NATIONAL ASSEMBLY OF ZAMBIA

REPORT

OF THE

EXPANDED BUDGET COMMITTEE

ON THE

ESTIMATES OF REVENUE AND EXPENDITURE FOR THE FINANCIAL YEAR 1ST JANUARY TO 31ST DECEMBER 2019

FOR THE

THIRD SESSION OF THE TWELFTH NATIONAL ASSEMBLY

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REPORT OF THE EXPANDED BUDGET COMMITTEE APPOINTED TO CONSIDER THE ESTIMATES OF REVENUE AND EXPENDITURE FOR THE FINANCIAL YEAR 1ST JANUARY TO 31ST DECEMBER, 2019 FOR THE THIRD SESSION OF THE TWELFTH NATIONAL ASSEMBLY

Consisting of:
Mr M Simfukwe, MP (Chairperson); Ms N M Subulwa, MP (Vice Chairperson); Mr L A Lufuma, MP; Mr S K Kakubo, MP; Mr P Phiri, MP; Mr F C Chaatila, MP; Mr D Mumba, MP; Mr M L Kafwaya, MP; Mr J Siwale, MP; Mrs S S Mulyata, MP; Mr H Kunda, MP; Mr A B Malama, MP; Mr E Kamondo, MP; Mr M J B Ng'onga, MP; Mr G M Imbuwa, MP; Mr G K Mwamba, MP; Mr E K Belemu, MP; Dr C K Kalila, MP; Mr M Jere, MP; Mr E J Muchima, MP; Mr N Samakayi, MP; Dr S Musokotwane, MP; Dr M Malama, MP; Mr P W Daka, MP; Dr M Imakando, MP; Mr C Miyutu, MP; and Mr D M Syakalima, MP.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir
The Expanded Budget Committee appointed to examine the Estimates of Revenue and Expenditure for the Financial Year 1st January to 31st December, 2019 has the honour to present its Report.

2.0 FUNCTIONS OF THE COMMITTEE

The functions of the Expanded Budget Committee are to:

(i) study and analyse the estimates of revenue and expenditure for 2019;
(ii) hear evidence on the 2019 budget from relevant stakeholders; and
(iii) make recommendations to the House that will inform policy formulation and implementation of future budget estimates.

3.0 MEETINGS OF THE COMMITTEE

Your Committee, in considering the 2019 Estimates of Revenue and Expenditure held twelve meetings during which it examined in detail all the submissions from various stakeholders.

4.0 PROCEDURE ADOPTED BY THE COMMITTEE

Your Committee requested for written submissions on the 2019 budget from various stakeholders who later appeared before it to give oral information on points of clarification arising from the written submissions.

The witnesses who gave oral and written evidence to your Committee are at Appendix I of the Report.

5.0 ARRANGEMENT OF THE REPORT

Your Committee's report is in three parts. Part I presents a summary of the various submissions to the Committee and concerns from the various stakeholders while Part II outlines submissions by the Government Ministries. Your Committee's observations and recommendations are in Part III.

PART I

SUMMARY OF SUBMISSIONS AND CONCERNS FROM VARIOUS STAKEHOLDERS

6.0. Your Committee interacted with various institutions, including members of the public, the academia, research institutions and civil society organisations. A synopsis of the submissions made by these stakeholders on the 2019 budget is presented below.

6.1. MACROECONOMIC FRAMEWORK FOR 2019

Your Committee was informed that the macroeconomic framework for Zambia is set to continue to promote economic growth and address high unemployment and poverty levels among the citizenry. It would also promote private sector growth and entrench macroeconomic stability through fiscal consolidation. It was envisaged that these would be achieved through the following listed macroeconomic objectives:

a. attain annual Gross Domestic Product (GDP) growth rate of at least 4 per cent;
b. sustain inflation within the range of 6 to 8 per cent;
c. raise international reserves to at least 3 months of import cover;
d. increase domestic revenue to not lower than 18 per cent of GDP;
e. reduce the fiscal deficit to 6.5 per cent of GDP;
f. prioritise the dismantling and curtail accumulation of arrears; and
g. reduce the pace of debt accumulation and ensure sustainability.

Your Committee was informed that one element that had been omitted in the 2019 Budget in comparison to the 2018 budget was the objective to "accelerate implementation of measures towards diversification of the economy". It was explained that while emphasis had been placed on the reduction of dependence on copper, it had not been clearly stated how else diversification would be attained in 2019. Furthermore, the budget did not highlight any employment objectives despite the theme of the Budget hinting at reduction of unemployment. Your Committee was informed that the current unemployment rate was 41.2 percent. This rate was considered quite high, which called for leveraging of the employment opportunities that came with private sector growth. It was expected generally that there would be a specific target in the 2019 budget, on the creation of the one million jobs that were first mooted in the Industrialisation and Job Creation Strategy of 2013.

6.2 MONETARY POLICY AND ITS IMPLICATIONS

Your Committee was informed that while the primary objective of the Central Bank was to keep inflation in the range of 6 to 8 per cent, there might be need to closely monitor other

macro-indicators which may pose risks to macroeconomic stability in 2019. These are discussed hereunder.

6.2.1 Inflation

Your Committee was informed that since 2017, the Bank of Zambia (BOZ) had broadly succeeded in maintaining inflation rate within the target range of 6 to 8 per cent. This was the one target that was at least consistent across the 2019 Budget, the Economic Stabilisation and Group Programme (ESGP) and the current Medium Term Expectation Framework (MTEF). However, the recent depreciation of the exchange rate of the Kwacha to major currencies entailed that risks of exchange-rate-pass-through inflation would remain insignificant going forward.

Your Committee was further informed that if the El-Niño weather forecast impact materialised, a lower harvest would inevitably put upward pressure on food prices. The recent hike in fuel prices was also expected to have an economy-wide effect as prices would be adjusted upwards. With inflation breaching 8.0 per cent in August, 2018, though falling to 7.9 per cent in September 2018, this variable was already pushing the upper bound of the target. These factors suggested a high risk of breaching the inflation target in 2018 and possibly in 2019. Thus, the monetary authorities would have to play a balancing act between keeping inflation low by raising the policy rate and being supportive to the already subdued growth by keeping the policy rate unchanged.

6.2.2. International Reserves Position

Your Committee was informed that good international practice was to maintain a minimum of 3 months of import cover as projected in the 2019 Budget Speech. Your Committee heard that the stock of international reserves was US$1.8 billion as at June 2018, providing approximately two months of import cover, down from US$2.1 billion as at December, 2017. This low level of international reserves was of particular concern given the openness of Zambia's economy and the country's heavy dependence on imports. These conditions left the economy vulnerable to speculative attacks on the currency or a situation in which the country was unable to pay its import bill, which would have detrimental effects on Zambia's heavily import-dependent economy.

The stakeholders argued that the Government should develop a robust strategy for accumulating international reserves by increasing the statutory reserve requirements for holding of United States Dollars and provide regular updates on progress towards the three-month target. Furthermore, they were of the view that measures would need to be put in place to not only minimise the import bill, but also to diversify the export portfolio in order to improve export earnings.

6.2.3. Financing

Your Committee was informed that there were huge risks associated with the financing objective. The stakeholders explained that while fiscal consolidation may be the theme, the Government's expenditure appetite had not waned in 2019 which was projected at 28.9

percent of GDP with domestic revenue targets set at 18.7 per cent of GDP. Maintaining spending levels and increasing taxation should decrease the deficit. However, this would be challenging in the face of the need to dismantle arrears, reduce the pace of debt accumulation and curtail domestic borrowing. Stakeholders were of the view that the deficit was likely to stand at around 9.6 percent of GDP in 2019 if amortisation is taken into account.

6.2.4 Debt Service

Your Committee was informed that the total debt service was estimated at K23.6 billion in 2019. Considering the current exchange rate, this translated to about US$2 billion. This was higher than the combined spending on education, health and social protection. Debt servicing was also expected to take up 42 per cent of domestic revenues. At 7.8 per cent of GDP, it was almost as high as the spending on public sector wages and salaries, which normally took up 8 to 9 per cent of GDP.

6.3. FISCAL POLICY FRAMEWORK FOR 2019

Your Committee was informed that Zambia would need tax and spending policies to deliver on the country's desire to support inclusive growth and reduce poverty, whilst delivering fiscal consolidation. The Government has proposed to raise a total of K56.1 billion or 64.6 per cent of the 2019 national budget from domestic revenue measures, representing 18.7 percent of GDP and an increase from an absolute figure of K49.1 billion in the 2018 budget. This would be difficult given pressures on spending arising from escalated debt servicing costs and would require a shift to private sector led growth, despite the continued investment in infrastructure.

6.3.1 Some Bold Revenue Measures

Your Committee was informed that despite the sluggish performance of most revenue streams in 2017 and 2018, the Government has proposed to collect more revenue in 2019 at 18.7 per cent of GDP in comparison to what was projected in 2018 at 17.7 per cent of GDP. The projected increases in revenue were expected to be driven by forecast significant improvements in VAT collections, upward collections from income taxes and substantial gains from mineral royalties, equivalent to 25.0 per cent at current copper prices.

Some of the bold measures the Government had proposed for tax and non-tax components in 2019 included introduction of the Earnings Before Interest Taxes, Depreciation and Amortisation (EBITDA) system; new tax regime on casinos, lottery, betting and gaming industry; re-introduction of Sales Tax in place of VAT; and changes to the mining fiscal regime. Furthermore, to encourage local manufacturing and create jobs, the Government proposed to reduce income tax to 15.0 per cent from 35.0 per cent for firms that added value to copper cathodes. The stakeholders were of the view that it would be important to assess whether it was plausible with these revenue measures and their implications, to raise the projected revenue.

6.4 CONCERNS BY STAKEHOLDERS

The stakeholders who appeared before your Committee raised various concerns on the 2019 budget. These are summarised below.

6.4.1 Risk of economic growth outturn being lower than projected and implication on fiscal deficit

Some stakeholders were concerned that economic growth had been subdued and that the GDP forecast of 4.0 per cent for 2019 was far below the average growth rates of 7 percent that was recorded between 2004 and 2014 and revised downwards from the forecast for 2019 in the Economic Stabilisation and Growth Programme (ESGP). They observed that apart from external shocks and drought, one major factor impacting on the growth potential of the economy was the large domestic borrowing that had crowded out the private sector and increased external debt service obligations. This had limited the effect of increased government expenditure and its multiplier effect on growth.

Further, stakeholders observed that over-optimism about growth may lead to over-optimism of revenue estimates. They were further concerned that, between 2012 and 2017, budgeted growth had been above the actual growth. This had serious implications for actual revenue generation and the deficit outturn, especially when the expenditure side was not revised according to growth projections.

6.4.2 Fiscal Deficit has remained high despite Fiscal Consolidation Pronouncements

A key concern by some stakeholders regarding the fiscal deficit target for the 2019 budget was that it may not be met because all national budgets since 2016 had targeted fiscal consolidation without much success as the deficit has been larger than targeted in most years, resulting in the growing public debt.

Several stakeholders emphasised that the 2019/2018 fiscal deficit target should be met in order to put the economy back on the path to macroeconomic stability. Moreover, stakeholders observed that the 2019 fiscal deficit was premised on a revenue increase as opposed to expenditure cuts. The main risk with this approach was that if Government failed to meet the revenue target for 2019 due to shocks, it may result in the deficit being higher than targeted as had been the case in 2018.

6.4.3 Budget Credibility

Low budget credibility in the last few years resulting from government's failure to meet its fiscal targets was a major concern to most stakeholders. The stakeholders identified the increasing infrastructure expenditure and, in the last two years, increased debt service as major drivers of the fiscal deficit. To improve budget credibility and have an inclusive and sustainable fiscal regime, various stakeholders emphasised the need to enact legislation aimed at strengthening procurement, loan contraction and budget implementation.

6.4.4 Silence on Some Pieces of Legislation

Some stakeholders were concerned that, while the Minister in her 2019 National Budget Speech committed to presenting to the National Assembly the amendments to the *Public Procurement Act* in 2019, she was silent on the proposed Budget and Planning Bill and amendments to the *Loans and Guarantees (Authorisation) Act, Chapter 366 of the Laws of Zambia*. These pieces of legislation had the potential to help enhance Parliamentary oversight on budget planning and implementation and also the debt acquisition process.

6.4.5 Increased External Debt and Domestic Debt putting Excessive Pressure on Conduct of Fiscal Policy

Most stakeholders were concerned that:

- public debt had increased such that the debt-to-GDP ratios had exceeded pre-HIPC levels. Public debt, including public guaranteed debt, had increased sharply from 8.1 to 63 per cent of GDP from 2011 to 2017;
- external debt had not only increased but also had increasingly comprised commercial debt as opposed to concessional (multilateral and bilateral) debt. As a result, the rising costs of commercial debts posed a risk to fiscal stability in 2019 and beyond;
- increased domestic debt borrowing was crowding out the private sector through increased lending rates and reduced availability of credit to the private sector. Moreover, the domestic arrears are impacting negatively on the private sector, contributing significantly to the high rate of non-performing loans ; and
- overall debt service in 2019 was expected to increase to 42.0 percent of domestic revenue leaving a relatively small budget for critical sectors such as the social sectors, agriculture and tourism. Thus, due to the increased debt service obligations, fiscal space for activities that would impact on growth was diminishing.

6.4.6 Declining International Reserves a risk for Macroeconomic Stability

Most of the stakeholders were concerned that international reserves had declined to only two months of import cover. The main factor was the increasing external debt service obligations and the worsening current account deficit. This had put pressure on the exchange rate as the ratio of external debt to internal reserves lay above 25 percent. Given the projected increase in external debt service for 2019, this posed a serious concern on the stability of the Kwacha and hence may lead to higher inflation.

Given the above, some stakeholders urged the Government to increase international reserves to three months of import cover as targeted in the budget. However, according to Ministry of Finance, the immediate solution lay in the Government getting the mineral royalty taxes in dollars. The stakeholders hoped that the Government would sooner rather than later be brought onto an IMF programme, which would not only inject balance of payment support into the economy, but would also improve investor confidence and hence an increase in foreign investments. Notwithstanding the above, stakeholders observed that the long term solution lay in export diversification.

6.4.7 Details and justification of the re-introduction of Sales Tax

Some stakeholders expressed concern that there was lack of detail on the change from VAT to Sales Tax, especially at this stage when the 2019 national budget had been unveiled. They argued that the proposed rate of Sales Tax, the measures taken to avoid the double taxation effect of Sales Tax, and measures to be taken to boost the manufacturing sector were all unknown except a mention from Zambia Revenue Authority (ZRA) that there would be exemptions. The only justification for replacing the well performing VAT was that Sales Tax would curtail the huge burden of VAT refunds.

6.4.8 Inflation has Largely Remained within the Target Range but Kwacha Depreciation and High Fiscal Deficit Remain a Serious Risk

Most of the stakeholders were concerned that although inflation had remained within the target range, the recent depreciation of the Kwacha and failure to contain the high fiscal deficit were major risk factors. The stakeholders lauded the publishing of debt reports by the Ministry of Finance as a way of improving information sharing and minimising the negative perceptions which partly contributed to excessive exchange rate depreciation.

6.4.9 Budget Revenues to Increase and be the Main Anchor for Fiscal Consolidation

Stakeholders expressed concern that the attempt to achieve fiscal consolidation using an increase in revenues may not be ideal as there may be resistance towards some of the introduced revenue measures particularly the changes in the mining taxation regime. A push-back by the mines would translate into the Government changing the regime and thereby affecting the fiscal deficit target.

6.4.10 Expenditures Continued to Increase Mainly on Account of High Infrastructure and Debt Servicing and Amortization Expenditures.

Some stakeholders expressed concern that a fiscal consolidation budget was having an increase in expenditure rather than a cut. They explained that while expenditure on infrastructure was commendable, it was increasingly becoming a burden on the budget and contributing to the high debt stock and servicing. Over time, the Incremental Capital-Output Ratio had increased significantly. Increasingly, it was taking a higher level of capital in order to achieve a one percent increase in growth. This entailed that the Government investments in the recent past had less success in delivering growth-enhancing capital formation. Therefore, rationalisation of infrastructure by focusing on projects with the greatest impact on growth such as feeder roads to cut back this expenditure component was critical. As a result, most stakeholders welcomed the Minister's announcements to review the *Public Procurement Act* so as to ensure value for money and also the establishment of a multi-sectoral body that would scrutinise public investments before inclusion in the national budget.

6.4.11 Austerity Measures Not Spelt Out

Stakeholders welcomed Government's pronouncement on the austerity measures to curtail further debt accumulation by, for instance, cancelling any pipeline loans. However, they

expressed concern that these measures were not spelt out clearly and also were not quantified.

6.4.12 The IMF Programme

Some stakeholders expressed concern over the Government's failure to negotiate a win-win International Monetary Fund (IMF) Economic Stabilisation and Growth package. They argued that Zambia's debt situation required a comprehensive approach and the IMF programme, would, therefore, be instrumental in bringing in additional assistance with a well established framework that donors and investors could buy into which, consequently, would contribute to an improved economic environment.

6.4.13 Broadening the Tax Base

Stakeholders acknowledged that the 2019 budget promoted the increase of revenue led fiscal consolidation by broadening the tax base. However, some stakeholders were of the view that the broadening of the tax base should be expanded a little bit more, especially in the informal sector. This was because it was a risky strategy to build on the increased revenue from an existing tax base, given that the implementation of revenue generation in the 2018 budget was slightly weak.

6.4.14 Child Nutrition

Stakeholders expressed concern that despite the Government having committed to spending K400 per child on nutrition per year, the Government in the 2019 budget had allocated K 16 per child for the whole year to nutrition, therefore, creating a shortfall of K 384 per child. This was a matter of grave concern.

6.4.15.Increase the Customs Duty on Powdered Milk

Some stakeholders were of the view that the increase of customs duty on powdered milk to 15 percent would negatively affect domestic producers who utilised this commodity as a key input into their manufacturing processes. They noted that the Dairy Association of Zambia currently did have the capacity to produce milk to satisfy the market. However, the demand for powdered milk used to manufacture a vast array of milk products on the domestic market could not be met by domestic producers. In view of the foregoing, the stakeholders recommended that the customs duty must be maintained at current level of 5.0 percent to support the domestic producers who utilised powdered milk as a critical input in their production processes.

Other stakeholders were of the view that there was need to clarify the usage of the commodity, whether domestic or industrial, for the intention of this revision to be actualised.

PART II

SUBMISSIONS BY GOVERNMENT MINISTRIES

7.0. In the quest to have an appreciation of the implications of the budget on the performance of some key sectors in the economy, your Committee undertook a brief review of the budgetary allocations of selected ministries. The submissions received from the sampled Government Ministries are summarised hereunder.

7.1 MINISTRY OF HOUSING AND INFRASTRUCTURE DEVELOPMENT

The Ministry submitted as follows:

7.1.1. Proposed 2019 Budget Estimates

Your Committee was informed that in the proposed 2019 budget, the Ministry had been allocated a total of K271, 853,198. This represented a decrease of 4 percent from the 2018 budgetary allocation. The additional funds were allocated to expenditure items as shown in table 1 below.

Table 1: Proposed Allocation to Expenditure Items

NO.	ITEM	2018 ALLOCATION	2019 PROPOSED ALLOCATION	VARIANCE	
		ZMW	ZMW	ZMW	%
1.	Personal Emoluments	24,796,200	26,188,731	1,392,531	5.62
2.	Non-Personal Emoluments	33,730,620	41,048,217	7,317,597	21.69
3.	Capital Expenditure (Infrastructure Development)	100,000,000	77,500,000	-22,500,000	-22.5
4.	Grants to Institutions	125,181,250	127,116,250	1,935,000	1.55
	Totals	**283,708,070**	**271,853,198**	**-11,854,872**	**-4.18**

7.1.2. Programme Focus Areas for 2019

Your Committee was informed that in 2019, the Ministry would focus on the programme areas that been highlighted in Table 2 below.

Table 2: Focus Areas for 2019

NO	ACTIVITY	2018 ZMW	2019 ZMW	VARIANCE ZMW
1.	Infrastructure development in new Districts	66,535,240	60,350,000	(6,185,240)
2.	Construction of National House of Prayer		1,000,000	1,000,000
3.	Construction of Stately Infrastructure	2,000,000	1,150,000	...(850,000)
4.	Inspection and Supervision of Projects	4,000,000	1,773,025	(2,226,975)
5.	Harbours and Canals Development	2,115,000	1,500,000	(615,000)
6.	Construction of Housing Units in new and old Districts	17,200,000	9,800,000	(7,400,000)
7.	Construction of Houses for the Poor and Vulnerable People	1,000,000	2,000,000	1,000,000
8.	Construction of retirement House for the Speaker of the National Assembly	-	3,000,000	3,000,000
9.	Review of Acts (NHA)	75,000	269,050	194,050
10.	Review and Formulation of Policies (Construction Industry Policy)	225,000	269,000	44,000
11.	Development of National Infrastructure Development Master Plan	500,000	748,500	248,500
12.	Coordination of AU2022 activities	-	12,500	12,500
13.	Implementation of the approved Organisational Structure	-	1,069,600	1,069,600
14.	Dismantling of Arrears (Goods and Services)	17,060,000	5,440,450	(11,619,550)
15.	Support to Provincial Infrastructure Offices – Supervision	-	4,000,000	4,000,000

7.1.3. Implications of Proposed 2019 Budget on Project Implementation

Your Committee was informed that in order to be able to execute its mandate more effectively, the Ministry would require additional funding. The Permanent Secretary explained that during the budget hearings, the Ministry made appeals for extra resources to be allocated to various projects taking into consideration the high demand for infrastructure across the country.

The following would be the implications of the proposed level of funding to the Ministry on the implementation of infrastructure projects in 2019:

- completion of infrastructure projects which were at 80.0 percent complete and above may not be attained as the required additional funding amounting to K288 million for both public infrastructure and housing units was not been catered for;

- project inspection and supervision would be adversely affected due to reduced funding by 56.0 percent;
- no new projects could be commenced in 2019 because of the restricted budgetary allocation; and
- non-allocation of funds to the purchase of motor vehicles in 2019 would adversely affect project and programme implementation as the Ministry was new and had no representation at provincial level.

Your Committee was informed that if the 2019 budgetary allocation was well executed, with consistent releases and if appeals for additional funding were addressed in line with plans, a lot of achievements could be recorded to contribute to economic growth and poverty reduction. The Ministry was, however, mindful of the fiscal challenges that the country was facing and would endeavour to ensure that all the programmes that had been earmarked to receive funding were delivered. The Ministry would also strive to coordinate with other ministries and stakeholders to improve infrastructure project implementation and management.

7.2. MINISTRY OF WATER DEVELOPMENT, SANITATION AND ENVIRONMENTAL PROTECTION

The Ministry submitted as follows:

7.2.1. Proposed Budget Allocation for 2019

Your Committee was informed that the Ministry had been allocated a total amount of K2, 420,479,167 in 2019, as broken down in Table 3 below.

Table 3 comparative analysis of budget allocation for 2018 and 2019

Year	Source of Funds	Water and Sanitation	Water Resources Development& Management	Environmental Management
2018	GRZ	K542,743,000	K54,025,590	K16,147,000
	Donor	K85,300,000	Nil	K283,005,000
Total		**K628,043,000**	**K54,025,590**	**K299,152,000**
2019	GRZ	K415,000,000	K 61,989,763	K2,459,828
	Donor	K1,575,257,615	Nil	K283,005,000
Total		**K1,990,257,615**	**K61,989,763**	**K285,464,828**

7.2.2 Sector Budgetary Allocation Requirements as Per Seventh National Development Plan (7NDF)

Your Committee was informed that during the 7NDP period, one of the priorities was to address water development and management challenges. This would be with a view to increase availability of water resources for utilisation for enhanced health of the eco-system and sustainable economic growth, as well as improve access to water supply and sanitation. The budgetary allocation is outlined in Table 4 below.

Table 4 Seventh National Development Plan Sector Budgetary Allocation

Year	7NDP Projected Annual Allocation For Water Supply & Sanitation	Annual Budgetary Allocation For Water Supply & Sanitation	Variance	7NDP Projected Annual Allocation For Water Resources Development & Management	Annual Budgetary Allocation For Water Resources Development & Management	Variance
2018	818,086,883	628,043,000	**-190,043,883**	61,517,600	54,025,590	**7,492,010**
2019	817,449,886	1,990,257,615	**1,172,807,729**	66,527,874	61,989,763	**4,538,111**

7.2.3. *Implications of the 2019 Budget Allocation*

Your Committee was informed that based on the 2019 budgetary allocation and 7NDP projected budgetary allocation, the Ministry requirement for water supply and sanitation in 2019 was K817, 449,886. However, this investment need had largely been met by foreign financing which may not be a reliable source of financing given that donor support could be withdrawn or withheld at any time.

Your Committee heard that increased funding to water supply and sanitation in the budget would accelerate access to water and sanitation as envisioned in the Vision 2030 as a number of planned interventions under the ministerial plan would be achieved. In terms of water resources development and management, K62, 000,000 had been allocated against the investment needs in 2019 of K66, 527,874, leaving a financing gap of over K4.5 million.

7.2.4. *Priority Programmes and Projects - Water Development and Management*

Your Committee was informed that the Ministry had prioritised optimal harnessing of water resources for productive use, provision of clean and safe water supply and sanitation as well as sustainable environmental management. In accordance with the development outcomes of improved water resources and management as well as improved access to water supply and sanitation under the 7NDP, the Ministry would embark on strategic interventions to contribute to economic diversification and job creation and towards enhanced human development.

Your Committee heard that there was need for increased budgetary allocation to the Ministry in order to implement the 7NDP programmes and actualise the Vision 2030. There was need to prioritise infrastructure investment in dams and to improve the water network available for socio economic use.

7.3. MINISTRY OF LOCAL GOVERNMENT

Your Committee was informed that the Ministry was aware that the national fiscal space was limited and therefore, the Government had to take measures that would prioritise critical socio-economic programmes and projects.

7.3.1. Analysis of the 2018 and 2019 Ministry of Local Government Budget

Your Committee was informed that the 2019 budget proposal for the Ministry was K1, 546,227,934. Table 6 below is a comparative analysis of the Ministry's 2018 and 2019 Budgets.

Table 6 *Comparative analysis of the 2018 and 2019 Ministry of Local Government Budget*

			COMBINED		
	HEAD 20	HEAD 29	**TOTAL 20 & 29**	2019	VARIANCE
	2018	2018	**2018**		
	ZMW	ZMW	**ZMW**	ZMW	ZMW
PE's	-	14,856,510.00	**14,856,510.00**	18,568,170.00	3,711,660.00
Equalisation	-	1,078,428,000.00	**1,078,428,000.00**	1,164,567,612.00	86,139,612.00
Grants in lieu of rates	-	23,187,800.00	**23,187,800.00**	23,187,800.00	-
CDF	-	249,600,000.00	**249,600,000.00**	249,600,000.00	-
Grants to institutions	672,932.00	640,230.00	**1,313,162.00**	3,300,104.00	1,986,942.00
Infrastructure DEV	18,522,620.00	322,620.00	**18,845,240.00**	18,622,620.00	(222,620.00)
RDC's	27,821,092.00	61,371,130.00	**89,192,222.00**	68,380,777.00	(20,811,445.00)
			-		-
TOTAL	47,016,644.00	1,428,406,290.00	**1,475,422,934.00**	1,546,227,083.00	70,804,149.00

Your Committee was informed that there was an increment in the 2019 Ministry of Local Government budget compared to the 2018. This was because of increments in personal emoluments, funds for infrastructure development, Local Government Equalisation Fund and the transfer of funds from Head 20 to Head 29. Most individual budget lines on Recurrent Departmental Charges (RDCs) were generally maintained or in some cases reduced compared to 2018. Your Committee was informed that this would negatively affect the implementation of programmes and activities because of the increase in the cost of goods and services.

7.3.2 Summary of Estimates for Major Programmes and Activities in 2019

7.3.2.1. Local Government Equalisation Fund

Your Committee heard that there was an increase in the Local Government Equalisation Fund (LGEF) from K1, 078,428,000 in 2018 to K1, 164,567,612 in 2019. This Fund had helped many local authorities to implement projects and programmes in their respective areas and was one of the steps towards fiscal decentralisation. However, the Ministry was of the view that more money could have been allocated to the LGEF as more functions were being devolved to local authorities.

7.3.2.2 Constituency Development Fund (CDF)

Your Committee was informed that the Constituency Development Fund (CDF) for 2019 had been maintained at K249, 600, 000. The Ministry was of the view that the CDF should have been increased so as to take care of the expected increase in the cost of goods and services, as well as to allow for scaling up the number of projects to be implemented using CDF in 2019. The increment and release of CDF was critical to ensuring local level project implementation that had direct benefits to local communities.

7.3.2.3 Infrastructure Development

Your Committee was informed that about K18.6 million had been provided for infrastructure development in 2019, representing a reduction by K222, 620 compared to the 2018 budget. This included K17, 322, 620 for construction of markets and bus stations. The Ministry planned to complete at least five markets which were under construction and would also ensure the effective monitoring of construction of urban and feeder roads through the introduction of a budget line on management of urban and feeder roads. Further, in 2019, the Ministry would step up activities on solid waste management as well as fire and rescue services.

7.3.2.4 Operationalisation of the Planning and Information Department

Your Committee was informed that there was an increased budgetary allocation towards the operationalisation of the Planning and Information Department, which was until 2017 non-existent. Treasury Authority was granted in 2018 and the Department would become fully operational in 2019. This would enhance co-ordination of programmes and projects in the Ministry.

7.3.2.5 Merging of Head 20 with Head 29

Your Committee was informed that Head 20 was the capital expenditure head for the Ministry of Local Government until the end of 2018. In the 2019 budget estimates, Head 20 had been merged with Head 29 which contained Personal Emoluments and Recurrent Departmental Charges. The merge has created the impression that Head 29 had an increment in 2019 compared to 2018 when in fact not. This could have negative implications on the set targets for 2019.

7.4 MINISTRY OF HEALTH

Your Committee was informed that the 2019 budget focus would be to continue improving on health service delivery across the continuum of care spanning across promotive, preventive, curative, rehabilitative, and palliative health care services in line with the National Health Strategic Plan (2017 to 2021) and the 7NDP.

7.4.1. Budgetary Allocation for 2019

Your Committee was informed that the health sector had been allocated K8.069 billion, representing 9.3 percent of the national budget. This, however, fell short of the Abuja Declaration to which Zambia was a signatory, that governments should allocate 15 percent of their national budgets to the health sector.

7.4.2 Major Budget Drivers

Your Committee was informed that some of the major budget drivers of the 2019 Ministry of Health budgetary allocation were:

i. K4.4 billion to personal emoluments;
ii. K900 million to provision of drugs and medical supplies;
iii. K36 million to medical equipment;
iv. K644.7 million to infrastructure development;
v. K456 million to the implementation of various primary health care programmes including community health aimed at promotion and disease prevention;
vi. K172 million to general and tertiary hospitals; and
vii. K57.4 million for training schools.

7.4.3 Debt

Your Committee was informed that the Ministry had a debt of K1, 772.24 billion as at 31st August, 2018 as shown in Table 7 below.

Table 7 Ministry of Health Debt Stock

Programme	**Actual Debt K'M as at 31st August 2018**
Drugs	595.22
Infrastructure (commitments)	462.00
Medical Equipment	271.70
Specialised Treatment Abroad	12.21
Recurrent Departmental Charges	16.56
Training	22.55
Other Personal Emoluments	392.00
Total	**1, 772.24**

Your Committee was informed that there was need for funding releases to be more consistent as this had major implications on service delivery.

7.5 MINISTRY OF GENERAL EDUCATION

Your Committee heard that in the 2019 budget, the Ministry of General Education had been allocated a total sum of K10.1 billion, out of which K9.1 billion was for Personal Emoluments while K1.0 billion was for programmes. Of the amount allocated to programmes, K266 million was ring fenced for infrastructure development in secondary schools, while K499 million was also ring fenced for grants. This left a balance of K235 million for RDCs.

7.5.1 Key Priority Programmes

The key priority programmes for the Ministry which were earmarked for implementation in 2019 included the ones outlined hereunder.

i *Early Childhood Education* - A sum of K13.8 million had been set aside for this programme.

ii *Primary Education* - A total budget of K243.5 million had been allocated to this sub-sector for operations in order to continue sustaining the achievements made in the year 2018. Within this provision, a total sum of K102.9 million had also been allocated for primary school grants while K3 million had been allocated as support to community schools. K39.5 million would be for the school feeding programme, while K32.4 million had allocated for school requisites for the year 2019. K1.1 million had been provided for capacity building of teachers, K18.9 million for the provision of the teaching and learning materials and K700 thousand for quality assurance.

iii *Secondary Education* - An amount of K 2.23 billion had been allocated to the secondary education, out of which K1.65 billion was for salaries and related payments, K3.9 million for capacity building of teachers, K4.0 million for provision of teaching and learning materials and K258 million for infrastructure development. In addition, K45.0 million had been allocated for the provision of bursary to Orphaned and Vulnerable Children (OVCs) under the keeping girls in school programme. The Ministry had also allocated K150 million towards construction of secondary schools.

iv *Youth and Adult Literacy* - A total of K830 thousand had been allocated to this programme to facilitate the provision of adult and literacy education. Of this, K480 thousand had been set aside for salaries and related payments and K350 thousand had been allocated for providing alternative modes of education.

v *Management and Support Services* - To ensure that human resource, logistics and other support services were provided for the effective operations of all education services, a total sum of K 889.09 million had been provided. Out of this amount K725.75 million had been allocated to salaries and related payments, while K106.7 million for grants to institutions under the Ministry to facilitate their operations.

7.5.2 Request for Additional Funds

Your Committee was informed that the Ministry of General Education was cognisant of the fact that the resource envelop from the Treasury was constrained considering the competing needs of the nation. However, the Ministry would require additional funding due to the following:

i outstanding payments and commitments which had accrued over a number of years;
ii the need to monitor the delivery of the curriculum especially at district level; and
iii increasing access to education by Children with Special Education Needs (CSEN) had been a challenge due to limited number of schools available nationwide.

Table 8 below shows the arrears owed by the Ministry of General Education.

Table 9 Arrears and Additional Funds Request

Item	Status	Amount (K)	Remarks
Infrastructure Completion Certificates	Arrears	2 783 391 059.26	As at 31st December, 2017
Rehabilitation and repair of the school blown off roofs	Operations	94 048 395.73	As at 31st July, 2018
Fast track teacher training programme	Arrears	39 597 000.00	As at 31st December, 2017
Education materials	Arrears	281 829 995.05	As at 31st August, 2018
Monitoring and Evaluation	Operations	3 011 268.00	Additional to 2019 Budget
Motor vehicles	Arrears	14 600 000.00	Already Committed
Promoting Equality in African Schools	Commitment	5 990 205.00	As per PPP Agreement
Personnel emoluments	Arrears	646 789 653.79	As at 31st December, 2017
Owings to TEVETA	Trade Tests	800 000.00	As at 31st December, 2017
Zambia Education Publishing House	Arrears	956 000.00	
International Organisations	Arrears	1 800 000.00	
Goods and services	Arrears	7 735 961.31	As at 31st August, 2018
Total		**3 880 549 538.14**	

7.6 MINISTRY OF FINANCE – BUDGET OFFICE

Your Committee was informed that the 2019 budget was prepared against the backdrop of the Economic Stabilisation and Growth Programme, the Seventh National Development Plan, and the Vision 2030. Emphasis had been placed on fiscal consolidation and implementation of austerity measures in order to bring down the fiscal deficit. This entailed, among other things, realigning of various expenditure categories.

7.6.1 Monetary Policy

Your Committee was informed that in 2019, the focus would remain on price stability by maintaining the annual inflation rate within the target range of 6 to 8 percent. The Bank of Zambia would continue to enhance the use of the forward looking monetary policy framework that was anchored on the policy rate as the key signal for the monetary policy stance. This was intended to improve the transmission of price signals and reduce reliance on non-price tools. In addition, the liberal foreign exchange system would be maintained,

with Bank of Zambia interventions limited to smoothing short-term fluctuations in the exchange rate and building international reserves.

7.6.2 Fiscal Policy

Your Committee was informed that the fiscal policy would be centred on consolidation, which entailed reducing the overall budget deficit in order to anchor macroeconomic stability and create space for private sector growth. This would also involve rationalising expenditure and increasing domestic resource mobilisation.

7.6.3 Revenue Mobilisation

In the medium term, the Government intended to continue with enhancement of domestic revenue mobilisation by broadening the tax base and enhancing compliance levels. To achieve this objective, the Government would implement a number of tax measures including those outlined below.

a) In the mining sector, the Government proposed to adjust the mining tax regime in order to ensure that Zambians benefited more from the country's mineral wealth.

b) In order to minimise revenue leakages, the Government had proposed to abolish the Value Added Tax (VAT) and replace it with the simpler and non-refundable Sales Tax. The abolition of VAT and its replacement with Sales Tax would provide the critical lifeline valve for Zambia and create the necessary fiscal space to pay the outstanding VAT refunds, stop the refund debt escalation with mining companies and, more importantly, double revenue collection to dismantle both local and foreign debt.

c) The copper sub-sector was being supported by the reduction in the company income tax rate to 15 percent from 35 percent for companies involved in value addition to copper cathodes.

d) To encourage investment in the leather industry, it was proposed that the ban on the export of raw hides and skins be lifted, while an export duty of 10 percent on these items should be introduced.

e) For small businesses with a turnover of below K800, 000 per annum, a 4 percent flat rate has been proposed to make it easier for them to be tax compliant.

f) The Government had also proposed to rationalise the tax incentives by removing the rebate of the construction of shopping malls.

g) There were no adjustments in the personal income taxes in order to ensure tax relief was maintained.

7.6.4 Expenditure Policy and Strategy

Your Committee was informed that despite the proposed expenditure cuts in view of the austerity measures, the Government recognised the pivotal role that the social and economic sectors played in national development. In this regard, efforts had been made to safeguard social sector spending as well as spending in economic sectors. Notable interventions included the ones outlined below:

i. ***Water and Sanitation Sector***: The Government had increased the allocation to K1.98 billion in 2019 budget from K564.5 million in 2018, to improve the water and sanitation sector.

ii. ***Social Cash Transfer****:* Following the withholding of donor support for the Social Cash Transfer Programme, the Government had proposed to increase its contribution to K699.5 million in 2019 from K550 million in 2018 to ensure that the beneficiaries were not affected.

iii. ***Pension Arrears****:* The Government had maintained the allocation to pensions at K1.06 billion in the 2019 budget.

iv. ***Education Sector****:* K13.3 billion had been allocated to the education function and the Government had proposed to maintain the education grants to schools and universities in 2019.

v. ***Health Sector****:* The Government had allocated a total of K8.1 billion to the health function and prioritised critical allocations such as drugs and medical supplies and operations of hospitals in the 2019 budget.

vi. ***Recruitment****:* The Government proposed to recruit 3,500 frontline personnel in 2019. This was to ensure that newly constructed infrastructure, especially those under health and education, were operationalised in an effort to enhance public service delivery.

vii. ***Agriculture Sector****:* In addition to the interventions being made of providing farmers with farming inputs under the e-voucher system (FISP), various projects that included mechanisation and irrigation, were expected to come on board in 2019 to reduce the dependence on rain-fed agriculture and ensure productivity was supported throughout the year.

viii. ***Energy Sector****:* The Government proposed to spend K415.8 million on various power infrastructure projects.

ix. ***Road sector****:* K6.5 billion had been allocated towards the construction and rehabilitation of roads, including the rural roads connectivity programme.

8.0 ENGAGEMENT WITH THE MINISTER OF FINANCE

Your Committee later interacted with the Minister of Finance on emerging issues. Below is a summary of the key issues deliberated upon during the engagement.

The Honourable Minister of Finance informed your Committee that among other things, the 2019 Budget was intended to achieve the macro economic objectives as stipulated in the Budget Speech through reduced expenditure and increased domestic resource mobilisation. Further, the Minister added that administrative expenditure would be reduced by 40 per cent in its quest to ensure inclusive growth. She added that the main mode of revenue mobilisation will be from domestic sources.

Your Committee was informed that Zambia's investment profile was being tarnished by negative perceptions arising from statements made by certain citizens. As a result, the country was being perceived as a high risk investment destination with a high risk of defaulting on its existing loans. The Minister stressed that Zambia had not defaulted on any loan repayment and was not in debt distress. The Minister also explained that Zambia was a member of the International Monetary Fund (IMF) and had a good working relationship with the organisation. To this effect, discussions on various matters were on going with the IMF.

Your Committee was further informed that in addition to ensuring that the country's debt was maintained within sustainable levels, the Government was committed to dismantling domestic arrears and would still strive to reduce domestic borrowing from 4.0 per cent to 1.4 per cent of GDP so as not to crowd out the private sector.

The Minister informed your Committee that the Government had come up with a strategy to ensure that mining firms paid mineral royalties in foreign currency directly to the Central Bank in its quest to improve the balance of payment position of the country. Your Committee was further informed that the county had an import cover of two months. The target for 2019 was to increase it to three months of import cover and subsequently to four months in the medium term.

The Minister submitted that the migration to Sales Tax was necessary because the country was losing colossal sums of revenue due to dishonesty in declarations by certain tax payers. The Sales Tax was a simpler tax to collect and its introduction was guaranteed to improve revenue collection for the country.

With regard to FISP, the Minister informed your Committee that the Government would migrate in full to e-voucher system in 2019 fiscal year.

PART III

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

9.0 After a detailed analysis of the 2019 budget and careful consideration of the various submissions from the stakeholders, selected Government ministries and the Minister of Finance, your Committee makes the observations and recommendations set out hereunder.

9.1 Public Finance Legal Reforms

Your Committee notes with concern the level of the country's debt and observes that if unchecked, it will have adverse effects on the performance of the economy. While your Committee is cognisant of the Medium Term Debt Management Strategy and other austerity measures that have been pronounced by the Government, it is of the view that the long term solution lies in the enactment of amendments to *Loans and Guarantees (Authorisation) Act, Chapter 366 of the Laws of Zambia* to bring it in line with the provisions of Article 63(2)(d) of the Constitution.

Your Committee further observes that Parliament passed the *Public Finance Management Act No 1 of 2018*. Your Committee regrets that, despite repeated recommendations by the Expanded Budget Committee and indeed other key stakeholders for the Government to expedite the legal reform process by presenting the Budget and Planning Bill as well as amendments to the *Loans and Guarantees (Authorisation) Act* and amendments to the *Public Procurement Act* to Parliament for enactment, these have not yet been presented to Parliament.

In light of the above, your Committee recommends that the Government should, as a matter of urgency, present these pieces of legislation to the National Assembly for enactment without further delay.

9.2 Fiscal consolidation

Your Committee observes that the attempt by the Government to achieve fiscal consolidation through an increase in revenue collection may not be realistic. Your Committee is particularly concerned that there may be resistance towards some of the revenue measures introduced, especially the changes in the mining tax regime. A push-back by the mines could result into the Government recapitulating on its proposals, thereby affecting the fiscal deficit target. Further, your Committee observes with concern that while the 2019 budget is being held out as one aimed at fiscal consolidation, it is proposing an increase in expenditure rather than a cut.

In light of the above, your Committee recommends that the Government should rationalise infrastructure projects by focusing on those with the greatest impact on growth such as feeder roads. Your Committee recommends that the Government should fulfil the assurance to review the *Public Procurement Act* in order to ensure that value for money is attained on all projects. Your Committee also looks forward to the establishment of a multi-

sectoral body that will scrutinise public investments before they can be included in the national budget.

9.3 Increased External and Domestic Debt

Your Committee observes that public debt has increased such that the debt-to-GDP ratios have exceeded levels prior to 2005 when the country attained the Highly Indebted Poor Country (HIPC) completion point. Public debt, including public guaranteed debt has increased sharply from 8.1 percent to 63.0 percent of GDP during the period 2011 to 2017. It notes that overall debt service in 2019 will increase to 42.0 percent of domestic revenue, leaving a relatively small budget for critical sectors such as the social sectors, agriculture and tourism. Thus, due to the increased debt service obligations, fiscal space for activities that can impact on growth is diminishing.

Your Committee further notes with concern that Zambia's external debt has not only increased in quantum, but also that it comprises commercial debt as opposed to concessional multilateral and bilateral debt. Your Committee is concerned that increased domestic borrowing is crowding out the private sector through increased lending rates and reduced private sector credit. Moreover, the domestic arrears are impacting negatively on the private sector, contributing significantly to the high level of non-performing loans.

In light of the above, your Committee strongly recommends that the Government should urgently work towards reducing the country's debt and that the Government should slow down on the contraction of debt. Your Committee further recommends that reporting on debt should be more comprehensive to include pipeline debt.

9.4 Declining International Reserves

Your Committee observes that international reserves have declined to only two months of import cover. The main factor is the increasing external debt service obligations and the worsening current account deficit. This has put pressure on the exchange rate as the external debt to internal reserves lies above 25 per cent. Given the projected increase in external debt service for 2019, this poses a serious concern on the stability of the Kwacha, and hence may lead to higher inflation.

In that regard, your Committee recommends that the Government should, therefore develop a robust strategy to grow international reserves by increasing the statutory reserve requirements for holding of foreign currency and provide regular updates to stakeholders on progress towards the three-month target. Your Committee further recommends that the Government should continue to engage the IMF so as to get back on track with the IMF programme. This will not only inject balance of payment support into the economy but also improve investor confidence and encourage foreign investment. Further, as a long term measure the Government should take measures, to promote export diversification.

9.5 Farmer Input Support Programme (FISP)

Your Committee observes that in the agriculture sector, most of the resources provided will be channelled to the Food Reserve Agency and Farmer Input Support Programme (FISP) at the expense of broad-based expenditure on key drivers of agricultural growth such as rural infrastructure, agricultural research and development, market information, irrigation, institutions that foster the development of effective markets, and complementary services such as agriculture extension and credit.

Your Committee, therefore, urges the Government to embark on a programme to progressively reduce its participation in maize marketing and redesign FISP so that farmers are not perpetually dependent on the Government. It further recommends that the Government should begin to direct resources to key drivers of agricultural growth.

9.6 Budget Credibility

Your Committee is concerned about the low budget credibility, particularly with regard to the Government failing to meet its fiscal targets in the last few years. Your Committee notes that the increasing infrastructure expenditure in the last two years and increased debt service are the major drivers of the fiscal deficit.

In order to improve budget credibility and have an inclusive and sustainable fiscal regime, your Committee recommends that the country's budget process from formulation to execution should be based on strict fiscal rules, which should be adhered to as opposed to Government discretion. Further, your Committee reiterates that there is need to enact legislation which strengthens procurement, loan contraction and generally regulates the entire budget cycle.

9.7 Broadening the Tax Base

Your Committee observes that 54% of the 2019 budget is anchored on tax revenue. Your Committee further observes that the minority in the formal sector bear the majority tax burden with little or no taxes from the large informal sector.

In this regard, your Committee recommends that, as a matter of urgency, more concerted efforts be put into broadening the tax base through a clear strategy on taxation of the informal sector.

9.8 Institutional reforms

Your Committee observes that in the 2019 Budget Speech, a commitment was made relating to improvement of the efficiency of State Owned Enterprises (SOEs). However, a commitment regarding this was also made in the 2017 and 2018 budgets. The 2019 Budget Speech indicates that only seventeen out of forty five SOEs are profitable and out of the seventeen, only eight declared dividends. While this shows some progress in turning around the SOEs, this remains minimal, and the continued operation of loss making SOEs continues to put pressure on the already financially constrained Treasury.

Your Committee, therefore, recommends that the restructuring of the SOEs should be expedited so as to reduce the drain on the Treasury.

9.9 The Proposed Change from Value Added Tax to Sales Tax

Your Committee observes with concern that there is lack of detail on the change from VAT to Sales Tax, especially at this stage when the 2019 national budget has been unveiled. In particular, the proposed rate of the Sales Tax is not stated in the budget address. There are also issues relating to how the double taxation effect of Sales Tax will be avoided, which have not been addressed. Further, it is unclear how the Government intends to boost the manufacturing sector vis-à-vis the introduction of this tax. It also appears to your Committee that the only justification for replacing the well performing VAT is that Sales Tax will eliminate the huge burden of VAT refunds.

Further, your Committee is of the view that the re-introduction of Sales Tax and a new mineral royalty regime is likely to face some resistance in the interim. This is likely to negatively affect compliance and consequently revenue collection.

In this regard, your Committee recommends that comprehensive consultations be undertaken on this subject and thereafter an adequate transition period should be allowed in order to ensure that the transition from VAT to Sales Tax is smooth.

9.10 Inadequate, Untimely and Unpredictable Release of Budgeted Funds

Your Committee observes that the release of budgeted funds to Ministries, Provinces and Spending Agencies (MPSAs) has continued to be inadequate, untimely and unpredictable, thereby making it difficult for them to effectively implement planned activities and, therefore, undermining budget credibility. This is highly unacceptable, particularly in light of the need for these MPSAs to implement programmes in line with the 7NDP. Your Committee notes that failure to complete projects timely results in huge sums of public funds being locked up in these projects without delivering the benefits to the affected communities.

Your Committee, therefore, recommends that the Government should ensure adequate, timely and predictable release of funds for effective project implementation. It further recommends that the Government should show more commitment to ensuring release of approved funds in view of concise linkages between the 7NDP, Vision 2030 and other national priorities on the one hand and the annual budget on the other. Furthermore, while appreciating that the Government is faced with competing needs, your Committee is of the view that there is need for prioritisation and sequencing in order to prevent the unacceptable situation of having stalled projects.

9.11 Allocation to the Ministry of General Education

Your Committee observes with concern the huge budget provision in the 2019 budget allocated for administration and personal emoluments at the Ministry of General Education Head Quarters. This is in contrast with small amounts allocated to the districts. It worried

your Committee that such huge amounts are used centrally to the detriment of the intended cost centres, the districts, where teachers are found. Your Committee feels that non-teaching staff in the Ministry especially those at Head Quarters are using huge amounts compared to the teaching staff in the districts which was regrettable.

Your Committee strongly recommends that the Executive should expedite the process of fiscal decentralisation in order to unbundle the Ministry to make districts more viable and, ultimately, increase their potential in meeting growing needs in their various jurisdictions.

9.12. *Abuse of Resources*

Your Committee observes with concern that there have been alarming reports of abuse of resources in various Ministries, Provinces and other Spending Agencies (MPSAs) which are affecting the budget negatively and eroding the confidence that cooperating partners have in the MPSAs.

Your Committee strongly urges the Government to seriously consider instituting disciplinary action in erring MPSAs to regain the confidence lost with the donor community.

9.13. *Diversification of the Economy and Value Addition*

Your Committee observes that for many years, the Government has been making pronouncements on the need to diversify the economy away from the over dependence on copper. However, there appear to be no clear measures or strategies on how the diversification will be attained. Your Committee further observes that for many years, Zambia has continued to focus on production of basic raw materials both for local consumption and export, missing out on opportunities to turn basic ingredients into finished goods that can earn the country more income. With diversification and value addition come multiple benefits such as a more stable market, improved skill sets, a more reliable source of income and increased resilience. In addition, more people employed in the formal economy and consequently broaden the tax base.

Your Committee, therefore, recommends that the Government should clearly spell out a roadmap for economic diversification. In addition, strategies and incentives for value addition should be put into place.

9.14. Constituency Development Fund

Your Committee observes that there continues to be erratic and untimely release of the Constituency Development Fund.

In this regard, your Committee strongly recommends that the Government should as a matter of urgency ensure that there is consistent and timely release of the CDF, preferably in the first quarter of each financial year.

10.0 CONCLUSION

Sir, your Committee concluded its deliberations within its terms of reference. To do this, your Committee invited a number of stakeholders from whom it sought comments and reactions to the estimates of revenue and expenditure for 2019. Your Committee is, therefore, grateful to the stakeholders who tendered both oral and written submissions.

It also wishes to thank you, Mr Speaker, for affording it an opportunity to consider the estimates of revenue and expenditure for 2019. Gratitude further goes to the Office of the Clerk of the National Assembly and her staff for their assistance and advice throughout your Committee's deliberations.

We have the honour to be, Sir, your Expanded Budget Committee appointed to consider the 2019 estimates of revenue and expenditure.

Mr M Simfukwe, MP
Chairperson

Ms N M Subulwa, MP
Vice Chairperson

Mr L A Lufuma, MP
Member

Mr S K Kakubo, MP
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Mr M L Kafwaya, MP
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APPENDIX 1-THE WITNESSES

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Mr F Zulu, Public Financial Management Analyst
Mr R Krishnan, Lead Financial Management
Mr J Makumba, Senior Health Specialist
Mr N Chambula, Communications Specialist

CARE INTERNATIONAL
Mr R Ntombi, Nutrition HUB Coordinator

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Mr K Mayonda, Acting Director Communications
Mr E Banda, Security
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Mr C Banda, Lecturer
Mr O Kaonga, Lecturer

COPPERBELT UNIVERSITY
Lt Col Prof N Ngoma, Vice Chancellor
Prof S Kapena, Dean School of Business
Dr C Shikaputo, Senior Lecturer-Business
Ms M Mulindwa, Business Development
Dr S C Mpembele, Lecturer

CENTRAL STATISTICAL OFFICE
Mr G Sinyenga, Acting Director
Mr F Mponela, Chief Accountant
Mr J Tembo, Assistant Director

ZAMBIA REVENUE AUTHORITY
Mr K Chanda, Commissioner General
Mr E Phiri, Director

MINISTRY OF GENERAL EDUCATION
Dr F V Phiri, Permanent Secretaty
Dr S Mwape, Director-Standards and Curriculum
Mr L Swedi, Director – finance
Mr B Banda, Director- National Science Centre
Mr N Chilumba, Principal Auditor
Mr K Musonda, Assistant Director-Human Resource Manager
Mr MDaka, Principal Planner
Mr L Mwansa, Director-Planning and Information
Ms N Lutata, Parliamentary Laison Officer

MINISTRY OF LOCAL GOVERNMENT
Mr A Malupenga, Permanent Secretary
Ms M C Kapanda, Director
Ms M C L Sikoonga, Acting Director Forum
Mr P Phiri, Acting PID

MINISTRY OF HEALTH
Dr Malama, Permanent Secretary
Mr F Mwila, Director HRMA
Dr A Silumesi, Director Public Health
Dr A N Kabalo, Director HPESD
Mr P Chishimba, Director-M & E
Ms K C Mulalelo, Director-PPMT
Dr A Kalumba, Director-HCF
Mr K D Mumba, Director – Finance
Dr M Bweupe, Director Policy
Mr W Lungu, Head – PSU
Mr E Malikana, AD-DP

MINISTRY OF FINANCE
Hon M Mwanakatwe, MP, Minister
Dr E P Mulenga, Permanent Secretary (Budget and Economic Affairs)
Mr J Sakala, Principal Economist
Mr D Banda, Assistant Director
Mr W Chipango, Assistant Director
Mr P Musonda, Assistant Director
Mr R Banda, Principal Accountant
Mr S Chikoti, Assistant Director
Mr K Chimfwembe, Chief Analyst Budget
Mr A Susiku, Acting Director
Mr C Chivweta, Principal Economist
Ms M Mushinga, Principal Economist
Mr P Sikazwe, Senior Economist
Mr B Lumbwe, Senior Economist
Mr R Banda, Principal Planner

MINISTRY OF AGRICULTURE
Mr J J Shawa, Permanent Secretary
Mr D Sikombe, Deputy Director
Mr T Nyirenda, Acting-Senior Budget Analyst
Mr M Mwale, Director
Ms M M Simwanza, Director
Mr F Katulwende, Acting Director

MINISTRY OF HOUSING AND INFRASTRUCTURE DEVELOPMENT
Mr D Mfuwe, Acting Permanent Secretary
Mr C Mwishi, Director
Mr H Simfukwe, Chief Architect
Mr B Mumba, Chief Planner

Mr J Banda, Public Relations Officer
Mr B Mantende, Acting PIA
Ms D Katongo, Chief Purchasing and Supply
Mr D Makondo, Planner
Ms G Mwamba, Accountant
Mr M Silumesi, Assistant Director
Mr W Katongo, Director
Mr C Banji, Director Finance

APPENDIX II – OFFICERS OF THE NATIONAL ASSEMBLY

Ms C Musonda, Principal Clerk of Committees
Mr D Mainga, Principal Clerk - Budget Office
Mr F Kateshi, Deputy Principal Clerk - Budget Office
Mr H Mulenga, Deputy Principal Clerk of Committees (FC)
Mr S Mtambo, Senior Committee Clerk (FC)
Mrs D C Mukwanka, Committee Clerk
Mr D Kunda, Committee Clerk
Ms T C Malowa, Committee Clerk
Mr A Chilambwe, Committee Clerk
Ms L Chilala, Typist
Ms C Kabika, Typist
Mr M Kantumoya, Acting Parliamentary Messenger
Mr P Mwiinga, Intern
Mr A Mwewa, Intern

CONSULTANTS
Dr C Mphuka
Dr M Nyamazana