	-	6,185,742,009.00
Secondary	1,922,918,969	2,137,700,136.00	56,138,342.00	2,193,838,478.00
Youth & Adult		1,345,055.00	2,110,400.00	3,455,455.00

Literacy	1, 714,404			
Management & Support Services	619, 952,759	825,711,880.00	39,494,862.00	865,206,742.00
<b>Total</b>	<b>7, 980, 412,362</b>	<b>9,187,499,082.00</b>	<b>105,221,557.00</b>	<b>9,292,720,639.00</b>

i. **Statement C and Implementation of Programmes**

Your Committee noted that the annual allocation for Early Childhood Education (ECE) was K37,000,002 out of which only K942,860 was released in the first quarter of 2017. Under Primary Education, the 2017 budget was K6,185,742,009 of which only K23,866,325.01 had been released in the first quarter. With respect to programmes, Secondary Education and Management and Support Services releases against the 2017 budget totals were 1.2 percent and 0.8 percent, respectively. Further, your Committee was informed that the Youth and Adult Literacy programme was not funded in the first quarter of 2017. This state of affairs signified the fiscal reduction in the quarter compared to the same period in the 2016 operational budget. Table 16 below shows the implementation schedule of the programmes and projects in the first quarter of the 2017, including corresponding costs for each programme as budgeted for.

**Table 16: Matrix for Programme / Project based expenditure line for the first quarter 2017**

Programme Code	Programme Name	Timeline	Cost
5501	Early Childhood Education	January to March	34,266,215
5502	Primary Education	January to March	539,462,528
5503	Secondary Education	January to March	677,974,719
5505	Adult and Youth literacy	January to March	1,345,054
5508	Management and Support Services	January to March	357,223,953
<b>Grand Total</b>			<b>1,610,272,469</b>

ii. **Absorption capacity in the first quarter of the 2016 Vs first quarter of 2017**

Your Committee was informed that K2.1 billion was released in the first quarter of 2016, compared to K240 million in the first quarter of 2017, showing a difference of K1.9 billion. Furthermore, K1.9 billion was spent by 31st March, 2016, against the total releases in the first quarter. In the first quarter of 2017, the total of K108,184,337.34 was absorbed against K240,913,628.48. In view of the above, the absorption capacity in 2016 stood at 91.15 percent against 44.9 percent in 2017.

Your Committee was informed that in 2017, the Ministry was being funded using the commitment system instead of the limit system. However, it had been noted that the funds released in the 2017 first quarter were not sufficient to implement activities in line with the set objectives/priorities.

iii. **Implementation of Output Based Budgeting**

Your Committee noted that, Government had continued piloting Output-Based Budgeting (OBB) in the Ministry of General Education, contrary to the undertaking in the 2016-2018 Medium Term Expenditure Framework and the 2016 Budget that after evaluation, roll out to other MPSAs was supposed to begin in 2017. Your Committee was informed that although the implementation of OBB had scored some successes, it nevertheless faced some

challenges in the pilot phase as listed below.

Successes recorded included:

- i. the Ministry being able to allocate funds in line with the set priorities;
- ii. less misapplication of funds as allocations and expenditure was done according to programmes; and
- iii. increased coordination across departments as the focus is on programmes.

Challenges faced included:

- i. the Ministry was still experiencing erratic funding despite the implementation of the OBB and the use of commitment limit system thus making it difficult to implement most activities especially at the Provincial and District Offices;
- ii. a weak link in synchronisation of OBB with the Ministry's structure and systems still poses a big challenge; and
- iii. limited and weak monitoring and reporting systems especially at lower levels not helping the enforcement of OBB.

Your Committee was informed that when these challenges were addressed, the Government would be ready to roll out OBB to all ministries.

#### **7.2.4 Office of the President – Southern Province Administration**

Your Committee noted that the approved budgetary allocation for the Province was K89,315,422 in 2017, while the estimates for 2016, stood at K80,642,037, representing an increase of K8.7 million or 10.76 percent. In terms of funding allocation for core programmes, the 2017 estimates stood at K29,420,483 which was exactly K2 million above the 2016 estimates.

Your Committee was informed that Southern Province was funded a total of K7,647,927 during the first quarter in 2017. This was broken down as follows: K2,451,707 was funds released for programmes in January while K3,451,513 was released in March. In February, the Treasury only funded non-personnel emoluments amounting to K1,744,513, which was largely used to pay outstanding personnel arrears for the retired District Commissioners. Table 17 below shows releases in first quarter 2017, compared with those of 2016.

**Table 17: Approved Budgetary Allocation for 2016 and 2017 – Southern Province**

YEAR	APPROVED ESTIMATES	INCREASE IN 2017 ESTIMATES COMPARED TO 2016 ESTIMATE	% INCREASE FROM 2016 TO 2017	FIRST QUARTER RELEASES	BUDGET PERFORMANCE	VARIANCE BUDGET PERFORMANCE
2016	80,642,037.00	-		16,681,524.00	20.69%	-
Personal Emoluments-Salaries	52,324,473.00	-		14,660,830.00	28.02%	-
Other Emoluments	897,081.00	-		0	0.00%	-
Non Personal Emoluments-RDCs	27,420,483.00	-		2,020,694.00	7.37%	-
2017	89,315,422.00	8,673,385.00	increase by 10.76%	7,639,927.00	-	-
Personal Emoluments-Salaries	58,150,426.00	5,825,953.00	increase by 11.13%	no releases in 2017?	-	-

Other Emoluments	1,744,513.00	847,432.00	increase by 94.47%	1,744,513.00	100.00%	Funding release increase by 100%
Non Personal Emoluments-RDCs	29,420,483.00	2,000,000.00	increase by 7.29%	5,895,414.00	20.04%	Funding release increase by 12.67%

i. **Absorption Capacity for 2016 and 2017**

Your Committee was informed that the absorption capacity of the 2017, first quarter funding was 51.47 percent corresponding to an increase of 12.39 percent over the 2016 first quarter funding. Your Committee heard that the late release of funds in March, 2017, negatively affected the spending of the money. The performance of the project budget is shown in Table 18 below

**Table 18: Annual Project budget and 2017 first quarter releases and actual expenditure**

Description	Annual Budget	1 <sup>st</sup> Quarter 2017 release	1 <sup>st</sup> Quarter 2017 Actual Expenditure
<b>Projects</b>	9,040,889.00	1,373,677.88	912,419.03

Despite the funds being reasonably adequate, the fact that the release was towards the end of March implied that the impact of the funds would only materialise in the second quarter of 2017.

7.2.4. **Office of the President - Western Province Administration**

Your Committee noted that the total approved budgetary provisions for the Province for 2016 and 2017, were K69,401,741 and K80,771,180, respectively, as shown in Table 19 below. Your Committee observed that in 2017, the Budgets for Headquarters and District Administration were K10,716,642 and K18,044,949, respectively, representing 13 percent and 22 percent of the provincial budget.

**Table 19: Approved Budgetary Provision for the year 2016 and 2017**

HEAD 94	2 016 BUDGET ESTIMATES ZMW	2 017 BUDGET ESTIMATES ZMW
94/01 HEADQUARTERS	7,307,057	10,716,642
94/02 ZAMBIA NEWS AND INFORMATION SERVICES	3,721,007	4,504,725
94/03 RURAL ROADS	1,628,241	-
94/09 BUILDINGS DEPARTMENT	4,023,144	4,825,253
94/16 FOREST DEPARTMENT	5,212,271	7,310,127
94/17 LANDS DEPARTMENT	484,633	687,206
94/18 SURVEY DEPARTMENT	445,513	473,069
94/19 WATER AFFAIRS DEPARTMENT	3,025,254	3,368,450
94/23 LABOUR AND FACTORIES DEPARTMENT	1,752,457	2,018,543
94/24 SOCIAL WELFARE DEPARTMENT	3,660,976	4,365,150
94/25 CULTURAL SERVICES DEPARTMENT	1,838,776	2,012,159
94/35 CIVIL AVIATION DEPARTMENT	809,316	1,011,537
94/36 METEOROLOGICAL DEPARTMENT	1,121,666	1,224,870
94/40 COMMUNITY DEVELOPMENT DEPARTMENT	7,154,718	9,445,306
94/41 YOUTH DEVELOPMENT DEPARTMENT	766,973	755,952
94/42 RESETTLEMENT DEPARTMENT	525,388	677,366
94/43 CHILD AFFAIRS DEPARTMENT	734,976	798,449
94/44 PROVINCIAL LOCAL GOVERNMENT OFFICE	1,191,122	969,211
94/46 TOWN AND COUNTRY PLANNING DEPARTMENT	528,718	731,994
94/47 GOVERNMENT TRANSPORT CONTROL UNIT	172,590	172,900
94/48 SPORTS DEPARTMENT	817,770	736,866
94/49 PROVINCIAL PLANNING UNIT	1,032,440	951,990
94/51 PROVINCIAL ACCOUNTING UNIT	2,975,680	2,827,494
94/52 DISTRICT ADMINISTRATION	16,348,238	18,044,949

94/53 INTERNAL AUDIT DEPARTMENT	679,253	780,128
94/54 MARITIME AND INLAND WATERWAYS DEPARTMENT	445,540	340,300
94/55 PROCUREMENT AND SUPPLIES DEPARTMENT	672,189	831,344
94/56 CHIEFS AND TRADITIONAL AFFAIRS	325,835	189,200
<b>GRAND TOTAL</b>	<b>69,401,741</b>	<b>80,771,180</b>

**i. Proportion of the 2017 budget estimates that was released during the first quarter compared to 2016**

Your Committee was informed that the total releases for the first quarter of 2016, for non-personnel emoluments was K2,039,550 (10.54 percent) against the budget estimate of K19,358,146 while releases for the same period in 2017, were K6,699,992 (29.70 percent) against the budget estimate of K22,557,975 for Non-personnel Emolument. Your Committee was informed that the budget releases in the Province improved in 2017, as shown in Table 20 below.

**Table 20: First Quarters Releases and comparisons**

Funding Type	1st Quarter, 2016 (ZMW)	1st Quarter, 2017(ZMW)	Comparison of Quarterly Releases against Non PEs Provision (%)		2017 Budget Estimates
			2016 (%)	2017 (%)	
Recurrent Departmental Charges (RDC)	1,939,550	3,462,234	10.02	15.35	
Poverty Reduction Programmes (PRP)	100,000	97,163	0.52	4.31	
Grants	-	510,833	-	2.26	
Other Personnel Emoluments		1,754,762	-	7.78	
<b>Totals</b>	<b>2,039,550</b>	<b>6,699,992</b>	<b>10.54</b>	<b>29.70</b>	<b>22,557,975.00</b>

**ii. Statement C**

Your Committee noted that as of 31<sup>st</sup> March, 2017, K3.1 million (14 percent) out of K22.6 million of the authorised budgetary provisions for non-Personnel emoluments for the year 2017, had been expended as indicated in Tables 20 and 21.

**i. Absorption capacity of the Province in the first quarter**

Your Committee was informed that the absorption capacity in the first quarter of 2017, was 47 percent compared to 100 percent in the first quarter of 2016, as indicated in Table 21 below.

**Table 81: Releases and Expenditure for first quarter of 2016 and 2017 as at 31<sup>st</sup> March**

FIRST QUARTER, 2016			FIRST QUARTER, 2017		
Releases (K)	Expenditure (K)	Absorption %	Releases (K)	Expenditure (K)	Absorption %
2,039,550	2,039,550	100	6,699,992	3,142,142.53	47

Your Committee was further informed that the relatively low absorption capacity in the first quarter of 2017, was due to funds having been released late in the quarter under review, resulting in expenditure being done in the preceding month as shown in Table 22 below.

**Table 22: Date of releases by the Treasury – Western Province Administration**

FUNDING MONTH	DATE RELEASED	AMOUNT (K)
JANUARY	19 <sup>TH</sup> JANUARY 2017	1,715,965
FEBRUARY	1 <sup>ST</sup> MARCH 2017	1,746,396
MARCH	21 <sup>ST</sup> MARCH 2017	2,715,965
<b>TOTAL</b>		<b>6,178,326</b>

Your Committee was informed that the late releases coupled with the time consuming process of tendering for capital projects, had negatively affected the implementation of programmes and projects. Thus, in the first quarter of 2017, only K1,255,412 or 42 percent out of total K2,992,000 was spent.

Out of a total of K6,699,992 released by the Treasury to fund various programmes and activities in the first quarter of 2017, K1,725,849 (25.8 percent) was earmarked for implementation of key programmes and activities, while K1,754,762 (26.2 percent) was for payment of other Personal Emoluments. Further, K3,219,381 (48.1 percent) was spent on Recurrent Departmental Charges (RDCs) and a total of K685,000 (56 percent) was paid out to suppliers of goods and services against the annual budget of K1,225,000 for the dismantling of arrears for suppliers of goods and services.

#### 7.2.5. *Office of the President - North-Western Province Administration*

Your Committee was informed that in 2017 the Province had a total approved budget allocation of K59.3 million apportioned as follows: Personal Emoluments – K38.4 million and Non- Personal Emoluments – K20.8 million, whilst the 2016, had an approved budget allocation of K71.4 million apportioned as follows: Personal Emoluments – K48.6 million and Non-personnel Emoluments – K22.8 million. Your Committee observed that although the budget allocation for the Province had increased by K10.2 million, the allocation for Non – Personal Emoluments marginally increased by only K2 million.

##### *i. Proportion of budget releases during first quarter of 2016 compared with releases for first quarter of 2017*

Your Committee noted that the proportion of budget estimates compared to release in the first quarter of 2016 and 2017 was 10.2 percent and 25.66 percent respectively, as shown in Table 23 below.

**Table 93: The proportion of budget releases for 2016 and 2017**

	2016	2017
<b>Releases</b>	2,069,709.48	5,754,669.00
<b>Estimates</b>	20,283,821.00	22,432,275.00
<b>Proportion (%)</b>	10.2%	25.66%

##### *ii. Statement C*

Your Committee was informed that the Province had an authorised budget of K71.4 million out of which the first quarter was funded to the tune of K5.7 million. Of the released amount,

expenditure totalling K2.8 million was incurred as at the end of the review period. Your Committee was further informed that the amount funded could not be expended during the quarter, mostly because of the lengthy procurement procedures. In addition, the Province had just been included on the Treasury Single Account (TSA) payment system, therefore, it was still adjusting to the new payment system.

**iii. Absorption capacity of the Province**

Your Committee was informed that the Province had capacity to absorb approximately 52 percent of the first quarter funding of 2016, although only 48 percent was spent in the first quarter of 2017, due to late release of funds.

**iv. Progress in implementation of the programmes and projects**

Your Committee was informed that in terms of programmes and project implementation, there was not much progress during the quarter under review. This was because most of the programmes and projects were scheduled to commence in the second quarter of the year. Only one project, Management of Airfields, was planned to commence in January 2017.

## **PART IV**

### **8.0 Quarterly Review of the Performance of the 2017 Budget for the Selected Spending Agencies**

#### **8.1 Food Reserve Agency**

Your Committee was informed that the approved budget provision for the Food Reserve Agency totalled K1 billion in 2017, compared to K 830 million in 2016. The budget for administration operations remained unchanged in 2016 and 2017, at K 80 million. The Agency had been allocated a total sum of K942.5 million for procurement and maintenance of Strategic Food Reserves during the 2017 financial year which, according to the Agency, was insufficient for the purpose.

**i. Proportion of 2016 first quarter budget estimates compared to 2017 first quarter budget estimates**

Your Committee was informed that the Agency had profiled K182,000,000 to be received in the first quarter of 2017, whereas only K153.3 million was released. In 2016, a total amount of K333.1 million was received which included K250 million final loan repayment to the Ministry of Finance. This, therefore, meant that the funding for 2016 was in effect K83 million. Further, the funds released for operations in 2016, included K405 million for servicing carry over debt at the close of 2016.

Your Committee was further informed that there were no funds disbursed to farmers who supplied maize in 2016, because all farmers who were owed were fully paid by the end of 2016. Moreover, your Committee was informed that the total income raised from the sale of maize in the first quarter of 2017, amounted to K53 million out of the budgeted amount of K327 million. This meant that the actual sales were 16 percent of the budgeted sales showing a poor performance.

## ***ii. Cost of Projects in 2017***

Your Committee noted that the total cost of various projects, which were supposed to be implemented by the Agency in 2017, amounted to K9.4 million compared to 7.5 million 2016. The projects in 2017, included the rehabilitation of sheds at the Mazabuka and Pemba depots. However, most of the capital projects were not implemented because of liquidity problems and huge carryover arrears which required huge capital outlays. The Agency had a challenge of dismantling carry over debts for service providers such as transporters, suppliers of empty grain bags, security firms and rentals. It was hoped that these debts should have been liquidated during the fourth quarter of 2016, which was not the case. This had affected the suppliers' capacities to deliver quality services, which in turn, posed a threat on the smooth implementation of the programme. The Treasury had since started dismantling the carry over debt. The Agency had so far spent K29.8million on the carry over projects which included the construction of office blocks, rehabilitation of the Ndola Silo and Choma sheds and the construction of boundary wall fences at Livingstone, Chambeshi and Chipata depots, leaving an amount of K43.1 million owed to contractors.

Your Committee was informed that the Agency was currently undertaking a number of activities as outlined below.

- a) Preparations for the upcoming crop marketing exercise which had since commenced with suppliers delivering marketing requisites for the 2017 season. The Agency had a debt of K270.0 million to various service providers such as transporters, suppliers of empty grain bags, shed rentals, bank commissions owed to financial institutions, among others. This debt needed to be settled before commencement of the Crop Marketing Programme.
- b) Engagement of the Zambia Weights and Measures Agency to carry out the nationwide certification of scales to be used in the upcoming marketing season at an estimated cost of K1.1 million. The fumigation of stocks throughout the country was on course and a total of K1.2 million had been spent since the beginning of the financial year 2017. Currently, 99 percent of the stocks had been secured.
- c) Moving stocks into holding depots along the line of rail, in order to create space for new stock to be purchased during the 2017 season. A total of K23.3 million had been spent on transportation of maize in the first four months of 2017.

## **8.2 Zambia Revenue Authority**

Your Committee was informed that the approved budget for the Authority for the 2017 fiscal year was K768.7 million, which was 80 percent higher than the 2016 allocation of K427.4 million. Your Committee was informed that the funding released during the first quarter of 2017, was K179.5 million which was 121 percent more than the K81.2 million which was released during the same quarter in 2016.

Your Committee was further informed that the Authority received income other than funding from the Government mainly from Automated System for Customs Data (ASYCUDA) processing Fee and funds from Cooperating Partners. In terms of the actual spending, your Committee was informed that the Authority spent K214.6 million during the first quarter of 2017, compared to K160.0 million spent during the first quarter of 2016. The absorption capacity in the first quarter of 2017, was 120 percent compared to 197 percent recorded during the same quarter in 2016.

**i. Proportion of 2016 first quarter budget estimates compared to 2017 first quarter budget estimates**

Your Committee was informed that during the first quarter of 2016, K81.2 million was released by the Government out of the total approved funding of K427.4 million, representing a proportion of 19.0 percent of the approved budget to the Authority. In the first quarter of 2017, K179.5 million was released as funds out of a total approved funding of K768.7, representing a proportion of 23.4 percent. Therefore, the proportion of total funds released during the first quarter of 2017, at 23.4 percent was higher than the 19.0 percent released during the same period in 2016.

**PART V**

**9.0 Other updates in the First Quarter of 2017**

**i. Updates on the revision of the Public Finance Act, Budgeting Legislation, the Loans and Guarantees Act Revision and the status of the 2016 Financial Report going by the new timelines in the Constitution**

Your Committee was informed on the status of the revision of *the Public Finance Act, Budgeting Legislation, the Loans and Guarantees (Authorisation) Act* Revision and the status of the 2016 Financial Report going by the new timelines in the Constitution as shown in Table 22.

**Table 24: Update on various Pieces of Legislation and the Financial Report for 2016**

S/N	ITEM	STATUS
1	Revision of the Public Finance Act No. 15 of 2004	Undergoing legislative drafting.
2	The National Planning and Budgeting Bill, 2017	Bill is being finalised and will be presented to Parliament within 2017.
3	Amendment to the Loans and Guarantees (Authorisation) Act	Undergoing legislative drafting.
4	2016 Financial Report	The Financial Report has been consolidated and is expected to be submitted to the Auditor General by mid-May 2017.

## ***ii. Update on the Integrated Financial Management Information System***

Your Committee was informed that the Integrated Financial Management Information System (IFMIS) was set up to support Government's business processes by ensuring accountability, transparency and consequently enhancement of public service delivery. The IFMIS integrated onto one platform, its main business processes such as budgeting, procurement, accounting, fleet management, asset management, audit and projects.

Your Committee was further informed that the IFMIS had been rolled out to forty-four (44) sites while implementation remained outstanding in seven (7) sites, including State House, Electoral Commission of Zambia, National Assembly, Office of the President – Special Division and the three security wings (Zambia Army, Zambia Air Force and Zambia National Service). However, the Ministry of Finance was projecting to complete the full roll-out to the remaining institutions by the end of 2017.

In this regard, therefore, over 95 percent of the Central Government budget was being transacted through the IFMIS. This had greatly improved the daily recording and reporting of public finance data as Government transactions were recorded in real time. Further, the auditing of ministries, provinces and spending agencies had also been eased on account of better access to financial data.

## **PART VI**

### **10.0 Quarterly Review of Performance of the 2017 Budgets of Ministries from the perspective of Non-State Actors**

#### ***i. Review of Ministry of General Education***

Your Committee was informed that education was a very important sector because the largest portion of the population was of school going age in Zambia. However, your Committee was informed that despite the sustained growth in enrolments, the education system continued to face numerous challenges such as the limited share of the education budget going towards service delivery. Despite the general trend that the education sector budget had been receiving the third highest allocation of the National Budget from 2015, to 2017, it was worrying that the number of out of school children continued to increase (currently standing at about 800,000) due to inadequate funding. The underfunding had compromised the quality of services in the sector. In view of the above, poor learner outcomes had been consistently highlighted in the findings of all the National Assessment Surveys that the Ministry of General Education had undertaken since 1999.

According to the 2016 Status of Education Report, a *Study on the Education Gaps and Domestic Financing in Zambia*, the low financing to the education sector resulted in inadequate teaching and learning materials, teachers and infrastructure, among other things.

Your Committee was informed that these affected the quality of education services delivered, in turn compromising learning outcomes.

Your Committee was further informed that the policy environment in the education sector still remained uncertain as all the sector policies and laws were either in draft or being reviewed. In addition, your Committee was informed that the access to budget expenditure information from the Ministry of General Education and some of the institutions under the Ministry of Higher Education was difficult because of the lack of a legal framework to support the free access to information.

Your Committee was informed that evidence obtained during the implementation of social accountability activities on the Copperbelt, Eastern, Luapula and Western Provinces, showed that as at February, 2017, none of the ninety-six (96) targeted schools had received funds for the first Quarter of 2017. Further, the District Education Board Secretary Offices only received the first quarter funding in the second week of April, 2017, for disbursement to schools. By the second week of April some schools in these provinces had not yet received funding. In view of the above, actual releases to the schools in terms of school grants were untimely and inadequate to achieve the desired quality of education in the country.

Your Committee was given a typical example of Mpika District which in the first quarter of 2017, received a late disbursement of K42, 000 that was to be shared among 122 schools. This meant that each school was expected to receive on average about K344.00 which was very inadequate.

Your Committee was informed about some revenue proposals which when implemented would help finance the sector, including the following:

- a) a 3 percent tax on business houses so as to create a fund for financing of education;
- b) tapping into diaspora remittances. This is an area that has potential, but is currently untapped in the Zambian case; and
- c) increasing the contribution of resource rent, for example, raising Mineral Royalty to realistic levels.

## ***ii. Performance of Budget***

On budget performance, your Committee was informed that there was a skewed distribution of public resources towards primary education that had serious implications for progression to secondary education and consequently for tertiary education as well. Further, the budget for infrastructure remained at a constant K1 billion in 2017, indicating that the budget performance may not be in tandem with the sector's objectives and targets as set out in the sectoral plans, such as the National Implementation Framework.

## ***iii. Output-Based Budgeting***

Your Committee was informed that the Output-Based Budget (OBB) provided for review of performance and also the realignment of set targets upon the completion of a financial year. Your Committee was further informed that OBB had allowed for the allocation of resources based on outlined target areas. Furthermore, the OBB provided for an opportunity to channel resources to key priority areas in the sector, thus providing a clear link between sector plans and budgets. Your Committee was informed that, in addition, the OBB was going to enable education stakeholders to see results against budget objectives and to identify reasons for

failure to achieve set objectives. This would help the stakeholders to assess whether funds expended on achieving a particular outcome provided value for money.

#### **iv. Review of Ministry of Agriculture**

Your Committee was informed that the national budget for 2017, was increased from K53.14 billion in 2016, to K64.51 billion (21.4 percent) or 27.2 percent of the Gross Domestic Product (GDP). Your Committee was further informed that the budget to the agricultural sector had almost doubled in 2017, with a total allocation of K6.08 billion from K3.43 billion in 2016. In addition, the share of the budgetary allocation to the agricultural sector against the National Budget increased from 6.5 percent in 2016, to 9.4 percent in 2017, almost hitting the Comprehensive Africa Agriculture Development Programme (CAADP) target of 10 percent. However, for this allocation to be meaningful, the quality of the allocations should be taken into account as well as the budget releases.

Your Committee was further informed that the 2017 Budget aimed to achieve the following in the agriculture sector:

- a) to develop a sustainable, diversified and competitive agriculture sector; in particular to promote diversification to cash crops like cotton, cashew nuts, soya beans, cassava and rice;
- b) to promote fisheries and livestock by establishing eighteen artificial insemination centres, cordon line in Shangombo to Jimbe, four fingerling centres in Rufunsa, Mungwi, Kasempa, and Chipopo, and expanding the Fisheries Development Fund;
- c) to fully migrate to e-voucher starting in the 2017/18 agricultural season;
- d) launching of Cashew Nut Infrastructure Support Program (US\$55.4 million) for 600,000 beneficiaries in Western Province;
- e) setting up of twenty irrigation schemes under the Public Private Partnership (PPP) model, particularly in farm blocks;
- f) use of Information Communication Technology to improve delivery of extension services to farmers;
- g) policy consistency with regards to agricultural marketing and trade;
- h) scaling up Food Security Pack (FSP) from 30,000 to 40,000 beneficiaries and increased allocations to social cash transfers from 302 to 552 million Kwacha; and
- i) creation of a US\$40 million Fund under the Emergent Farmer Support Programme to support 1,000 emergent farmers in mechanisation of crop production.

Your Committee was informed that so far as in the first quarter no meaningful strides had been made on most of the set targets in the budget as indicated above.

#### **v. Budgetary allocations versus releases**

Your Committee was informed that in order to establish whether the country was moving in the right direction, an analysis of budget releases and spending against the budget was carried out by some stakeholders. It was observed that some budget lines received limited funding even at the end of the year. However, your Committee was informed that it was good practice to take stock every quarter in order to raise red flags for corrective measures to be undertaken.

#### **vi. Emergent Farmer Fund**

Your Committee was informed that Government allocated K2 million to the Emergent Farmers Assistance Fund to benefit 1000 farmers. As at 31<sup>st</sup> March, 2017, none of the funds budgeted for this purpose had been released. Further, there were very scanty details about the operations of the Fund. Your Committee was informed that for the fund to be effective, it should be administered through the financial sector and that farmers should qualify through a merit based system.

**vii. *Farmer Input Support Programme and Food Reserve Agency***

Your Committee was informed that with regards to the Poverty Reduction Programmes (PRPs), about 15 percent of the allocation to FISP and FRA had been released by the end of first quarter of 2017. However, the K155 million was directed towards the Government signature programmes FISP and FRA. FISP and FRA was allocated about 70 percent of the total allocation to the Ministry of Agriculture (K 5.4 billion) in the 2017 Budget. Further, if 8 percent was subtracted for Personal Emoluments, only 22 percent was left to fund all the other agricultural programmes and activities in the entire Ministry. This demonstrated that there was still an imbalance between FISP/FRA and other important Ministry of Agriculture activities in the Budget.

However, despite the generous funding to PRPs (mainly FISP and FRA), rural poverty remained high. Therefore, there was a need for reallocation of resources to key drivers of agricultural growth such as Research and Development (R&D), extension services, livestock production and disease control, and rural infrastructure such as feeder roads and irrigation.

**viii. *Progress to full migration to e-FISP starting in the 2017/18 Agricultural Season***

Your Committee was informed that between the 10<sup>th</sup> and 11<sup>th</sup> of March, 2017, the Ministry of Agriculture organised e-voucher/e-FISP review meetings which were attended by a broad range of stakeholders and a number of Ministers including, but not limited to the Ministers of Agriculture and Finance. Your Committee was informed that the Minister of Finance asked the stakeholders to develop a roadmap for the nationwide roll-out of the e-FISP. If implemented well, the e-FISP was going to achieve the following:

- a) reduce public expenditure on the provision of inputs; essentially, the private sector would assume most of the responsibility of input procurement and distribution, whilst the Government would concentrate on its core functions of providing the funds to the right beneficiaries and providing oversight and monitoring progress;
- b) bring in more private sector participation in agro-input distribution, thereby promoting competitiveness and transparency in the supply and distribution of inputs;
- c) ensure timely delivery and access to inputs by smallholder farmers;
- d) allow farmers to choose inputs of their choice thereby promoting agricultural diversification; and
- e) reduce leakages and increase the number of intended beneficiaries by linking the e-cards to a particular farmer and their National Registration Card.

Further, your Committee was informed by one of the stakeholders, Indaba Agriculture Policy and Research Institute (IAPRI), that it had been monitoring the implementation of the e-voucher pilots in thirteen districts and the expanded pilot covering thirty-nine districts in all the ten provinces. The purpose of monitoring the e-FISP implementation was for

making recommendations on how to improve the system going forward. However, your Committee was further informed that the findings from these visits revealed that despite implementation challenges, the e-FISP system had crowded-in more private sector participation in the distribution of inputs to rural farmers in pilot districts. During 2015/16 farming season, more than 230 new agro-dealers came on board and this number increased to 422 during the 2016/17 season. Most of these agro-dealers reported setting up multiple shops in different districts. Agro-dealers also stocked more diverse inputs in their shops. The system also gave hope to move from a maize-centric agricultural structure to a more diversified agricultural sector.

Your Committee was informed that to successfully roll-out the e-voucher programme nationally, there was need to consider a number of options as detailed below.

- a) *Funding* for the e-voucher must be made available on time to ensure timely activation of e-cards to enable farmers redeem agro inputs early.
- b) To ensure that all the stakeholders understood the programme objectives clearly, there was need to conduct *a national sensitisation programme* that could be done through community radio station, television station, print media, etc. The sensitisation programme, among other things, should clearly spelt out “Dos and Dents” for farmers, cooperatives, agro-dealers, banks and Ministry of Agriculture staff to help facilitate smooth operations of the programme.
- c) To avoid delayed e-card activations, banks could tie activations to farmer contribution deposits such that once a farmer deposited his/her 19 percent contribution (K400), the system should automatically activate the farmer’s e-card. Such an electronic system would eliminate delays caused by a labourious system where lists were managed manually. There should be a system that allowed local banks to handle issues of lost PIN codes including activations. It was recommended that banks needed to set-up dedicated desks to handle e-voucher farmer deposits and other issues during the peak period. There should also be a mechanism that allowed farmers to use any bank that was in their locality.
- d) It was of great importance to have an effective monitoring system throughout the life of the programme to enhance trouble shooting. Another important aspect was that of having bar codes for all agro products covered under the e-voucher for proper monitoring and evaluation of the programme on diversification.

Your Committee was availed the road map for rolling out e-FISP as detailed in the Table below.

**Table 25. Proposed Road Map for Rolling out e-FISP**

Timing	Action required	Expected Lead actors Outputs		Notes
April	Granting of Authority by Cabinet and clear commitment to roll out e-FISP	Government (The Executive, Ministry of Finance (MoF), Ministry of Agriculture (MoA), Ministry of Fisheries and Livestock (MFL))	Authority granted and public statement issued	Clear message from the Executive and Ministries responsible for implementation that there is no turning back and that resources will be sought to fund e-FISP
April	Set up public-private task force to oversee implementation and tackle arising challenges	MoA/MFL/MoF	Task force formed	There are a number of stakeholders who can commit their time and funds to help Government oversee the successful implementation. This should include institutions who have been supporting farmers through electronic vouchers, e.g., FAO, ZNFU.
April – May	Review beneficiaries and compile list of 2017 beneficiaries and make it electronic	MoA/MFL	Updated list of beneficiaries	FAO through its country representative offered at the FISP Indaba to help Government to register farmers and sensitisation
April – May	Procurement of cards for all verified beneficiaries	MoA/MFL/MoF/Banks	Cards printed and collected from banks	Meetings with all selected/participating banks, funds made available for e-cards printing and collection of cards from banks
April – May	Set up of an Integrated Information Technology working group	MoA/MFL	Integrated Information Technology working group formed	The task force should include the Banks, representatives from phone companies and technology companies
April – May	Publicise the range of agro inputs that are covered under the e-FISP system	MoA/MFL/Stakeholders	e-FISP inputs publicised	Set list of inputs that e-FISP will be extended to so that agro-dealers/input suppliers know the full opportunity and can plan stocks ahead of the agro-dealers selection process
May – June	Agro-dealer selection, registration and training.	MoA/MFL/Stakeholders	Agro-dealers selected	Train agro-dealers and advise them on stocking a wide range of products to promote agricultural diversification. This could be done with the assistance of Institutions such as Musika who have experience with training agro-dealers

Timeline	Action required	Expected Lead actors	Outputs	Notes
June – July	Train district staff and other stakeholders involved in the e-FISP implementation	MoA/MFL	Provincial and District Coordinators (PACOs & DACOs), Provincial Marketing Officers, District Marketing Development Officers, Extension officers trained	MoA to make available the e-FISP implementation manuals and other e-FISP awareness materials
June – July	Publicise the range of agro inputs that are covered under the e-FISP system and train farmers on e-card operations	MoA/MFL	e-FISP inputs publicised. awareness programmes - e-FISP awareness materials printed and distributed	Having defined the inputs and selected agro-dealers. This is the time to educate farmers in how the cards work, as well as what they can purchase. This will need to be done as part of DACOs' role in each district, as well as with central information programmes
Aug – Oct	e-FISP roll out	MoA/MFL	Farmers' deposits and e-card activations/input redeeming	With all modalities in place (finances, farmers identified and selected agro-dealers trained and notified of demand expectations), cards can be distributed to target beneficiaries
April – Dec	e-FISP monitoring	MoA/MFL/IAPRI	Monitoring and Evaluation	Other interested stakeholders can join to help with funding the monitoring exercise. Monitor programme throughout the course of the roll-out to ensure corrective measures are taken as soon as they happen.

Source: IAPRI/MoA/Stakeholders' suggested roadmap on rolling-out e-FISP nationally

## PART VII

### 11.0 Committee's Local Tour

Your Committee undertook a local tour of Mansa, Samfya, Solwezi, Kabompo and Zambezi in Luapula and North-Western Provinces. Your Committee's tour was a fact finding mission to assess the implementation of the first quarter of the 2017 Budget in the two provinces and five districts as part of the overall review of the budget implementation in ministries, provinces and spending agencies.

#### *i. Courtesy call on the Provincial Minister – Luapula Province*

Your Committee commenced its tour by paying a courtesy call on the Provincial Minister of Luapula Province. The Minister welcomed your Committee and thanked it for choosing the Province to carry out its fact finding mission. With regard to the various programmes and projects funded in the first quarter which your Committee was following-up, the Minister informed your Committee that there was progress on some projects and that some projects had stalled because of delayed funding. He added that although some projects received funding, the funds were inadequate to enable significant progress in implementation. He, therefore, appealed to your Committee to continue providing the checks and balances to

ensure that the people of the province received adequate and timely releases that would enable value for money in the delivery of goods and services.

**ii. Meeting with the Provincial Officers, Luapula Province**

Your Committee held a meeting with Provincial staff, in order to be acquainted with the performance of the first quarter of the 2017 budget. Your Committee was informed that the Province had a number of active projects in various districts. However, your Committee heard that most of the funds were for carryover projects from previous years. Your Committee was informed that in the first quarter of the 2017, the number of projects that received funding in various districts of the Province were as follows: Nchelenge - 9, Samfya - 2, Mansa – 9 and Milenge - 1. The total budget for projects throughout the Province in 2017, amounted to K330.4 million and the amount released in the first quarter totalled K34.6 million or 10 percent of the Budget. However, the projects, which were funded directly through line ministries, were not fully captured. Your Committee observed that this was an anomaly and encouraged Provincial Officers to capture all resources due to the Province by producing a local yellow book which would cover all projects and activities that were planned to be executed in the Province and where the funds were lodged in the Appropriation Act.

Your Committee was informed that the implementation of projects in the Province suffered a number of setbacks including the following:

- a) releases for most of the projects in the Province were less than 25 percent of the annual budget;
- b) releases were received so late in the Province, specifically in last week of March, making it impossible for such funds to be utilised by the end of the quarter;
- c) procurements were delayed because these were subject to receipt of funds and thereby adversely affecting the implementation of projects; and
- d) information on projects funded through Headquarters was not available in the Province making it difficult for such projects to be monitored by the Province.

More importantly, because funding was received late and the amounts did not cover the entire scope of earmarked activities, the Province and districts had to redesign bid documents for partial procurement. Consequently, your Committee observed that funds received for projects in the first quarter had not been expended at the time of its enquiry. Furthermore, the Permanent Secretary explained that the Province had very little control over funds sent direct to provincial offices of ministries, for example, the Provincial Education Office received funding directly from the Ministry of Education Headquarters in Lusaka. However, even if these funds were sent directly to the ministries, the amounts were too negligible to implement a project in full.

With regard to budget tracking, the Permanent Secretary informed your Committee that the Province had prepared a budget implementation plan which facilitated budget monitoring. Further, the Permanent Secretary explained to your Committee that the Province did not take part in revenue mobilisation making it very difficult to monitor revenues in the Province. The Province had written to the Zambia Revenue Authority regarding this matter, but was still awaiting response.

**iii. Visit to various projects**

Following its meeting with the Minister, your Committee visited two projects. The first Project was the rehabilitation of the Provincial Administration roof structure and associated works. Your Committee was informed that out of the budgeted K982, 000.00 required to undertake planned works, the Ministry of Finance released K200, 000.00 towards the Project in March, 2017. Your Committee learnt that so far, the Department of Public Infrastructure in liaison with Procurement and Supplies Unit had only prepared solicitation documents for procurement of works contract and no works had commenced despite receiving funding. Your Committee was further informed that the initial scope of works should have included removal and replacement of existing asbestos roofing sheets with colour coated IBR roofing sheets on steel supports. Other works were electrical installations, ceiling and painting of the entire Provincial administration building.

**Picture 1: State of Provincial Administration building-Mansa**



**Picture 2: State of Provincial Administration building-Mansa**



Your Committee heard that with the release of the first quarter funding amounting to K200,000.00, it was decided that works should be prioritised according to the disbursement and beginning with the most deteriorated parts of the building. However, bidding documents for procurement of works were ready for floating.

The second Project was the rehabilitation and upgrading of 28.25 km of selected urban roads to bituminous standards in Mansa by China Civil. Your Committee was informed that the contract sum for the road works was K216 million. Your Committee was informed that the contractor was paid K28,500,000 from the total of K32,000,000 released in the first quarter of 2017 and that the contractor had so far fully mobilised by establishing the camp site, procuring project vehicles and engineer's facilities. Although the Project was scheduled to finish in 2018, works on the roads did not start in the first quarter of 2017, despite being funded.

**Picture 3: China Civil camp site -Mansa**



**iv. *Courtesy call on the District Commissioner – Samfya***

Your Committee was welcomed to Samfya District by the District Commissioner who submitted that the District was implementing a number of projects in the first quarter of 2017. The District had received a fair share of investment, including rehabilitation of township roads and the Musaila- Lumbwa- Saisala Road. These works were progressing well and the contractor was on site laying culverts. However, the District Commissioner was quick to mention that funds for projects were released late and amounts released were insufficient. The Commissioner also informed your Committee that activities under line ministries in the District were difficult to monitor since funding for these activities was remitted directly from Lusaka.

**v. *Visit to various projects***

Following its meeting with the District Commissioner and officials, your Committee visited two projects in the District. The first Project was the repair of a 1x3 class room block whose roof was blown off at Samfya Primary School. Your Committee was informed that the budgeted amount for the Project in 2017, was K100,000.00 and that the whole amount was released in the first quarter. Although the commencement of the repairs was delayed by the

procurements procedures, the works were currently going on and an amount of K 48,000 had been spent at the time of the visit.

**Picture 4: Rehabilitation of Samfya Primary School-Samfya**



**Picture 5: Rehabilitation of Samfya Primary School- Samfya**



The second Project was the rehabilitation and upgrading of 22km of selected urban roads to bituminous standards in Samfya. Your Committee heard that although the Project was a carryover, K95,574,475 was budgeted for in 2017 and K27,175,193 was released in the first quarter. The works were described as being 97 percent complete.

**vi. Courtesy call on the Provincial Minister – North-Western Province**

Before inspecting projects in the Province, your Committee paid a courtesy call on the office of the Provincial Minister. The Director of Human Resources in the Province welcomed your Committee and informed it that the Minister and the Permanent Secretary were out of the

Province on duty. However, she informed your Committee that the Province appreciated the visit by your Committee.

**vii. Visit to various projects**

After the courtesy call on the office of the Provincial Minister, your Committee visited three projects which received funding in the first quarter of 2017, as outlined below.

**Police Provincial Headquarters – Solwezi**

Firstly, your Committee visited the construction of a three storey Provincial Police Headquarters in Solwezi which was being constructed by ZamChin Construction Ltd at a contract sum of K21,941, 156.40. The Project commenced on 16<sup>th</sup> January, 2014 and was due for completion on 16<sup>th</sup> June, 2016. Your Committee was informed that due to funding constraints, the end date was revised to 31<sup>st</sup> July, 2017. Further, your Committee was informed that a cumulated amount of K5,145,078 had been paid to date which was 23.5 percent of the total project sum. Your Committee was informed that the Project was 42 percent complete. The Project received a sum of K650,000.00 in the first quarter of 2017, which was released and paid to the Contractor through the Ministry of Housing and Infrastructure Development. Your Committee observed that the Project had stalled.

**Picture 6: Construction of Police Headquarters-Solwezi**



Secondly, your Committee visited the construction Project at Solwezi Stadium in Solwezi which was being undertaken by Priluck Industries at a contract sum of K362,976.30. Your Committee was informed that construction of the Project started in 2015 and was due for completion in 2016, indicating delayed completion. The Project Engineer informed your Committee that the Project was under the Ministry of Youth and Sport and that the scope was to rehabilitate Solwezi Stadium's Caretaker's House and construction of sanitary facilities at the stadium. The financial progress of the project was at 19.2 percent whilst physical progress was 33 percent.

Your Committee was informed that a sum of K70,000 was released and paid to the contractor as at December, 2016 and that a sum of K40,000.00 was paid in the first quarter of 2017. However, a certificate amounting to K41,552.28 was still outstanding from 2015. The Engineer reported to your Committee that the Project had stalled because of inadequate and

delayed release of funds. Your Committee observed that the Project had stalled for a long time and was unlikely to yield value for money. The structures are shown in pictures 7 and 8 below.

**Picture 7: Rehabilitation of Caretaker's House at Solwezi Stadium -Solwezi**



**Picture 8: Construction of ablution blocks at Solwezi Stadium -Solwezi**



Thirdly, your Committee also inspected the constructed boys ablution block at Mutanda Secondary School in Solwezi which was undertaken by Janki Construction & Engineering. The Project contract sum was K739,985.94 and was completed in 2013. Although the Project was completed, your Committee was prompted to visit the site because of the higher contract sum compared to the stated scope of works in the official brief provided to your Committee.

Your Committee was initially informed that the scope of the Project was to construct one boy's ablution block with septic tanks, but during the visit, your Committee learnt that the scope of the Project included one boy's dormitory. This revelation justified the contract sum that was not properly explained by the Provincial Administration. Furthermore, your Committee was informed that a sum of K73,998.59 was paid in the first quarter of 2017. Your Committee was happy with the execution of the project but noticed the challenges relating to delayed release of funds which resulted in delayed completion of the works. Picture 9 below shows part of the ablution block constructed.

**Picture 9: Construction of Boys Ablution Block Mutanda Secondary School -Solwezi**



**viii. Courtesy call on the District Commissioner – Kabompo**

Your Committee commenced its tour of Kabompo with a courtesy call on the District Commissioner. The District Commissioner informed your Committee that the District was honoured with the visit. Your Committee was informed that the District was connected to the national electricity grid on 23<sup>rd</sup> January 2017. Furthermore, the District was implementing a number of projects including the construction of a maternity annex at Mumbeji Health Post and a health post at Ndungo which were both at advanced stages of completion. The District was also running programmes like, Village Banking in township sub centres. Currently, there were forty-nine beneficiaries in the programme which was now in its third phase.

The District, however, had challenges implementing a number of projects like the township roads. Your Committee was informed that apart from the main road (M8), all the roads in the District were in a bad state. Further, a number of bridges were washed away and needed rehabilitation. They included: Kasalya Washa Chinkokwelo, Dishiu, Kasombo, Kalwilo North; and Chifuwe South. The efforts of Government, through the Disaster Management and Mitigation Unit (DMMU), were appreciated, in particular the work being done at Nyela Bridge in Lunyiwe Ward. The District Commissioner appealed to the Government for timely release of funds for the District to enable it implement the projects.

**ix. Visit to various projects**

Following the courtesy call on the District Commissioner, your Committee visited the rehabilitated Kabompo Guest House which was undertaken by MSM Agro Supplies Ltd at a contract sum of K387,592.00 through the Provincial Administration. Your Committee was informed that a total of K346,416 due to the contractor had been paid to-date including K40,420 released in the first quarter of 2017, leaving a balance of K38,176. Furthermore, your Committee was informed that the Scope of Works included: mending of wall and floor cracks, replacement of ceiling, mending of roof leakages, carpentry, plumbing, electrical, floor and wall tilling, painting and external works. However, although the physical works

were reported to be 100 percent complete, the ceiling of the Guest House was still in a deplorable state as shown in the pictures below.

**Picture 10: Rehabilitated Kabompo Guest House – Kabompo**



**x. *Courtesy call on the District Commissioner – Zambezi***

Your Committee was welcomed to Zambezi by the District Commissioner who thanked it for finding time to visit the District and inspect projects funded in the first quarter of 2017. The District Commissioner informed your Committee that the District had a number of projects which were carryovers from previous years. Your Committee was informed that a number of projects had stalled due to lack of funds. Furthermore, although some projects like the construction of Chief’s Palace had received K650,000, the money was not released to the District. The District Commissioner also informed your Committee that two police posts at Nize and Mukande Nkuda were budgeted for in 2017, at K4.1 million and K3.7 million respectively but no funding had been released as at the time of the visit. He, however, reported to your Committee that the District was now connected to the national electricity grid.

**xi. *Visit to various projects***

To ascertain what was happening on the ground, your Committee visited the site for the construction of a police post and three low cost houses in Zambezi which was being undertaken by Fresno Ltd at a contract sum of K3,234,866. Your Committee was informed that although the works were on-going, the contractor had financed the works using own resources. So far, a certified amount of K789,000.00 had been spent by the contractor. Because of poor releases of funds, the Project which started on 16<sup>th</sup> May 2016, and was supposed to end of 16<sup>th</sup> September 2016, had been rescheduled to end on 16<sup>th</sup> August 2017. The late and sometimes non release of funds for the Project had negatively impacted its implementation.

**xii. Meeting with the Provincial Officers, North-Western Province**

Following the inspection of projects in the Province in three Districts - Solwezi, Kabompo and Zambezi, your Committee held a meeting with the Permanent Secretary and Provincial Officers.

The Permanent Secretary acknowledged that the Province faced a lot of challenges like huge arrears, and lack of critical staff in some departments because some of the positions had been frozen by the Public Service Management Division. However, he expressed happiness that the presence of your Committee in the Province would help shed more light on various challenges faced by the Province to Central Government.

**xiii. Courtesy call on the Provincial Minister – Copperbelt Province**

Following the conclusion of the tour of Luapula and North-Western Provinces, and on its way back to Lusaka, your Committee paid a courtesy call on the Copperbelt Provincial Minister.

## **PART VIII**

### **12.0 Committee's Observations and Recommendations**

After careful consideration of submissions by witnesses and findings from the local tour, your Committee's observations and recommendations are set out here under.

**i. Resource allocation in the Budget**

Your Committee observes that the current structure of budgeting is in such a way that much of the funds for projects sit at Ministry of Finance headquarters. Your Committee recommends that funds for procurement and other activities at provincial and district centres

should be allocated to the provincial and district centres where activities are happening rather than at Ministry Headquarters. Your Committee further urges Cabinet office and the Ministry of Finance to speed up the implementation of the fiscal decentralisation programme to enable effective deployment of resources at the local government level.

**ii. Provision for Budget Committees**

Your Committee observes that some ministries do not have budget committees because it is not a requirement under *the Public Finance Act* where only audit committees are provided for. Your Committee observes that the budget committees are important in executing the budget by consolidating resources from various sources into an Institution's budget. This will make monitoring of projects easy and efficient. Your Committee recommends that budget committees be provided for in the revised *Public Finance Act* and that the Controlling Officer should chair the budget committee, to provide input into quarterly performance and review of the budget.

**iii. Output-Based Budgeting**

Your Committee observes that the Ministry of Education is one of the two Ministries piloting the Output Based Budget (OBB) which has not brought on board all the departments in the Ministry. Your Committee also observes that OBB only reports programmes and sub-programmes at headquarters level while provincial and districts do not seem to be aware of OBB.

In view of the above observation, your Committee recommends that OBB be implemented at Provincial and District level to help ease monitoring of resource utilisation. Furthermore, your Committee recommends that sensitisation activities should be extended to Ministries, Provinces and Spending Agencies (MPSAs) for them to appreciate the benefits of implementing OBB as an important tool of enhancing results as opposed to overly concentrating on inputs.

**iv. Roll- out of e-FISP and phase out of conventional FISP**

Your Committee observes that the e-voucher has been piloted in thirty-nine (39) districts. Your Committee further observes that poor ICT infrastructure in rural areas may hamper the 100 percent rollout in the 2017/2018 farming season. However, your Committee is aware that almost all districts in the country are on the mobile network which can facilitate e-voucher transactions considering that financial transactions do take place using this platform.

Your Committee further observes that the Ministry of Agriculture is reluctant to implement the road-map to roll out e-FISP nationwide to the remaining districts. Your Committee recommends that the Ministry of Agriculture should refrain from giving excuses on the implementation of e-FISP. Your Committee is aware that the 2017 budget only provided for e-FISP. In this regard, your Committee recommends that the roll-out of the e-voucher should be 100 percent as per Government's intention in the 2017 budget and completely phase out conversational FISP. Your Committee reiterates its position that e-voucher should be rolled out without raising issues of digital map because all district centers have mobile networks which can facilitate all the transactions.

**v. Food Reserve Agency**

Your Committee observes that the budget for the Food Reserve Agency (FRA) in the Yellow Book is not broken down into activities to be carried out in the financial year. The Agency's management is given the leeway to decide where to apply the resources. Your Committee observes that this unique arrangement is only applicable to the Agency because the Government tied the budget to carry over stocks. Your Committee recommends that the budget for FRA should be broken down into the attendant activities to facilitate easy monitoring and auditing of funds allocated to various activities.

**vi. *Dismantling of arrears***

Your Committee notes that the Government is committed to the dismantling of arrears. Your Committee also notes that in the first quarter of 2017, K420.9 million was released towards the dismantling of arrears relating to the 2016/17 farming season under the Farmer Input Support Programme, and the commencement of preparations for the 2017/18 farming season. However, your Committee notes that a number of carry over projects in provinces have stalled due to poor funding which eventually leads to cost overruns and lost opportunity in terms of service delivery. Your Committee recommends that the huge backlog of arrears be cleared to enable completion of projects which have stalled and to make room for the start of new projects and improve service delivery, especially in the rural areas.

**vii. *Inadequate, untimely and unpredictable release of budgeted funds***

Your Committee notes that the release of budgeted funds to Ministries and other grant-aided institutions has been inadequate, untimely and unpredictable, thereby making it difficult for controlling officers to effectively implement their activities. This scenario is common in all the three provinces visited by your Committee during the local tour study. Your Committee recommends that the Government should ensure adequate, timely and predictable release of funds for effective project implementation.

**viii. *Integrated Financial Management Information System***

Your Committee notes that the Integrated Financial Management Information System (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, into one platform, its main business processes such as budgeting, procurement, accounting, fleet management, asset management, audit and project management. Your Committee acknowledges that the IFMIS had been rolled out to forty-four (44) sites while implementation remains outstanding in seven (7) sites, namely; State House, Electoral Commission of Zambia, National Assembly, Office of the President – Special Division and the three security wings.

Your Committee also notes that the Ministry of Finance is committed to complete the full roll-out to the remaining institutions by end of 2017. However, it has been noted that currently, over 95 percent of the GRZ budget is being transacted through the IFMIS. This has greatly improved the daily recording and reporting of public finance data as Government transactions are recorded in real time. Also, the auditing of Ministries, Provinces and Spending Agencies had also been eased on account of better access to financial data. However, your Committee observes some disparity in figures reported by the Ministry of Finance and some ministries. For instance, in the first quarter of 2017, Ministry of Finance reported that K790.1 million was released for the Ministry of Agriculture, but the Ministry reported to have received K662 million.

To avoid such discrepancies in reporting, your Committee recommends that the Ministry of Finance expedite the roll-out of IFMIS to all the remaining sites within the set time frame of end of 2017.

**ix. Information Bill**

Your Committee notes that information on budget expenditure is not easily made available by some ministries and other grant aided institutions. Your Committee also notes that the non-availability of information on performance of the first quarter of the budget execution is affecting the public's ability to monitor the performance of the Budget. In this regard, your Committee recommends reviewing the *Public Finance Act* to provide for participation of budget performance quarterly reports to the public and the speedy enactment of the Freedom of Information Bill.

**13.0 Conclusion**

Your Committee wishes to pay tribute to all the stakeholders who appeared before it and tendered both oral and written submissions. On behalf of Members of your Committee, I wish to thank you, Mr Speaker, for affording us the opportunity to serve on the Committee for the First Session of the Twelfth National Assembly. Your Committee also appreciates the services rendered by the Office of the Clerk of the National Assembly. Your Committee is very hopeful that the observations and recommendations contained in this Report will go a long way in improving economic governance of our country.

M Simfukwe, MP  
**CHAIRPERSON**

June, 2017  
**LUSAKA**

**APPENDIX I**

**List of Witnesses**

Ministry of Finance (MOF)  
Ministry of Health  
Ministry of Agriculture  
Ministry of General Education  
Zambia National Education Coalition (ZANEC)  
Indaba Agriculture Policy and Research Institute (IAPRI)  
Food Reserve Agency (FRA)  
Zambia Revenue Authority (ZRA)  
Office of the President - North-Western Province Administration

## **APPENDIX II**

### **List of Officials**

Mr S C Kawimbe, Principal Clerk of Committees  
Ms M K Sampa, Deputy Principal Clerk of Committee  
Mr F Kateshi, Revenue and Expenditure Analyst  
Mr F Chikambwe, Committee Clerk  
Ms A Phiri, Typist  
Mr K Mwitwa, Intern  
Mr C Bulaya, Committee Assistant  
Mr M Chikome, Committee Assistant  
Mr D Lupiya, Parliamentary Messenger