REPORT OF THE EXPANDED COMMITTEE ON ESTIMATES, CHAIRPERSONS OF PORTFOLIO COMMITTEES AND THE CHAIRPERSON OF THE PUBLIC ACCOUNTS COMMITTEE APPOINTED TO CONSIDER THE 2007 ESTIMATES OF REVENUE AND EXPENDITURE

The Honourable Mr Speaker
National Assembly
Parliament Buildings
P O Box 31299
LUSAKA

Sir

Your Expanded Committee on Estimates were appointed on 9th February, 2007 to consider the 2007 Estimates of Revenue and Expenditure.

Terms of Reference

2. The terms of reference of your Committee on Estimates are as follows:

(a) to examine the Estimates, Excess Expenditure Appropriation Bill;
(b) to report on the economies, improvement in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates, examine whether the money is well laid out within the limits of the policy implied in the estimates;
(c) to suggest alternative policies in order to bring about efficiency and economy in administration; and
(d) to make recommendations in a report to the House for consideration and implementation in future Budget Estimates.

In addition to the above terms of reference, your Committee were mandated to:

(a) study and analyse the Estimates of Revenue and Expenditure for 2007, in relation to the Executive's "Green Paper" on the 2007-2009 Medium Term Expenditure framework and the 2007 Budget; and
(b) hear evidence from some of the stakeholders that the Ministry of Finance and National Planning invited during the budget preparation process.

Membership

3. Your Committee, as constituted, comprised the following members:

Mr G M Beene, MP (Chairperson);
Dr G L Scott, MP;
Mr F R Tembo, MP;
Mrs J M Limata, MP;
Mr B Imenda, MP;
Mr V Mwale, MP;
Mrs R M Musokotwane, MP;
Mr A M Nyirenda, MP;
Mr J P L Mulenga, MP;

Dr K Kalumba, MP;
Mr R Muntanga, MP;
Dr P D Machungwa, MP;
Mr D M Syakalima, MP;
Mr G Lubinda, MP;
Dr B E Chishya, MP;
Mr S Sikota, MP;
Mr M Habeenzu, MP;
Dr S Chishimba, MP;
Mr R Muyanda, MP;
Mr J J Mwiimbu, MP; and
Mr C L Milupi, MP.

Meetings of the Committee

4. Your Committee, in considering the 2007 Estimates of Revenue and Expenditure, invited various stakeholders and objectively examined in detail all the submissions laid before them. The list of witnesses who gave oral and written evidence to your Committee is at Appendix I of this Report.

ANALYSIS OF THE 2007 ESTIMATES OF REVENUE AND EXPENDITURE

5. Your Committee scrutinised and analysed the budget for the fiscal year commencing 1st January, 2007 and ending 31st December, 2007. The observations of your committee are summarised below.

1. Performance of the Zambian economy: 1970s to 2006

As a prelude to a more detailed appraisal of the 2007 budget, it is necessary to take a look at a time series of macroeconomic indicators in Table 1 covering the period from the 1970s to 2006.

Table 1: Zambia: Economic and Financial Indicators, 1970s –2007

(in per cent)

	1970s Av	1980s Av	1990s Av	2000	2001	2002	2003	2004	2005	2006	2007
GDP Growth Rate	1.5	1.4	0.3	3. 6	4.9	3.3	5.1	5.0	5.2	5.8	7.0 f
Inflation	10.2	36.1	70.9	30.1	18.7	26.0	17.2	20.0	16.0	8.2	5.0 f
Domestic Savings/GDP	33.2	14.0	7.1	3.1	9.8	3.8	18.1	19.5	18.5 f	18.1 f	18.6 f
Investment/GDP	30.2	16.2	14.1	18.3	20.0	18.0	23.2	24.0	22.8 f	22.0 f	22.5 f
Interest Rate(lending rate)	7.8	16.0	54.7	54.9	54.6	49.9		37.1	33.9	27.9	
Current Account Deficit/gdp	6.6	-10.8	4.7	- 13.7	-13.0	- 17.3	-16.2	-11.9	11.8	12.0	- 11.7 f
Exchange rate (K/US$)	0.7	4.8	903.1	311.0	360.8	439.8	465.2	341.6			

Source: Bank of Zambia, Ministry of Finance and Central Statistical Office.
f: Denotes forecasts

Two observations emerge from Table 1. First, the GDP growth rate declined from an annual average of 1.5 per cent in the 1970s to 0.3 per cent in the 1990s. Inflation increased steadily from about 10 per cent in the 1970s to about 70 per cent in the 1990s. These inflation levels combined with population growth which was above the growth rate of GDP resulted in an average annual decline in real per capita income of 1.6 per cent. This meant that poverty in Zambia increased exponentially.

Second, macroeconomic performance since 2000 has been strong. Economic prospects for the country have since brightened: the rate of GDP growth has risen from 3.6 in 2000 to almost 6 per cent in 2006, implying an annual average real rate of about 5 per cent. This has all been possible through generally broad based strong performance by the mining, manufacturing, construction and services sectors. And because of satisfactory fiscal and monetary restraint, inflation, which stood at 30 per cent at the end of 2000, fell substantially to 16 per cent at end 2005 and declined to the single digit of 8 per cent at end 2006.

The other indicators in Table 1 show that despite strong macroeconomic performance, Zambia faces other challenges. Despite the ongoing structural programmes, the economy still shows weak and uneven growth, a low savings rate, high real interest rates, a weak external position, a very high degree of dependence on copper exports, and therefore remains extremely vulnerable to external shocks. Another area that needs close monitoring is the exchange rate. Policy in this regard should aim at a market determined stable exchange rate regime that maintains Zambia's competitive edge in foreign markets.

2. The Policy Framework for the 2007 Budget

In order to fully appreciate the policy framework within which the 2007 budget is set, an assessment of the relationship between this year's budget and the medium-term expenditure framework (MTEF) for the period 2007-2009 and the Fifth National Development Plan (FNDP) and the accompanying Vision 2030 is necessary.

The "Vision 2030" document defines the long term national vision for Zambia "to become a prosperous middle-income country by the year 2030", thereby reducing hunger and poverty and ensuring a competitive open economy. In the context of this national vision, the FNDP outlines a five year medium-term development perspective listing a number of macroeconomic objectives, policies and strategies:

- (i) an overall real growth rate of 7 per cent annually, a rate regarded as promoting pro-poor growth by ensuring this growth is broad-based, with priority given to rural development, especially agriculture;
- (ii) sustained single digit inflation;
- (iii) financial and exchange rate stability;
- (iv) a viable current account balance on the balance of payments; and
- (v) the reduction of domestic debt to sustainable levels.

As an important part of fiscal planning, the MTEF is a rolling plan within the FNDP; it forecasts and programmes public spending over the three year period 2007-2009, taking into account both the likely resource constraints and the linkages of such spending with the economy. Thus, the MTEF:

- (i) sets out the macroeconomic framework linking growth of GDP, savings, investment, and the balance of payments to public spending and revenues;
- (ii) projects current spending on debt service, public administration, defence, recurrent departmental charges, etc;
- (iii) defines the public investment programme, showing projects on the basis of the Government's strategic priorities as defined in the FNDP; and
- (iv) forecasts revenues from tax and non-tax sources, and resources from domestic and external borrowing and grants. The MTEF should therefore help to achieve consistency between

expenditures and macroeconomic assumptions and emphasise the role of public expenditure as a policy instrument.

The 2007 budget is a one year (2007) segment of the MTEF and serves as the authoritative legal document for allocating resources, adjusting the distribution of income and wealth, and the creation and maintenance of high levels of employment, low and stable inflation, and the achievement of an appropriate rate of economic growth, with allowance for the effects on trade and on the balance of payments. To the extent that the 2007 budget is closely based on the 2007-2009 MTEF and that the latter reflects the objectives, policies and strategies of the FNDP, the vital linkages among the three documents can be said to have been established. This then summarises the backdrop to the 2007 budget.

An appraisal of the 2007 budget must start with an analysis of the macroeconomic policy framework. These policies, which are discussed in more detail in the proceeding paragraphs, have been listed as follows:

- A real growth rate of 7 per cent;
- The inflation target of 5 per cent at the end of December 2007;
- Reduction of Government's recourse to domestic borrowing to 1.2 per cent of projected GDP; and
- An increase of gross international reserves to 2.5 months of import cover.

1. Rate of economic growth

The rate of real growth of GDP of 7 per cent in 2007 is consistent with the objectives of the FNDP and the MTEF. This rate is feasible but there are challenges. Zambia has faced a fiscal dilemma. Fiscal austerity may not necessarily always be compatible with increasing growth, incomes and employment. The only way to resolve the tension between austerity and growth in Zambia is to combine fundamental fiscal reform with other measures: in trade, industry, agriculture, services and other sources of growth, and in the financial sector. In Table 1 above, we observed that the economy still shows weaknesses: the low savings rate, high real interest rates, a weak external position and total dependence on copper for export earnings. The implication of this situation on economic growth is that the attainment of a growth rate of 7 per cent this year and in future years will require diversification programmes to ensure that the source of growth in the economy is broad based. This is stated in the FNDP which calls for substantial investment in mining, agriculture and tourism and, therefore, investment in infrastructure.

The opportunity to ensure that the economy posts real growth of 7 per cent and more could be slipping away from Zambia's reach. Despite good export performance, the mining sector will not make a significant contribution to Government revenue. Copper prices have been at unprecedented high levels, Zambia's external debt has been reduced by at least 90 per cent, inflation has reached the single digit level and the economy grew by 6 per cent in 2006, but there seemed to be no efforts to use this opportunity to increase investment using the most important domestic resource: copper revenues. The off-take of national resources from the major national asset, copper, for public investment has been minimal. There could only be one reminder: that the high copper prices would not last forever, while minerals are a wasting asset.

In the context of the Government's Vision 2030 and the FNDP, the attainment of a 7 per cent rate of real economic growth annually over the plan period will not be sufficient to make Zambia a middle-income country. This rate of economic growth will not be strong enough to generate sufficient wealth to make a meaningful reduction of poverty among the people including the achievement of targets in the Millennium Development Goals. In consequence, the aim should be to achieve a growth rate of at least 9-10 per cent annually. It is growth of this magnitude that may lead to a significant increase of Zambia's GDP.

Diversification would largely be underpinned by investment activities in the private sector. This sector required structural reform so that it could perform its role efficiently in economic diversification. The implementation of the private sector development plan should be accelerated under the structural adjustment programme.

2. Inflation

The 5 per cent target rate of inflation this year would be difficult to attain. This would be attainable if the Government did not misread the causes of inflation. There was a general consensus that inflation was often a fiscal phenomenon: it was caused by governments with no alternative source of deficit finance resorting to money creation at a higher rate than the growth in money demand. Any hope of reducing inflation without further reducing the Government deficit would be in vain. In addition there would be need for tight monetary policy which would raise the reserve requirements on bank deposits, in effect requiring banks instead of the general public to hold currency. This way, the money base and not the overall supply of money would expand. In addition to control over monetary expansion, there would be need for monitoring wage and price increases arising from labour agreements.

With regard to the fiscal deficit implicit in the 2007 budget, printing money to finance the deficit would result in inflation to the extent that it would exceed growth in the demand for money at the prevailing level of prices. Given the target inflation rate of 5 per cent as an objective of macroeconomic policy, then the growth in monetary finance by the Bank of Zambia should be gauged to the expected growth of money demand plus the target inflation rate of 5 per cent. Increases in monetary finance by the Bank of Zambia could only then be achieved without increasing inflation by raising reserve requirements. But the increased reserve requirements would widen the spread between deposit and loan rates, which would then be inconsistent with the objectives of efficiency in the financial market and the stated Government policy of promoting private sector investment.

3. The Government's financing requirements

The overall shortfall of tax and non-tax revenues defines the Government's financing requirements for the budget. Although there was hardly any reference to it in the budget speech, the 2007 budget has a substantial deficit. This is illustrated in Table 2 below.

Table 2: The 2007 Budget at a Glance

	(in billions of Kwacha)
Total tax and non-tax revenue	8,124.9
Total expenditure	12,042.4
Overall deficit	-3,917.5
Financing	3,917.5
of which: foreign grants and loans	3,374.0
domestic borrowing ..	543.5

Source: 2007 Budget Speech

Table 2 clearly shows that the deficit defined as the excess of total expenditure over domestic tax and non-tax revenue, amounts to K3,917.5 billion, representing the government's financing requirements and indicates the Government's net use of financial resources. It should be clearly understood that expenditure includes wages and salaries of civil servants, spending on goods and services and fixed capital formation, interest on debt, transfers and subsidies. Revenue includes taxes, user charges, any interest on public assets, transfers, and sales of public assets. However, expenditure does not include amortisation payments on Government debt or accumulation of financial assets, while revenue does not include the draw down of cash reserves.

The sources of financing for this deficit are shown in the budget as:

(i) foreign grants amounting to K2,257.1 billion;
(ii) foreign project and programme loans of K1,116.9 billion, adding up to K3,374.0 billion or 7.5 per cent of projected GDP in 2007; and
(iii) domestic borrowing which was estimated at K543.5 billion or 1.2 per cent of projected GDP. This level of Government borrowing for deficit financing was not too restrictive because much of it was included in the deficit.

The Minister of Finance and National Planning stated that the overall deficit would amount to K1,772.3 billion or 4 per cent of GDP. This was incorrect because foreign grants are treated as revenue and not as a financing item.

Clearly, the budget should have stated that the deficit was K3,917.5 billion equivalent to 8.65 per cent of GDP. This was important because it had strategic policy implications given the fact that 28 per cent of the budget would be foreign financed. Government policy must address the question: for how long shall Zambia continue to rely so heavily on foreign aid to finance current levels of her total spending?

The budget also mentions the financing gap of K2,892 billion in the FNDP over the plan period. The expectation seemed to be that foreign donors would fill this gap because of the priority nature of the spending that would give rise to this gap. Perhaps this was an issue that would be on the agenda of the next Consultative Group meeting for Zambia.

There was also the issue of domestic debt. In recent years, Zambia had increasingly come to rely much more on domestic borrowing to finance the deficits. This had led to internal debt accumulation. Currently, the stock of the government's domestic debt was reported to be K7,687 billion at the end of December 2006. This was equivalent to 17 per cent of projected GDP and consisted mainly of government securities, domestic arrears and awards and compensation. This was very high and had increased the burden of public debt and needed to be drastically reduced instead of reliance on a series of refinancing arrangements.

A more destabilising phenomenon was that the Government had resorted to delaying payments on domestic debt relating to purchases of goods and services and to contractors. In other words, it had resorted to increasing payments arrears on domestic debt, including those on pensions for public service employees. This practice had therefore become an important means to the Government of financing by simply not making payments, when the deficit was measured on the basis of commitments rather than cash. It should be noted that arrears were implicit credits that had similar macroeconomic consequences as other forms of public borrowing. The objective must therefore be to eliminate arrears or to reduce them to a given target, either in absolute terms or as a ratio of

GDP. Also, arrears by the Government to suppliers and contractors may have severe knock-on effects in the financial system. It was generally believed that the public pensions fund was bankrupt largely because of these arrears.

Following debt cancellation under the HIPC and MDRI arrangements in 2006, Zambia's remaining external debt stood at the manageable level of US$500 million. However, there was no transparency in the contracting of new debt. Consequently it is important that a debt policy be clearly spelt out. Such a policy should include an overall ceiling to be approved by Parliament on the amount of debt that the government may contract in any one period. The overall ceiling should further impose limits based on the tenor and maturities attaching to the loans. This would call for substantial amendments to the Loans and Guarantees (Authorisation) Act.

Foreign donors were expected to finance 50 per cent of the investment budget. This was a significant portion of Zambia's capital budget. There were problems around donor financing, especially for projects. But such problems should be tackled through a clear policy based on better coordination of foreign aid by the Government. It was noted that efforts at better coordination of aid had increased in recent years and the expectation was that projects financed by donors had been fully incorporated into the central budget and in any case, that such projects had at least been subjected to the same standards of central review as those that were domestically financed. Particularly, the need for aid coordination by the Government was greatest in health and HIV/AIDS programmes where there was donor fragmentation.

4. Increase of Gross International Reserves

This objective refers to foreign exchange reserves management so as to maintain an adequate ratio of reserves to imports of goods and services. The authorities would need to build up gross international reserves to ensure Zambia had a cushion against external shocks to which the country was vulnerable, including possible fluctuations in donor flows. There may be sudden increases in demand for foreign exchange for maize imports and seasonal factors. The target of gross international reserves equivalent to 2.5 months of imports should be attainable, given strong export performance and improvements in the balance of payments. However, it would be important for the authorities to work towards achieving the medium-term targets for foreign reserves, and they would have to be ready to strengthen policies in the event of unforeseen shortfalls from these targets.

5. Fiscal Policy, Monetary Policy and Exchange Rate Policy

The Government's fiscal policy was stated as macroeconomic stability, fiscal discipline, spending on established priorities and widening the revenue base. These were all laudable objectives as long as they constrained the deficit which has been shown in Table 2. But fiscal policy would be judged alongside the other main tools of macroeconomic policy: monetary policy and exchange rate policy. Appropriate policies in these areas would be necessary to achieve the 5 per cent inflation target for this year.

Successive Governments had always found it costly to control the money supply. To tighten monetary conditions the Government would be expected to impose higher reserve requirements on commercial banks or to induce the banking system to hold more Government bonds. In Zambia's shallow money market this would delay the expected fall in interest rates. To avoid any resulting pressures on credit to the private sector, the Government would have to ensure it refrained from inordinate domestic borrowing. In addition, most of the build up of international reserves beyond the budget forecast would have to be sterilised to prevent rekindling of inflationary pressures.

Government would also have to ensure that exchange rate policy was consistent with fiscal policy in 2007. In the past, public deficits often resulted in real exchange rate overvaluation because the additional pressure on domestic demand tended to drive up wages and salaries. Tight monetary policy reinforced this tendency by raising domestic interest rates.

Consistent with the macroeconomic policy framework, exchange rate policy must ensure that there was no real appreciation of the Zambian Kwacha as happened some time last year. The aim must be to ensure that Zambian exports were competitive. A detailed explanation was needed on this issue.

The real exchange rate is an index of relative domestic and international prices expressed in terms of a common currency such as the US dollar. An increase in this index would signify that the foreign currency equivalent of Zambia's domestic price index was increasing faster than the international price index. This would be a real appreciation of the domestic currency, which would imply that Zambia's exporters were less competitive in international markets while foreign producers were more competitive in Zambia's domestic market.

The policy of a stable but flexible market determined exchange rate regime must therefore be consistent with the need to ensure that Zambia's exports were competitive in international markets. (In technical terms, the real exchange rate is defined as the domestic price index times the exchange rate – expressed as units of foreign currency per unit of domestic currency – divided by an international price index in foreign currency. The real exchange rate index is often expressed in "effective" terms, which takes into account the relative importance of inflation and exchange rate movements in each trading partner).

6. Revenue

The notable developments regarding the tax measures set out below.

a) The increase of the tax exempt threshold under PAYE. The effect was that on a salary of K1 million a month, the tax liability has gone down by almost 39 per cent. This was a significant improvement and given the inflation rate of 8 per cent, it represented a gain in disposable income in real terms. The tax credit for disabled persons and the tax exempt portion of terminal benefits has been doubled; while the allowable pension contribution has been increased fourfold. These represent positive relief to tax payers.
b) In keeping with the elements of the separate entity system, incomes accruing to individuals in employment would now be taxed separately from income derived from business activities.
c) A number of adjustments had been made to VAT, notably the exemption of interest paid on finance leases, the relief given to businesses to claw back 20 per cent of the VAT paid on purchases of petrol.
d) The reduction of excise duty on electricity from 5 to 3 per cent which would be channelled into the Rural Electrification Fund.
e) The budget proposes to tax interest on government bonds at the corporate rate. This meant that withholding tax would no longer be final.
f) The increase of duty on motor vehicles by 5 per cent. Motor vehicles were regarded as luxury items.
e) A wide range of generous tax concessions had been offered to investors in priority sectors and/or the MFEZ under the ZDA Act. There was debate as to how Zambian investors would benefit from these concessions given the relatively large amounts of

investment resources needed. The foreign operators had the clout to dictate terms. There would also be need to guard against the establishment of manufacturing export enclaves (personal computer assembly, running shoe and toy manufacture, etc). These establishments would be foreign owned and they should not pay low rents for the rights to use of the land. Such foreign investors tended to bring their own foreign capital and skilled labour, hire local workers at low subsistence wages, and have a minimal impact on the rest of the economy, even though they may generate significant export revenues. The issue thus revolved around the question of who owns the land, capital, and skills that would be rewarded as a result of export trade. Would they be nationals or foreigners? If both, in what proportions would the gains be distributed?

f) The other tax issues were to do with taxation on mining. The Government had made the welcome announcement that it would renegotiate the tax arrangements in the development agreements with the mining companies and that the Mines and Minerals Act would be amended to make the Development Agreements subordinate to the law. At present the Act contained a section that provided that these Agreements override any law or regulation. Effectively, this would ensure that there shall be no fiscal terms or Tax Schedule in the development agreements. Such agreements where they existed were simply governed by the laws of the host country. If the renegotiations were successful and the proposed new tax regime on the mining sector came into effect, this would be the single biggest broadening of the tax base. This was long overdue.

g) There were additional incentives of duty reductions on a number of items used in manufacturing, agriculture and the assembly of motor vehicles. To compensate for loss of revenue, duties had been increased on some items such as cigarettes and beer.

h) Other changes were the usual administrative housekeeping measures.

The effect of all the proposed tax measures would be a revenue yield of K7807.4 billion equivalent to 17.2 per cent of projected GDP. The budget estimate of tax revenue for 2006 was K6672.2 billion or 17 per cent of GDP. This was evidence of the fact that though Zambia's tax effort remains at the same level, it is still significantly better than in other countries in the region.

7. Expenditure

The budget performed the function of allocating resources for the provision of social goods. The 2007 central Government spending amounts to K12,042.4 billion or about 27 per cent of GDP, roughly the same as 2006 in percentage terms.

Estimated capital spending of K2,177.5 billion was 18 per cent of the total budget with 50 per cent to be foreign financed. This level of capital expenditure was equivalent to only 4.8 per cent of GDP, a reflection of the low savings capacity of the economy and therefore the slow pace of gross capital formation. A low level of investment effort such as this would not contribute much to economic growth and may affect the attainment of the targeted growth rate.

Current spending amounts to K9,053.3 billion or 75.2 per cent of the total. This represented 20 per cent of GDP implying a consumption-oriented budget. Almost 40 per cent of current expenditure was on personal emoluments, which were 29 per cent of the total budget or 8 per cent of GDP.

Over the years, classifying expenditures had been problematic. There was need for a better functional classification of the 2007 budgetary expenditures. The functional classification was needed to measure the costs and benefits of programmes in the budget which was activity based. This would greatly assist Members of Parliament to exercise their oversight on the executive's financial operations. But with the current format, it would be difficult because the classification given in the budget was a grouping that reflected the ministries and departments, which were the units to which Parliament's appropriations were made, and which were responsible for the administration of expenditure programmes.

(a) Social policies

It was estimated that as many as 70 percent of Zambians lacked the means to satisfy basic nutritional requirements, with an even higher incidence of absolute poverty in rural areas. The best hope for a general improvement in living standards and a sustainable reduction in poverty was the increase of economic growth, which should be underpinned by the rising prosperity of the mining sector.

The Government should therefore seek to alleviate poverty by substantially reorienting public expenditure toward the social sectors. This was not clearly manifested in the budget. As a percentage of the total budget the allocation for health was the same as last year implying a reduction in real terms. Yet, there was a real crisis in the health sector with a real need for additional frontline medical personnel and their retention. Also there was need to improve the availability of essential drugs and medicines.

The allocation for education had declined by 1 per cent this year compared to 2006. This represented an even larger expenditure reduction in real terms. There was a large shortfall in the numbers of teachers at all levels of the education system. In addition teachers' salaries and conditions of service, including accommodation would need more resources than were available in the 2007 budget to ensure teacher retention in the service.

(b) Expenditure on agriculture

This had been increased from about 6 per cent of the total budget last year to almost 9 per cent this year. This was encouraging, but it was the quality of expenditure that would matter most. It was difficult to gauge its impact on growth and poverty alleviation. The most visible allocation for poverty reduction was the amount of K150 billion for the Fertiliser Support Programme. Many observers were beginning to doubt the effectiveness of this programme. First, its coverage was limited to less than a million people in only a few parts of the country. It should now be a countrywide programme. Second, the programme was riddled with malpractices including diversion of fertiliser to undeserving beneficiaries. Given the importance of agriculture as the vehicle for increasing the standard of living in the rural areas, the programme should be recast as part of an overall strategy for rural development.

With regard to infrastructure development and maintenance, this year's budget allocation had been cut as a percentage of the total budget. For the rural areas, roads were the most important lifelines for people so dependent on agricultural activities.

(c) "Improved Service Delivery"

Improved service delivery was the thematic mission statement of the 2007 budget. It was doubtful that there would be significant improvement. The allocation of less than 1 per cent of the total budget to public service reform was clear evidence that the expected improvement would be difficult to make, while no mention had been made of the urgency of the reform and enhancement of civil service pay. Morale in the civil service needed to be raised starting with substantial improvements in salaries and conditions of service.

(d) Budget execution

Perhaps for the first time, the budget specifically addressed budget implementation and control of expenditure as the integral part of the budget process. Specifically, the Ministry of Finance and National Planning undertook to improve and strengthen treasury management and the systems for monitoring expenditures. Fiscal failure was always caused by problems in budget execution and budget control and because of this the budget had often failed as a planning tool.

The most important mechanism of Zambia's budget execution was its reliance on the cash budget for determining resource allocation, one of the principal functions of budget policy. The cash budget system of resource allocation was in fact a euphemism for cash rationing. Initially, this system was a response to the macroeconomic crisis when it was introduced in 1993. But it had become destabilising to effective public expenditure management, eroding predictability, accountability and transparency in resource allocations to line ministries. The consequence was that it has effectively led to a breakdown of financial discipline and had rendered the budget as approved by Parliament virtually irrelevant since actual expenditures by line ministries often bore little relationship to the budget initially approved by Parliament and ultimately, budget outcomes deviated widely from original plans.

There was therefore need to devise a system that would (i) make funding to line ministries more predictable; and (ii) make such funding consistent with the budget estimates as approved by Parliament.

Effective expenditure control would provide assurance that public funds were spent in accordance with Parliament's authorisation and that the expenditure objectives were achieved. Control of expenditure in Zambia was, at best, poor. The expenditure control system was predicated on Controlling Officers being responsible for execution of their budget head and being held accountable by the Secretary to the Treasury for the proper management of the funds under their control. Treasury management must ensure expenditure rules were enforced, including addressing the problems of commitment control and the accumulation of expenditure arrears which were an indicator of poor public expenditure management. The sanctions on erring Controlling Officers must be enforced as provided for in the Public Finance Act.

These problems were being addressed within the overall framework of public expenditure management reforms. The most important of these reforms were the PEMFA and the implementation of the IFMIS. However, these reforms would take time to have an effect on public expenditure management as the implementation of the PEMFA and IFMIS projects had only recently commenced.

The size of the public budget had grown substantially. To enhance effective control, the Government should put in place a system for continuous monitoring, review and evaluation of expenditures. Based on this system, it was necessary that a number of reports should be regularly prepared and submitted to Parliament to strengthen its oversight and control by way of regular reporting to Parliament by the Executive, and adequate arrangements by Parliament to evaluate and act on financial reports. These reports should be:

(i) Monthly Reports

- Monthly reports show progress in implementing the budget. They should be released within four weeks of the end of each month;

- Monthly reports should contain the amount of revenue and expenditure in each month and the year to-date. A comparison should be made with the forecast amounts of monthly revenue and expenditure for the same period. This should not present any problems since it was understood that it was being done in the context of the cash budget and monthly cash releases. Any adjustments during the year to the original forecast should be shown separately;

- A brief commentary should accompany the numerical data. If a significant divergence between actual and forecast amounts occurs, an explanation should be given;

- Expenditures should, as was the practice, be classified by major administrative units (ministry, department). Supplementary information classifying expenditure by economic and functional categories should also be presented; and

- The monthly reports, or related documents, should also contain information on the government's borrowing activities.

(ii) Mid-Year Report

- The mid-year report provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the current fiscal year and, at least, the following two fiscal years. The report should be released within six weeks of the end of the mid-year;

- The economic assumptions underlying the budget should be reviewed and the impact of any changes on the budget disclosed; and

- The mid-year report should also contain a comprehensive discussion of the Government's financial assets and liabilities, non-financial assets, pension obligations and contingent liabilities.

(iii) Year-End Report

- The year-end report is the Government's key accountability document. It is audited by the Auditor-General and should ideally be released within six months of the end of the fiscal year;

- The year-end report shows compliance with the level of revenue and expenditure authorised by Parliament in the budget. Any adjustments during the year to the original budget should be shown separately. The presentation of the year-end report should mirror the presentation format of the budget;

- The year-end report, or related documents, should include non-financial performance information, including a comparison of performance targets and actual results achieved;

- Comparative information on the level of revenue and expenditure during the preceding year should also be provided. Similar comparative information should be shown for any non-financial performance data;

- Expenditure should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately;

- Expenditure should also be classified by administrative unit (ministry, department). Supplementary information classifying expenditure by economic and functional categories should also be presented; and

- The year-end report should contain a comprehensive discussion of the Government's financial assets and financial liabilities, non-financial assets, pension obligations and contingent liabilities.

ISSUES AND CONCERNS RAISED BY STAKEHOLDERS

6. Your Committee interacted with various stakeholders during their deliberations. The following paragraphs are a synopsis of the major concerns that were expressed to your Committee by these stakeholders.

- **Sectoral contributions to GDP growth** - The key sectors of the economy, namely agriculture, tourism, and manufacturing are growing and contributing to GDP at an unacceptably slow pace. This trend was worrying. For instance, in 2006, growth in the agricultural sector, despite the good harvest, was less than 4%, manufacturing was just over 3%, and tourism earnings were a mere US$176.7 million more than the 2005 which was US$164.8 million. Further, despite the various incentives and tax exemptions given to the construction industry in the 2006 budget, this sector had not grown to expectation.

- **High poverty levels -** In spite of stability occurring on the macroeconomic front in the year 2006, the public service delivery system still leaves a lot to be desired. With less than a decade to achieve the Millennium Development Goals (MDGs), the social front has not stabilised or performed to acceptable standards. From the above, it had been observed that the social indicators were still on a downward trend with poverty continuing to be widespread. The fact that the majority of Zambian people (65 percent) still lived in abject poverty was clear evidence in this regard.

- **Social infrastructure -** A close look at the state of the social infrastructure in both the urban and rural areas reveals a grey picture of the prevailing socio-economic situation in Zambia. As a result of this as well as other factors such as inadequate staff for health and education, lack of essential drugs and obsolete equipment, among others, the education and health services were below standards. At present, the country had inadequate education and health facilities.

- **Budget execution -** With regard to budget execution, there were concerns, premised on the trends in recent years, that the budget may, regrettably, not correlate with actual expenditure. For example, in 2005, Government expenditure was only about 70% of the total expenditure approved by parliament, including supplementary budget expenditure, and in 2006 it was about 87 percent of the total approved expenditure. The performance of the national budget in 2006 was characterised by revenue shortfalls, which negatively affected budget execution. On account of shortfalls in revenue, expenditure was below target by 13.3 percent. Total expenditure amounted to K8, 618.1 billion against the target of K9, 942.4 billion. Current expenditure accounted for 85.1 percent while the balance of 14.9 percent was absorbed by capital expenditure.

- **Supplementary expenditure** – Serious concerns were also expressed to your Committee about the continued rise in supplementary budget expenditure, which seemed to be increasing each year. The supplementary budget for 2006 was K643.7 billion of K10.8 trillion, which amounted to 5.9% of the total national budget compared to 4.4% in 2005. Of this amount, Ministry of Finance and National Planning had a supplementary expenditure of K441.1 billion which constituted 68.5% of the total 2006 supplementary expenditure. There were also concerns about the expenditure items financed by the supplementary budget, which included office administration, and emoluments. It was felt that these items should be well planned for and should not be financed under supplementary provisions.

- **GDP growth** – The GDP growth target of 7 percent was realistic for a country like Zambia, but it was 1 percent below the required GDP growth to put the country on the path to attaining the Millennium Development Goals (MDGs). However, there was need to create the necessary investment climate for citizens to participate and contribute to economic development in order to achieve broad-based growth and sustainable development.

- **Inflation target** – It may be difficult to achieve the 5% inflation target because of the anticipated increase in the cost of food stuffs, especially maize due to floods being experienced in most productive parts of the country and the entire region. Further, the country's inability to control global fuel prices would contribute to the negative economic performance.

- **Domestic borrowing -** The reduction of domestic borrowing to 1.5% of GDP was a welcome objective since the less the Government borrowed from the domestic banking system, the more money there would be for the private sector to borrow for investment. This in turn would reduce the interest rates.

- **Exchange rate -** There was need to achieve a stable and competitive exchange rate as targeted by the FNDP. This would certainly help to boost the competitiveness of industries, specifically export, agriculture, and tourism.

- **Total national budget -** The 2007 national budget of approximately K12 trillion or 26% of GDP appeared ambitious, bearing in mind that in 2006, Zambia failed to raise the required revenue in comparison to the approximately K10 trillion budget. However, the optimism that over 70% of the national budget would be funded from domestic resources was commendable.

- **Citizens Economic Empowerment -** The Citizens Economic Empowerment Act of 2006 provided for, among other things, the establishment of a fund to support what was described as broad based economic empowerment programmes. It was, therefore, disappointing to note that the Government had allocated only K49 million through the Ministry of Commerce Trade and Industry to the CEE Fund. There was also K30 billion provided for small and medium enterprise credit enhancement, but there was no indication what this really meant. The allocation of K49 million did not show serious commitment to the goal of empowerment of citizens by facilitating their effective participation in the economic affairs of the country. It was suggested that other means could include floating empowerment bonds through the stock exchange. However, the 2007 budget was completely silent on any such intentions, if there were any.

- **Incentives under the ZDA -** The qualification requirements under the ZDA Act stipulated that only companies (local or foreign) with an investment capital of US$500,000 would be eligible for the incentives. In Zambia, only a large enterprise could have such amount of investment capital. Therefore, these incentives would still be illusive to local enterprises. As such, it was proposed that the Government should consider using such instruments under their disposal to facilitate the qualification for the incentives of bona fide local enterprises with a minimum investment capital of US$50, 000. Such a move would stimulate the growth of local industry and change the whole economic landscape.

- **Income tax exempt threshold** –The income tax levels in Zambia remained among the highest in the region. The PAYE contribution to revenue was still higher than that of corporate revenue. This implied that employees still had to bear most of the burden compared to companies and organisations. Ideally incomes of K800, 000 and below should not be subjected to tax under PAYE. That way, the increased disposable incomes of employees would increase the level of indirect consumption based tax mainly in the form of VAT. Further, such a tax exempt threshold would stimulate local business growth through increased consumer spending on locally sourced goods and services. A broadened tax base would compensate for any revenue loss arising from a lowered top rate of PAYE. Nevertheless, the revision upwards of the income tax exempt threshold from the current K320, 000 to K500, 000 was a step in the right direction as it would at least increase the take home pay of the majority of citizens. It would reduce household food insecurity, and thus act as a tool in the fight against diseases such the HIV/AIDS pandemic.

- **Minimum taxable value -** The introduction of the minimum taxable value on widely distributed products like Talk Time and bottled water was welcome as was the 5 percent tax on clear beer and cigarettes. However, more measures were required to expand the tax net into the informal sector.

- **Mineral royalty tax -** The increase in the rate of mineral royalty tax from 0.6% to 3%, which the Government had proposed was a step in the right direction and was long overdue. It was hoped that the renegotiations of signed contracts with existing mining companies could be concluded expeditiously so that proceeds could be equitably shared in the nation.

- **The cost of doing business -** Another major challenge in Zambia was the high cost of doing business, which in many cases had led to local products being uncompetitive at both domestic and international markets. Studies done in Zambia cited costs of transport, telecommunication, energy, finance and taxation as being among the highest in the region.

- **Value Added Tax -** The current VAT rate at 17.5% was too high to stimulate business transactions in an emerging economy. The base on which VAT was levied was also narrowed when the turnover threshold was increased from K100 million to K200 million per annum, resulting in VAT being collected from few businesses, which were highly taxed to compensate for the narrow base. The other major disadvantage of the increased threshold was that many medium businesses were not eligible to register for VAT and were, therefore, not favourably considered when tendering for business. In this light, the Government proposal to allow compliant suppliers with turnover of less than K200 million to register under voluntary registration upon satisfaction of prescribed conditions was commendable as it would enable small operators to participate more effectively in business.

- **Corporate tax structure -** The promotion of value addition was pivotal to economic development of any country. In this regard, it was important to enhance the productive capacities of local manufacturers. This could only be done if there was a viable manufacturing base as the sector played a central role in promoting forward and backward linkages with other industries such as agriculture, mining and tourism. Local manufacturing capacity could be boosted if Government extended deliberate incentives to the sector as it had done to other sectors. For example, profits from the manufacturing sector were taxed at 35% but income from other sectors, such as farming were taxed at 15 % and mining at 25 %. The general feeling among the private sector was that the company tax rate for manufacturers should be reduced from 35% to 20%, in order to enable the Zambian companies become competitive.

- **Debt contraction and management reforms -** The failure by Government to speed up the implementation of the loan contraction and debt management reforms was disappointing. However, it was commendable that Government had only committed 1 per cent of the national budget to external debt service as compared to 4 per cent in 2006. There was an urgent need to establish mechanisms that would ensure that external debt remained at sustainable levels. Further, debt contraction should only be for productive ventures.

- **Allocation to the social sectors -** While commending the Government for increasing the allocation to the social sectors from K3, 113.1 billion in 2006 to K3,552.6 billion in 2007, which represented 36 percent of the total 2007 national budget, it was worrying to note that Zambia had not yet complied with the Abuja Declaration, to which Zambia was a signatory. The Declaration provided that nations should allocate up to 15 percent of their national budgets for health. The 2007 budget had allocated only 10.1 percent of the resources to the health sector.

- **Infrastructure development in the national health budget -** It was also pointed out that the national health budget had no provision for infrastructure development. This meant that most citizens would still have to cover long distances to access health services. This compromised the objective of improved service delivery.

- **Allocation to the education sector -** The allocation to the education sector of K1,808 billion, or 15% of the total national budget, fell short of the Cairo Commitment of 20% of a respective national budget.

- **Free education policy -** There was need to retain the trained teachers if the free education policy was to be meaningful. It was also necessary to embark on recruitment and retention of trained teachers, rehabilitation and construction of schools in order to enhance the quality of education being offered.

- ❖ **Higher education -** Upgrading the National College for Management and Development Studies to be the third public University in Zambia was commendable, but there was need to improve on funding to the already existing universities as well. Issues such as student bursaries and loans should be urgently looked into with a view to increasing the amounts and improving their management.

- ❖ **Social protection -** The allocation of K343.5 billion which was 2.9% of the 2007 national budget to social protection compared to 0.4 percent (K47.5 billion) in 2006 was welcome. However, this increase was misleading since it encompassed K266 billion for pension arrears, which should have been classified under domestic debt. Although it was good that Government was paying pensioners, these payments were actual entitlements (domestic debt) and shouldn't be classified as social protection (social protection initiatives were deliberate initiatives to empower the most poor and destitute).

  Under social protection, there was a worrying trend in that many social security programmes would receive less Government funding in 2007. These included the following:

- ◊ Food Security Pack (FSP) – would receive an allocation of K10 billion as compared to K15 billion in 2006;
- ◊ Micro Bankers Trust (MBT) – would receive an allocation of K350 million as compared to K1.0 billion in 2006;
- ◊ Peri-Urban Self Help (PUSH) – would receive an allocation of K2.5 billion as compared to K4.0 billion in 2006;
- ◊ Zambian Agency for Persons with Disabilities (ZAPD) – would receive an allocation of K4 billion as compared to K6.4 billion in 2006. However, an additional allocation of K5.0 billion was made towards Retirement Benefits for ZAPD.
- ◊ Public Welfare Assistance Scheme (PWAS) – would receive an allocation of K9.3 billion as compared to K10.6 billion in 2006.

- ❖ **Agriculture -** This sector was not contributing to GDP because the sector was rain fed, hampered by inadequate infrastructure, excessive import dependence and lack of insurance mechanisms. These severely limited the potential for the successful development of smallholder agriculture. Although the sector was said to be a priority, in the 2007 budget it had received an allocation below the Maputo protocol, a commitment by the Government to allocate of 10 percent of the budget to agriculture. It had been allocated 8.8 percent (K1, 062.9 billion), of which 50 percent was earmarked for the strategic food reserve programme to facilitate for purchase of maize and the Fertilizer Support Programme. This left only K37 billion and K20 billion for irrigation development and agriculture infrastructure development respectively. As a key driver of the rural economy and an important solution to the problem of poverty, the sector's activities should have received more support from the Government. It was also worrying that the Government did not state how small scale farmers (both men and women) would benefit from livestock, irrigation and fisheries development.
- ❖ **Decentralisation -** The implementation of the decentralisation process was too slow. There was need for the Government to create the appropriate capacities to enable speedy and effective decentralisation. The allocation of K102 billion to this activity did not inspire confidence that there was political will to move the process along and achieve better service delivery for the ordinary Zambian.

- **Financial management -** More could be done to mobilise domestic resources by reducing unnecessary wastage, misapplication and outright corruption. This remained as a huge problem in the country. It was stressed that budget execution was at the centre of success or failure of government plans and policies. Strengthening treasury management and expenditure monitoring systems was, therefore, cardinal. The Ministry of Finance and National Planning must also ensure strict compliance with on-time reporting requirements by Ministries, Provinces and Spending Agencies and enforceable sanctions must apply to those failing to comply. Auditors must also regularly verify reports with physical inspections of the work of all Ministries, Provinces and Spending Agencies to avoid nugatory expenditures.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Despite all the progress made in recent years, the Zambian economy remains fragile with rampant poverty, particularly in the rural areas. Thus, your Committee are happy to note the theme for the 2007 budget which points to some effort on the part of the Government to move from a focus on growth alone to service delivery. Your Committee note that growth for its own sake should not be the objective of the Government, but the distribution of the wealth so generated is cardinal to accelerating poverty reduction. In this respect, the emphasis of the Fifth National Development Plan (FNDP) on productive investment in agriculture (rural development), manufacturing, mining, tourism, trade and energy is welcome but there must also be a focus on repair and restoration of infrastructure and improvements in the provision of social services.

Arising from interactions with various stakeholders as well as their own analysis and their deliberations, your Committee make the following observations:

1. MACROECONOMIC OBJECTIVES

The attainment of the objectives stated in Vision 2030 and the FNDP will call for resources beyond what is thought to be available. Your Committee are of the view that the target real growth rate of 7 per cent this year and over the plan period will not be sufficient to transform Zambia into a middle-income country by 2030. It will also not be sufficient to enable Zambia to begin making significant progress in alleviating poverty, especially among the rural poor. Further, your Committee note that the budget for 2007 is silent on specific measures to promote employment creation. In addition, your Committee are concerned that not much headway is being made towards attainment of the Millenium Development Goals.

2. MINING SECTOR

Your Committee share the concerns of other stakeholders that copper prices will not remain at current levels for very long and Zambia stands to lose if the very generous incentives given to the mining sector are not reviewed quickly. Your Committee are also extremely concerned that there is no specific provision in the budget showing the revenues to be earned by the Government from the exploitation of gemstone resources, despite the fact that this is a multi-million dollar business. Your Committee are of the view that in a resource poor country like Zambia, it is critical that all economic activities are captured in the national accounts, so that the revenues there from are used for the benefit of the entire population. They further note that the sector is dominated by foreign operators.

3. PAY AS YOU EARN

Your Committee are unhappy to note that despite the upward revision of the income tax exempt threshold from the current K320, 000 to K500, 000, the income tax levels in Zambia remain among the highest in the region. The PAYE contribution to revenue continues to be higher than that of corporate tax, meaning that employees still bear most of the burden of financing Government programmes compared to companies and organisations.

4. CONSTITUENCY DEVELOPMENT FUND

Your Committee note that this provision in the budget goes directly to provision of services to the people, and that the ordinary citizens are closely linked to the process of selecting the projects to be financed under the CDF. Noting the commitment by the Minister of Finance and National Planning to increase the provision to K200million, your Committee maintain that the allocation under CDF is still totally inadequate.

5. THE PRIVATE SECTOR

The private sector is rightly expected to provide the growth impetus. But the generous incentives in this year's budget, like its predecessor in 2006, seem to be biased towards foreign investment. Your Committee also note that there are very genuine and well founded concerns by the private sector about the cost of doing business in Zambia, which include, among others, the cost of telecommunication services, energy and the tax regime, which are felt to be very high.

6. AVAILABILITY OF AFFORDABLE CREDIT

Your Committee note with concern that despite the continued reduction in inflation rates and the Bank of Zambia's gesture of having reduced the statutory reserve ratio requirement to only 14.5%, commercial banks have not passed on the benefit of these favourable developments to the borrowing public. Thus, real interest rates have generally remained high, even in the face of declining domestic borrowing by the Government, and the reduction of the top tax rate for the banking sector from 45% to 40% in 2006.

7. RECURRENT Vs CAPITAL EXPENDITURE

It has been noted that expenditure in the Government budget continues to be heavily biased towards consumption. This bias goes against the objective of capital formation and infrastructure development in the country, and is contrary to the expressed commitment by the Government to growth and poverty reduction. Your Committee, further, observe that the execution of capital projects leaves much to be desired. Inadequate allocations are thinly spread over a large number of projects and programmes. As a result, no effective work is carried out, leading to serious deterioration or lack of infrastructure.

8. DEBT CONTRACTION AND MANAGEMENT

Following Zambia's attainment of the HIPC Completion Point, there is need to ensure that the country maintains a sustainable debt portfolio and that all debt contracted forthwith is directed at productive projects. Further, there is need to ensure transparency in the debt contraction process. Current arrangements are inadequate to ensure this.

9. PUBLIC FINANCIAL MANAGEMENT

The management of public funds is a source of concern in Zambia. In view of the paucity of resources that the country is faced with, it is necessary that the resources available are put to optimum use, so the need to prevent wastage, misappropriation, misapplication and outright defalcation is paramount.

10. DISBURSEMENTS TO THE SOCIAL SECTORS

Your Committee note that it is only through improved disbursements to the social sectors that the country can hope to achieve the objective of poverty reduction.

11. CLASSIFICATION OF POVERTY REDUCTION PROGRAMMES

Your Committee note that the classification of Poverty Reduction Programmes in the 2007 budget has included some activities that are not directly related to service provision to the poor.

12. DECENTRALISATION

The full implementation of the decentralisation policy is key to the effective delivery of services to the most marginalised of the Zambian people. It will, therefore, be difficult for the Government to achieve the objectives of improved service delivery in the rural areas and poverty reduction if the policy is neglected. The provision in the 2007 budget for implementation of the policy belies its importance.

13. AGRICULTURE

The agriculture sector is not contributing as it should to GDP because the sector faces constraints as it depends on natural factors such as variable climatic conditions, and is hampered by inadequate infrastructure, excessive import dependence and lack of insurance mechanisms. Smallholder agriculture is particularly affected by these factors, despite its potential for development. Although the Government has pronounced that it considers agriculture a priority sector, in the 2007 budget it has been allocated only 8.8 percent of the national budget (K1, 062.9 billion), of which 50 per cent is earmarked for the strategic food reserve programme to facilitate for purchase of maize and the Fertilizer Support Programme. This leaves only K37 billion and K20 billion for irrigation development and agriculture infrastructure development respectively.

Your Committee also note with concern that agricultural producers are considered as high risk borrowers by conventional lending institutions; as such, most of them, particularly small scale operators in the sector, have difficulties in recapitalising their operations as they are not able to borrow on favourable terms. This is because there are no credit institutions specialising in lending to small scale farmers.

Consequent upon their observations above, your Committee, therefore, recommend as follows:

1. MACROECONOMIC FRAMEWORK

A strategy should be worked out for Zambia to attain a faster economic growth rate, which should also be based on a comprehensive programme of diversification of the economy.

Agriculture and infrastructure development should be given priority because these are essential to poverty reduction based on a strategy of rural development. Emphasis should be on the rural areas where employment will enhance living standards. Further, job creation should be one of the key macroeconomic objectives in the budget, with clear indicators for easy monitoring.
In addition, your Committee strongly urge the Executive to regularly update the Legislature on progress being made towards achievement of the Millennium Development Goals through specific progress reports.

2. THE MINING SECTOR

The proposed changes to legislation pertaining to the development agreements with the mining companies should be effected quickly while renegotiation of these agreements should commence immediately in order for the country to take advantage of opportunities for accelerated growth from its most important natural resource. As regards the gemstone sub-sector, your Committee recommend that the Government should immediately put measures in place to enable it capture reliable data pertaining to exploitation of gemstone resources, so that operators in the sub-sector can begin to make an appropriate contribution to national revenues. Further, your Committee are of the view that this sector should be reserved for Zambians.

3. PAY AS YOU EARN

Your Committee recommend that the Government consider exempting incomes of K800, 000 and below from tax under PAYE. This way, the increased disposable incomes of employees will increase the level of indirect consumption based tax mainly in the form of VAT. Further, such a tax exempt threshold would stimulate local business growth through increased consumer spending on locally sourced goods and services. A broadened tax base would compensate for any revenue loss arising from a lowered top rate of PAYE.

4. CONSTITUENCY DEVELOPMENT FUND

Your Committee strongly recommend that the amount provided for the CDF be increased to K1 billion as it is one sure way of enhancing service delivery.

5. THE PRIVATE SECTOR

The Government should expedite the implementation of the private sector development initiative. This is particularly important since economic development based on diversification is expected to be private sector driven in both the FNDP and Vision 2030. Further, the local entrepreneur must be given support by way of incentives as it is these operators who will eventually be responsible for the attainment of the objectives of the FNDP. Your Committee also strongly recommend that the Government, through the private sector development initiative, should take urgent measures to address the concerns relating to the high cost of doing business in Zambia so as to enable the private sector to take its rightful position as the engine of economic growth in the country.

6. AVAILABILITY OF AFFORDABLE CREDIT

Your Committee strongly recommend that the Government should do more to ensure significant reduction in interest rates, in line with other economic trends. In this regard, your Committee urge the Government to design specific measures under the Financial Sector Development Plan (FSDP) to reform the financial sector so that it provides effective and efficient intermediation in the market, especially with regard to longer-term finance and strengthening of micro-finance institutions.

7. RECURRENT VS CAPITAL EXPENDITURE

The imbalance between capital and recurrent expenditure must be corrected if the growth objective is to be realised so that more resources may become available for service provision and poverty reduction programmes. Further, the Government must come up with a strategic plan on the execution of capital projects so that value for funds expended on these projects is realised. In this regard, it is important to expedite the decentralisation of the planning and execution processes so that prioritisation is done at the district level.

8. DEBT CONTRACTION AND MANAGEMENT

The Government should speed up the reform process of loan contraction and debt management. This will ensure the establishment of appropriate transparency and accountability measures. These should include parliamentary scrutiny and approval for future loans as well as a parliamentary determination of a ceiling for annual borrowing. It is, therefore, necessary that a comprehensive review of the existing legal framework in this regard be undertaken.

9. PUBLIC FINANCIAL MANAGEMENT

Government must show real commitment to strengthening treasury management and expenditure monitoring systems in order to address the pilferage of public resources by civil servants and other public officials by adhering to the pronouncement of the budget speech. In this vein, the Ministry of Finance, in collaboration with relevant law enforcement agencies, should start meting out disciplinary action and penalties stipulated in the Laws of Zambia on all officers involved in malpractices in timely fashion.

10. DISBURSEMENTS TO THE SOCIAL SECTORS

Government should strictly follow the budget and ensure that social expenditure and poverty reducing programmes are protected and fully disbursed. Further, the Government must endeavour to include a measurable poverty reduction target and ensure equity in its allocation of resources.

11. CLASSIFICATION OF POVERTY REDUCTION PROGRAMMES

The Ministry of Finance and National Planning must explain and clearly define Poverty Reducing Programmes (PRP) expenditure and the criteria for such classification.

12. DECENTRALISATION

The Government must allocate more resources to fiscal decentralisation to accelerate its implementation. The Ministry of Finance and National Planning should follow-up the progress of the implementation of the Decentralisation Policy with appropriate institutions and report to Parliament on progress made.

13. AGRICULTURE

The Government should prioritise agriculture and increase the allocation to the sector. The Government should also develop and spell out clear strategies that will target small scale farmers (both men and women) in terms of livestock, irrigation and fisheries development programmes. Your Committee, further, strongly recommend that consideration be given to the possibility of establishing an agriculture lending institution, especially in the light of the fact that the sector is expected to contribute significantly to economic growth under both the FNDP and the Vision 2030.

CONCLUSION

Your Committee, Sir, concluded their deliberations within their terms of reference.

Your Committee had invited a number of stakeholders from whom they sought comments on and reactions to the Estimates of Revenue and Expenditure for 2007. While most of those invited did appear before your Committee, your Committee realised that the time frame in which they were required to conclude their business was very limited, and this proved to be a constraint in that most witnesses could not undertake adequate research before making their submissions. This is a major source of concern to your Committee.

Your Committee are, however, grateful to the stakeholders who appeared before them in spite of the short notice and acknowledge their full cooperation and support. Your Committee wish to record their indebtedness and gratitude to you, Mr Speaker, for affording them the opportunity to serve on this important Committee and for allowing all the Chairpersons of Portfolio Committees and the Chairperson of the Public Accounts Committee to take part in the process of scrutinising and analyzing the 2007 Estimates of Revenue and Expenditure. The process has been greatly enriched by the participation of these chairpersons.

Your Committee also express their appreciation for the services and advice rendered by the Consultant to the Committee, who attended all the deliberations of the Committee. Your Committee, further, wish to thank the Office of the Clerk of the National Assembly for the services rendered throughout their deliberations.

We have the honour to be, Sir, your Expanded Committee on Estimates appointed to
Consider the 2007 Estimates of Revenue and Expenditure.

Mr G M Beene, MP
(Chairperson);
Dr G L Scott, MP
Member;
Mr F R Tembo, MP
Member;
Mrs J M Limata, MP
Member;
Mr B Imenda, MP
Member;
Mr V Mwale, MP
Member;
Mrs R M Musokotwane, MP
Member;

Mr A M Nyirenda, MP
Member;
Mr J P L Mulenga, MP
Member;
Dr K Kalumba, MP
Member;
Mr R Muntanga, MP
Member;
Dr P D Machungwa, MP
Member;
Mr D M Syakalima, MP
Member;
Mr G Lubinda, MP
Member;
Dr B E Chishya, MP
Member;
Mr S Sikota, MP
Member;
Mr M Habeenzu, MP
Member;
Dr S Chishimba, MP
Member;
Mr R Muyanda, MP
Member;
Mr J J Mwiimbu, MP
Member; and
Mr C L Milupi, MP
Member.

APPENDIX I
WITNESSES

1) Zambia Institute of Chartered Accountants

2) Economics Association of Zambia

3) Catholic Centre for Justice, Development and Peace

4) Zambia National Farmers' Union

5) Zambia Business Forum

6) Zambia Congress of Trade Unions

7) Ministry of Finance and National Planning

8) Civil Society for Poverty Reduction

9) Non-Governmental Organisations Coordinating Committee

10) Zambia Agency for Persons with Disabilities

11) University of Zambia Students' Union

12) National Association for Peasant and Small Scale Farmers of Zambia

13) Copperbelt University Students' Union

14) Evangelical Fellowship of Zambia

15) Zambia National Tourist Board

16) Local Government Association of Zambia

17) Bankers' Association of Zambia

18) Chamber of Mines in Zambia

APPENDIX II

CONSULTANT - PRP

Mr L C Sichilongo

LIST OF OFFICIALS

1. Mr S M Kateule, Principal Clerk of Committees
2. Mr G Lungu, Deputy Principal Clerk of Committees
3. Ms C Sikatele, Acting Deputy Parliamentary Legal Counsel
4. Ms M K Sampa, Committee Clerk (FC)
5. Mr S C Kawimbe Committee Clerk (SC)
6. Ms C Musonda, Assistant Committee Clerk
7. Mr M K Phiri, Assistant Committee Clerk
8. Mr S Chiwota, Assistant Committee Clerk
9. Mrs C K Mumba, Assistant Committee Clerk
10. Mrs M K Siwo, Assistant Committee Clerk
11. Mr A M Banda, Assistant Committee Clerk
12. Mrs C Z Mwale, Assistant Research Officer
13. Mr F Banda, Assistant Librarian
14. Ms P Zulu, Typist
15. Mr R Mumba, Committee Assistant
16. Mr J Mulinde, Parliamentary Messenger
17. Mr M Likunyendo, Parliamentary Messenger