REPUBLIC OF ZAMBIA

REPORT

OF THE

BUDGET COMMITTEE
ON THE REVIEW OF THE SECOND QUARTER PERFORMANCE OF THE 2018 BUDGET FOR SELECTED MINISTRIES AND PROVINCES

FOR THE

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

Printed by the National Assembly of Zambia

REPORT

OF THE

BUDGET COMMITTEE

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

FOR THE

SECOND SESSION OF THE TWELFTH NATIONAL ASSEMBLY

APPOINTED ON WEDNESDAY 20TH OCTOBER, 2017

TABLE OF CONTENTS

LIST OF TABLES

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

Consisting of:

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

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

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

2.0 FUNCTIONS OF THE COMMITTEE

The functions of your Committee are to:

i) examine the Estimates of Revenue and Expenditure, including the supplementary Estimates of Expenditure and Excess Expenditure;

ii) report on economics, improvement in organisation, efficiency for administration reform, consistent with the policy underlying the Estimates, and examine whether the money is well laid out within the limits of the policy implied in the Estimates;

iii) study, inquire into and report on matters related to coordination, control and monitoring of the National Budget;

iv) conduct budget hearings;

v) review Estimates of Revenue and Expenditure and make recommendations to the House;

vi) examine the Medium Term Expenditure Framework and budget policy statements presented to the House;

vii) examine money Bills, including the Excess and Supplementary Appropriation Bills;

viii) examine tax rates and estimates, economic and budgetary policies and programmes with direct budget outlays;

ix) examine public debt before it is contracted; and

x) exercise powers conferred on it under Article 203 of the Constitution.

3.0 MEETINGS OF THE COMMITTEE

Your Committee held four meetings to review the second quarter performance of the 2018 national budget with respect to selected ministries and Central Province.

4.0 PROCEDURE ADOPTED BY THE COMMITTEE

Your Committee considered the macroeconomic performance of the budget in the second quarter and the budgets for the Ministries of Transport and Communications; Tourism and Arts; and Higher Education; and Central Province. Your Committee requested detailed written memoranda from these spending agencies and from other stakeholders. Thereafter, your Committee invited them to provide oral submissions and clarifications on issues arising from their memoranda.

5.0 ARRANGEMENT OF THE REPORT

Your Committee's Report is organised in four parts: Part I gives an overview of the macroeconomic performance in the second quarter; Part II assesses the performance of revenues and expenditure in the second quarter; Part III presents the findings of your Committee on the quarterly review of the performance of the budget for the second quarter of 2018 for selected ministries and Central Province; Part IV gives your Committee's observations and recommendations.

PART I

6.0 MACROECONOMIC PERFORMANCE IN THE SECOND QUARTER OF 2018

Your Committee was informed that during the second quarter of 2018, the macroeconomic performance was unfavourable relative to that of the first quarter of 2018.

6.1 Gross Domestic Product (GDP) Gross Rate

Your Committee was informed that real sector indicators showed a steady pickup in economic activity in the first quarter of 2018 and the economic outlook remained positive. The rise in economic activity was mainly attributed to the ramp up in copper production, robust growth in cement production, and the rise in tourist arrivals and electricity generation. For 2018 as a whole, real Gross Domestic Product (GDP) was projected to grow by 4 per cent, premised on the expected expansion in mining, manufacturing and construction sectors. This was in spite of subdued growth in agriculture as indicated by the crop forecasting report released in early May 2018.

Copper prices continued to be favourable during the first half of 2018 averaging United States Dollar US$ 6,970 per metric tonne as at the end of the second quarter from US$6,796 recorded as at the end of the first quarter of 2018. The relatively stable and high copper prices was reflected in an increase in the production of the commodity during the period under review. In the first two months of the second quarter of 2018, there was a 2.8 per cent increase in copper output to 132,385 metric tonnes from 128,784 metric tonnes recorded during the same period in 2017.

6.2 Monetary Policy Developments

Your Committee was informed that monetary policy formulation and implementation had continued to focus on maintaining inflation within the target range of 6-8 per cent. The Bank of Zambia had significantly eased monetary policy since the beginning of 2017 by lowering the Policy Rate from 15.5 per cent to 9.75 per cent in May 2018. In addition, the statutory reserve ratio had been reduced from 18.0 per cent to 5.0 per cent over the same period. The decision to ease monetary policy was on the basis of the continued fall in inflation and projections pointing to low inflation over the eight-quarter horizon.

6.3 Inflation Rate

Your Committee was informed that overall inflation rate increased to 7.4 per cent in June, 2018 from 7.1 per cent in March, 2018. The rise in inflation rate was mainly due to reduced supply of selected food items such as maize grain and vegetables as well as the increase in presumptive tax for public service vehicles at the beginning of the year. There was also an increase in the crude oil prices during the first two months of the second quarter of 2018 averaging US$76.9 per barrel from US$62.4 as at the end of the first quarter of 2018. This led to the adjustments in fuel prices which pushed up transportation costs contributing to the increase in inflation during the period under review.

Inflation was projected to remain above 7.0 per cent during the third quarter of 2018. For 2018, annual inflation is projected to average 7.5 per cent. However, risks to this inflation outlook are skewed to the upside and include lower crop production in the 2017/2018 agriculture season, as well as faster than expected increases in crude oil prices, which may result in upward adjustments in domestic fuel prices. Despite these risks, inflation is projected to remain within the target range of 6-8 per cent over the medium-term.

6.4 Market Lending and Deposit Rates

Your Committee was informed that despite the continued easing of monetary policy and the reduction in inflation, the lending rates continued to be high at 24.2 per cent in June, 2018 from 24.1 per cent in March, 2018. The savings rate for 180-day deposits edged up slightly to 8.2 per cent in June, 2018 from 8.1 per cent in March, 2018. The high lending rates were largely on account of the elevated yield rates on Government securities, which commercial banks used as the opportunity cost of credit. These had remained high following the expansion in domestic financing requirements of the Government. Furthermore, the high rate of non-performing loans which stood at 12.8 per cent as of May, 2018, had contributed to the high lending rates on the market.

Your Committee was further informed that domestic credit growth had been on a downward trend, driven largely by the contraction in credit to private enterprises. On a year-to-date basis, domestic credit grew by 1.8 per cent as at April, 2018 driven by the 2.8 per cent growth in lending to the Government while credit to private enterprises contracted by 2.1 per cent. On an annual basis, domestic credit growth slowed down to 17.6 per cent in April, 2018, with credit to the Government contributing 12.4 percentage points from 19.0 per cent in March, 2018. However, private sector credit growth on an annual basis picked up to 6.4 per cent in April, 2018, from 3.6 per cent in March, 2018.

6.5 Foreign Exchange Market

Your Committee was informed that the Kwacha remained relatively stable against the major trading currencies during the second quarter of 2018. The Kwacha was trading at an average of K9.8917 per US$ during the second quarter compared to an average of K9.7543 per US$ recorded during the first quarter of 2018 representing a marginal depreciation against the US dollar of 1.4 per cent. The depreciation was mainly attributed to negative market sentiments surrounding Zambia’s external debt position

6.6 Government Securities Market

Your Committee learnt that demand for Government securities reduced in the second quarter of 2018 largely on account of reduced appetite for Treasury bills by non-resident investors and institutional investors who preferred long-term maturities. The subscription rates for Treasury bills fell to 43.0 per cent, down from 98.0 per cent in the first quarter of 2018. Consequently, the Treasury bills composite yield rate increased to a period average of 16.9 per cent from 15.9 per cent in the first quarter. The demand for Government bonds remained strong with the subscription rate little changed at 154.0 per cent compared with 155.0 per cent recorded in the first quarter. The composite yield rate for Government bonds also rose to 18.5 per cent from 15.6 per cent in March.

Your Committee was informed that a total of K4.5 billion was raised on the auction of Government securities, down from K6.1 billion against maturities of K2.8 billion, resulting in a surplus of K1.78 billion. Consequently, the total outstanding stock of Government securities (at face value) increased to K52.8 billion from K50.9 billion at end-March, 2018. The stock of Treasury bills fell by 5.3 per cent to K19.2 billion from K20.3 billion while that for bonds increased by 6.5 per cent to K32.6 billion from K30.6 billion in March. Non-resident investor holdings of Government securities rose marginally by 1.4 per cent to K8.8 billion in June 2018 from K8.7 billion in March. The increase in the holdings for non-residents was partly attributed to higher yield rates on domestic securities and relative stability in the exchange rate of the Kwacha against other major currencies.

6.7 Gross International Reserves

Your Committee was informed that Zambia's gross international reserves had fallen below US$2 billion for the first time in over a year, triggered by the need to finance the country's widening current account deficit. Your Committee learnt that by the end of the first quarter of 2018, gross international reserves had plummeted to US 1.8 billion, the lowest in one year.
Your Committee was further informed that the current account deficit was financed by a drawdown of gross international reserves, which declined to US $1.8 billion at the end of March, representing 2.1 months of import cover, from US$2.1 billion, equivalent to 2.9 months, in December, 2017. Zambia's gross international reserves had steadily been declining for four successive quarters since June 2017, with US$2.4 billion by the end of the second quarter of 2017; to US $2.2 billion by end of September; to US $2.1 billion by the end of December 2017; and further down to US $1.8 billion by the end of March, 2018.

6.8 Debt Stock

Your Committee was informed that the Ministry of Finance had completed the Debt Sustainability Analysis (DSA) and conducted a full reconciliation of the country's debt stock. The total public external debt as at end of March, 2018 amounted to US$9.3 billion from US$8.7 billion in 2017. The domestic debt stock from Government Securities amounted to K53.5 billion from K48.4 billion over the same period.

Your Committee was further informed that the Treasury had reconciled all the debt with all creditors. The DSA exercise had confirmed that certain measures needed to be undertaken to reduce the debt risk to moderate from the prevailing high risk. Consequently, in order to address the pace of debt contraction and the affordability of the debt, the Government had undertaken to implement the following measures:

i) indefinitely postpone the contraction of all pipeline debt until the national debt was brought back to moderate risk of distress;

ii) cancel some of the current contracted loans that were yet to be disbursed to reduce the debt service outlays;

iii) undertake refinancing on selected bilateral loans, both local and external, to extend the maturity profile and attain lower costs on debt;

iv) carry out an asset liability management exercise on the debt to ensure sustainability of cash flows;

v) cease issuance of guarantees to commercially viable projects; and

vi) cease the issuance of letters of credit and guarantees to state owned enterprises that were technically insolvent until their balance sheet challenges were resolved.

6.9 Outlook

Your Committee was informed that the medium-term growth prospects remained bright with GDP growth for 2018 and 2019 projected at above 4.0 per cent. These projections were premised on the anticipated expansion in mining and manufacturing output, construction, wholesale and retail trade and electricity. The recovery in electricity generation and supply would play a critical role in underpinning growth across the key sectors of the economy. Growth prospects, however, remained fragile in light of persistent contraction in credit to the private sector.

The higher than programmed fiscal deficits continue to crowd out private sector credit. In addition, the higher debt service payments had placed additional pressure on foreign exchange reserves and efforts to rebuild external buffers. In this regard, stakeholders welcomed the recent measures announced by the Honourable Minister of Finance to arrest the rapid accumulation of debt, and implement the broad policy measures outlined in the Economic Stabilisation and Growth Programme (ESGP).

Your Committee was further informed that inflation was projected to rise above 7.0 per cent during the second and third quarters of 2018, but thereafter decline towards the lower bound of the 6-8 per cent target range. For 2018 as a whole, inflation was projected to average 7.5 per cent.

PART II

7.0 REVENUE AND EXPENDITURE PERFORMANCE

Table 1 below depicts the second quarter revenue and expenditure performance as at 15th June 2018.

Table 1: 2018 Quarterly Revenue and Expenditure Performance as at 15th June 2018

Central Government Operations	2018 Approved	Q1 Projections (K)	Q1 Outturn (K)	Q1 Variance (K)	Q2 Projection (K)	Q2 * Preliminary (K)	Q2 Variance (K)
I Revenue and Grants	51,525,318	12,041,357	12,162,100	120,743	13,244,182	8,407,709	(4,836,472)
II Domestic Revenue	49,087,017	11,431,781	12,082,365	650,584	12,634,606	8,383,098	(3,795,281)
1. Tax Revenue	40,874,378	9,403,487	10,213,197	809,711	10,526,791	6,918,154	(3,608,637)
2. Non Tax Revenue	8,212,639	2,028,295	1,869,168	(159,127)	2,107,816	1,464,944	(642,871)
III Grants	2,438,301	609,575	79,735	(529,840)	609,575	24,609	(584,966)
TOTAL EXPENDITURE (Inc Amor)	71,662,386	17,139,673	23,065,291	5,925,618	17,403,739	12,693,417	(4,710,321)
EXPENSES	52,451,962	12,702,928	13,890,983	1,188,055	12,175,712	10,186,455	(2,223,588)
Personal Emoluments	23,103,744	5,685,867	5,247,644	(438,223)	5,704,564	3,797,682	(1,894,082)
Use of Goods and Services	7,340,225	1,410,073	1,163,138	(246,935)	2,122,574	1,273,519	(849,055)
Debt payments	13,932,646	3,798,384	4,966,241	1,167,857	2,860,466	3,324,241	564,395
Grants and Other Payments	8,073,388	2,070,430	2,092,960	22,530	1,567,097	1,588,794	21,697
Social Benefits	1,781,730	445,433	291,738	(153,695)	445,433	182,219	(263,213)
Other Expenses	1,229,598	55,000	129,262	74,262	259,410	20,000	(239,410)
ASSETS	14,662,904	3,428,113	9,144,781	5,716,668	3,946,762	2,438,710	(1,508,052)
LIABILITIES	1,329,734	246,372	29,527	(216,845)	497,434	68,253	(429,180)

7.1 Revenue Performance

Your Committee was informed that in the 2018 Budget, the Government introduced a number of proposals meant to widen the tax base and improve the efficiency and administration of revenues. On the revenue side, total budget execution was largely consistent with the approved budget for 2018. The Government collected K20.4 billion or 40 per cent of the approved budget. While tax revenue collection was at 42 per cent of the approved Budget, non-tax revenues which stood at 38 per cent and grants at 6 per cent dragged the overall revenue collections downwards. Value Added Tax (VAT) was the best performing tax type, with 54.0 per cent of the targeted collections for VAT. However, the long standing issue of unpaid VAT claims over stated the collections. There was also a notable increase in mineral royalties due to favourable copper prices and road tolls which continued to out-perform expectations. However, these gains were undone by higher than projected spending, particularly for interest payments on debt and capital expenditure.

7.1.1 Second Quarter 2018 Revenue Performance Compared To 2018 First Quarter

Your Committee learnt that during the second quarter of 2018, the net revenue collection by the Zambia Revenue Authority amounted to K12, 068.2 million which was K903.7 million or 8.1 per cent higher than the K11, 164.5 million collected in the first quarter of 2018. The stronger revenue collections in the second quarter of 2018 were mainly on account of the receipts of the balance of income tax for the 2017 fiscal year. The improved collections in domestic VAT which was due to the implementation of the withholding VAT mechanism also resulted in improved revenue collections. These were complemented by the implementation of other revenue mobilisation strategies by the Authority.

Your Committee was informed that the performance of most tax types in the second quarter of 2018 was stronger when compared to first quarter 2018. In particular, collections for company tax, mineral royalty, import VAT, customs duty and export duty were higher in the second quarter of 2018 compared to the first quarter in 2018.

Your Committee learnt that in the second quarter of 2018, income tax underperformed and was K2.3 billion lower than projected. Against a target of K10.2 billion, income tax collections amounted to K7.9 billion. This was despite the income tax measures put in place which included the removal of a 5-year income tax holiday, the introduction of 5 per cent property transfer tax on intellectual assets such as trademarks and Zambian assets abroad, the increase in presumptive tax on public service vehicles by 50 per cent as well as an increase in specific rates on base tax, income taxes. Stakeholders attributed this to lower than projected collections for both mining and non-mining company income tax. Your Committee was informed that lower-than-projected performance of income taxes in the second quarter was reminiscent of poor performance in 2017 and pointed to factors such as slow economic growth experienced since 2015, and a multiplicity of tax rates and incentives.

Total grant collections amounted to only K104 million and were 4.3 per cent of the target revenue. This under-performance was mainly attributed to non- remittance of funds by donors. Stakeholders submitted that revenues from this component had been dwindling and erratic in the last few years.

Table 2 below provides a comparison of revenue collections in the first and second quarters of 2018.

Table 2: Apr - Jun 2018 v Jan - Mar 2018 Revenue Collection (K' million)

	Apr-Jun 2018 Net Outturn	Jan-Mar 2018 Net Outturn	Variance	Percentage Change
Total revenue	**12,068.2**	**11,164.5**	**903.7**	**8.1%**
1.Tax revenue	**12,000.5**	**11,097.5**	**903.0**	**8.1%**
A. Income taxes	**6,772.9**	**5,196.0**	**1,576.9**	**30.3%**
1. Company tax	2,560.8	709.7	1,851.1	260.8%
2. PAYE	2,382.8	2,648.4	-265.6	-10.0%
3. Withholding taxes	895.0	953.7	-58.7	-6.2%
4. Mineral royalty tax	934.4	884.2	50.2	5.7%
Insurance Prem. Levy	**19.4**	**46.8**	**-27.4**	**-58.5%**
B. Excise taxes	**767.2**	**785.7**	**-18.5**	**-2.4%**
1. Excise Duties	507.6	544.2	-36.6	-6.7%
2. REF	26.7	22.8	3.9	17.2%
C. VAT on domestic goods	**1,046.3**	**1,960.1**	**-913.8**	**-46.6%**
D. Trade taxes	**3,394.6**	**3,108.9**	**285.7**	**9.2%**
1. VAT on imports	2,593.0	2,351.6	241.4	10.3%
2. Customs duty	798.8	755.7	43.1	5.7%
3. Export duties	2.8	1.6	1.2	73.4%
2.Non Tax revenue				

Skills Devp Levy	41.3	42.3	-1.0	-2.4%
Motor Vehicle Fess	22.3	21.8	0.5	2.3%

Source: ZRA

7.1.2 Revenue Performance against Target for the Second Quarter of 2018 Compared to First Quarter of 2018

Your Committee was informed that during the second quarter of 2018, net tax collected stood at K12, 068.1 million against a target of K11, 457.7 million thereby registering a surplus of K610.5 million or 5.3 per cent above target. This is compared to a surplus of K794.5 million or 7.7 per cent above target recorded in the first quarter of 2018.

Table 3 below shows a comparison of revenue collection against target between the first and second quarters of 2018.

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

	Q2- 2018 Net Outturn	**Q2- 2018 Target**	**Variance**	**Q1- 2018 Net Outturn**	**Q1- 2018 Target**	**Variance**
Total Revenue	**12,068.1**	**11,457.7**	**610.5**	**11,164.5**	**10,370.0**	**794.5**
1. Tax revenue	**12,000.5**	**11,393.5**	**607.1**	**11,097.5**	**10,304.9**	**792.5**
A. Income taxes	**6,772.9**	**6,735.2**	**37.8**	**5,196.0**	**5,709.5**	**(513.5)**
1. Company tax	2,560.8	2,398.7	162.1	709.7	1,144.3	(434.6)
Non-mining	1,546.4	2,718.2	(1,171.8)	426.1	824.8	(398.7)
Mining	1,014.3	1,136.9	(122.6)	283.7	319.5	(35.9)
2. PAYE	2,382.8	2,470.7	(87.9)	2,648.4	2,657.6	(9.2)
3.Withholding taxes	895.0	963.5	(68.5)	953.7	1,006.2	(52.4)
4. Mineral royalty	934.4	866.7	67.7	884.2	901.4	(17.2)
B. Insurance Premium Levy	**19.4**	**13.4**	**6.0**	**46.8**	**22.2**	**24.5**
C. Excise duty	**767.2**	**1,038.9**	**(271.7)**	**785.7**	**1,063.9**	**(278.2)**
Import Excise	156.4	214.1	(57.7)	146.2	216.4	(70.3)
Local Excise	320.5	601.1	(280.6)	398.0	615.5	(217.6)
Local Excise-Cement	20.6	-	20.6	10.1	-	10.1
REF	26.7	33.8	(7.1)	22.8	72.3	(49.6)
Import Fuel levy	128.7	85.6	43.1	102.6	97.8	4.7
Local Fuel Levy	104.9	89.7	15.2	97.7	47.7	50.0
Carbon Tax	9.3	14.8	(5.6)	8.4	14.0	(5.6)
D. Domestic VAT	**1,046.3**	**852.6**	**193.7**	**1,960.1**	**852.6**	**1,107.5**
E. Trade Taxes	**3,394.6**	**2,789.0**	**605.6**	**3,108.9**	**2,656.7**	**452.2**
1. Import VAT	2,593.0	1,988.3	604.7	2,351.6	1,854.9	496.7
2. Customs duty	798.8	787.3	11.5	755.7	788.8	(33.1)
3.Export duty	2.8	13.4	(10.7)	1.6	12.9	(11.3)
o/w Maize	-	-	-	-	-	-
Timber	-	9.1	(9.1)	-	8.9	(8.9)
Copper concentrates	2.8	4.2	(1.4)	1.6	4.1	(2.5)
2. Non Tax Revenue						
1. Skills Devt Levy	41.3	44.2	(2.9)	42.3	46.8	(4.5)
2. Tourism Levy/Border Fee	4.0	2.8	1.2	2.9	2.8	0.1
3. Motor Vehicle Fees	22.3	17.3	5.0	21.8	15.4	6.4

7.1.3 January to June 2018 Revenue Performance against Target

Your Committee was informed that during the year-to-date period, the Authority collected K27, 735.5 million in gross taxes, with refunds amounting to K4, 502.8 million. This resulted in a net collection of K23, 232.6 million which was K1, 405.0 million or 6.4 per cent above target of K21, 827.7 million. This performance was largely attributed to the strong outturn of domestic and import VAT during the period under review. Table 4 below gives a synopsis of revenue collection during the period January to June, 2018.

Table 4: Revenue collection during January to June 2018, K' Millions

	Gross	Refunds	Net	Target	Variance	%
Total Revenue	**27,735.5**	**4,502.8**	**23,232.6**	**21,827.7**	**1,405.0**	**6.4%**
1. Tax Revenue	**27,600.8**	**4,502.8**	**23,098.0**	**21,698.4**	**1,399.7**	**6.5%**
A. Income taxes	**12,252.6**	**283.7**	**11,968.9**	**12,444.7**	**(409.5)**	**-3.8%**
1. Company tax	3,484.5	214.0	3,270.5	3,543.0	(272.5)	-7.7%
Non Mining Company Tax	1,972.5	-	1,972.5	2,086.6	(114.1)	-5.5%
Mining Company Tax	1,512.0	214.0	1,298.0	1,456.4	(158.4)	-10.9%
2. PAYE	5,092.7	61.6	5,031.2	5,128.3	(97.1)	-1.9%
3. Withholding taxes & others	1,856.8	8.1	1,848.7	1,969.7	(121.0)	-6.1%
4. Mineral royalty tax	1,818.6	-	1,818.6	1,768.1	50.5	2.9%
Insurance Premium	66.2	-	66.2	35.6	30.6	85.9%
C. Excise taxes	**1,552.9**	**-**	**1,552.9**	**2,102.8**	**(549.9)**	**-26.2%**
1. Import Excise Duties	302.6	-	302.6	430.5	(127.9)	-29.7%
2. Local Excise Duties	718.5	-	718.5	1,216.6	(498.1)	-40.9%
3. Local Excise Duties - Cement	30.7	-	30.7	-	30.7	100.0%
4. Rural Electrification Levy	49.5	-	49.5	106.1	(56.6)	-53.3%
5. Import Fuel Levy	231.3	-	231.3	183.4	47.9	26.1%
6. Local Fuel Levy	202.6	-	202.6	137.4	65.2	47.5%
7. Carbon Tax	17.7	-	17.7	28.8	(11.2)	-38.7%
D. VAT on domestic goods	**7,196.0**	**4,189.6**	**3,006.4**	**1,705.2**	**1,301.2**	**76.3%**
E. Trade taxes	**6,533.0**	**29.5**	**6,503.5**	**5,445.7**	**1,057.8**	**19.4%**
1. VAT on imports	4,944.6	-	4,944.6	3,843.2	1,101.4	28.7%
2. Customs duty (Import tariffs)	1,584.0	29.5	1,554.5	1,576.1	(21.6)	-1.4%
3. Export duties	4.4	-	4.4	26.3	(22.0)	-83.4%
Export Duty on Maize	-	-	-	-	-	0.0%
Export Duty on Wood	-	-	-	18.0	(18.0)	-100.0%
Export Duty on Copper Concentrate	4.4	-	4.4	8.3	(3.9)	-47.4%
2.Non Tax revenue						
Skills Development Levy	83.6	-	83.6	91.0	(7.4)	-8.1%
Tourism Levy	6.9	-	6.9	5.6	1.3	22.9%
Motor Vehicle Fees	44.1	-	44.1	32.7	11.4	34.9%

Source: Zambia Revenue Authority

7.1.4 Revenue Measures

Your Committee was informed that in order to boost domestic revenue collections, the Government would implement various key measures as summarised below.

i) The Ministry of Finance would ensure that there was strict adherence to the programmed domestic financing in the 2018 Budget.

ii) The Ministry of Finance would compel fuel importers to make declaration of fuel imports at borders to curb the problem of smuggling of fuel.

iii) The Ministry of Transport and Communication would expeditiously implement the telecommunication transactions monitoring system for mobile service providers.

iv) The Ministries of Finance; and Mines and Minerals Development would put in place legislative measures to introduce taxation on precious metal exports.

v) The Ministry of Finance would introduce electronically verifiable tax stamps on high risk imports to address the problem of smuggling.

vi) The Ministries of Justice; Finance; and Lands and Natural Resources would urgently resolve all land titling issues to ensure that the planned issuance of 300,000 land titles was attained.

7.2 Expenditure Performance

Your Committee was informed that during the period January to May, 2018, the Government's expenditure was K34 billion or 47 per cent of the 2018 Budget of K71.7 billion. This was higher than the projected expenditure of K29 billion. This over-spending was due to higher than projected interest payments, owing to high debt accumulation and capital expenditure as a result of increased disbursements for foreign-financed capital projects. Your Committee was informed that 78 per cent of planned capital spending and 54 per cent of the planned interest payments on debt had already been disbursed as at May, 2018. The relatively higher spending resulted in a higher than projected fiscal deficit. Based on the approved Budget, the projected fiscal deficit for 2018 was 6.1 per cent of GDP. However, as at May, 2018, the fiscal deficit which stood at 4.4 per cent of the 2018 projected GDP, representing nearly three quarters of the 2018 annual projected deficit. Stakeholders submitted that if interest payments and capital expenditure continued to grow at these unsustainable levels, they would be major sources of spending overruns in 2018. The continued high level of external borrowing resulted into high debt service payments which crowded out other critical spending including social protection and empowerment programmes.

Your Committee learnt that releases for the second quarter, as at 15th June, 2018 amounted to K12.7 billion against the target of K17.4 billion representing a performance of 73 per cent against target. This outturn was mainly on account of the fact that a significant amount of resources was yet to be collected in order to finance various expenditure items, including salaries.

7.2.1 Expenditure Measures

Your Committee was informed that in order to reign in expenditures to within approved levels the Government would implement various key measures. These are set out below.

i) The Ministry of Finance would only fund projects that were at least 80 per cent complete.

ii) In order to control the high expenditure on personal emoluments, recruitments would strictly be limited to the provisions of the 2018 Budget.

iii) The management of the payroll would be moved to the Ministry of Finance by the end of June 2018 to ensure separation of duties in order to enhance the authenticity of entries on the payroll, address payment of wrong allowances and ghost workers.

iv) To cut down on the cost of running the Government by reducing expenditures related to both local and foreign travel and workshops, the Secretary to the Cabinet had been directed by the President to immediately issue new travel guidelines that would reduce the number of travels and the size of delegations.

v) The Ministry of Works and Supply would finalise the policy on Government vehicles with the view to dispose of them. This would reduce expenditures on running the Government fleet.

vi) The President had directed that a committee to scrutinise the quality of expenditure in ministries should be set up under the Ministry of Finance. The committee would allow the Government to take remedial measures on unnecessary expenditures for the rest of 2018 and going forward.

vii) Electricity tariffs with independent power producers would be renegotiated to ensure that there was parity between the buying and sell prices by ZESCO.

viii) The Industrial Development Corporation (IDC) would implement the President's long outstanding directive to relook at the portfolio of state owned companies to restructure it and to identify those that are viable.

ix) The Ministry of National Development Planning would establish a multi-sectoral public investment board to scrutinise capital expenditure requests prior to submitting to Cabinet.

8.0 STAKEHOLDERS' CONCERNS

Stakeholders raised various concerns as stated hereunder.

8.1 Unsustainable Expenditure

Stakeholders were concerned that spending on personal emoluments and interest payments on debt are non discretionary spending. However, during the first five months of 2018, personal emoluments accounted for 45 per cent of domestic revenues and interest payments accounted for 29 per cent of domestic revenues. Collectively, these two expenditure items accounted for 73 per cent of domestic revenues, leaving only 27 per cent for other spending. The Government's efforts to close the country's infrastructure gap had led to large capital outlays. These capital projects could not be met from domestic resources and consequently, the Government had resorted to massive external borrowing, resulting in rapid accumulation of debt and rising borrowing costs. These three spending items, that is, personal emoluments, interest payments and capital spending left no room for operational and other priority spending, including social protection and empowerment programmes. Further, there had been a marked slowdown in dismantling of arrears owed to various suppliers of goods and services. Against a target of K637 million earmarked to be paid in the first five months of 2018, only K98 million was released. This represented only 7 per cent of the earmarked Budget for liquidating Government liabilities.

8.2 Deficit and Deficit Financing

Some stakeholders were concerned that the Budget performance during January to May, 2018 showed a continued deterioration in Zambia's fiscal position. Based on the approved Budget, the projected fiscal deficit for 2018 was 6.1 per cent of GDP. However, even before half the year was completed as at May, 2018, the fiscal deficit, that is, the difference between the Government's expenditures and its revenues and grants, stood at 4.4 per cent of 2018 projected GDP and represented three quarters of the 2018 full-year projected deficit. Growth in expenditure primarily due to higher than planned capital spending and interest payments on debt, was higher than growth in revenue, leading to a higher than projected fiscal deficit.

8.3 Primary Deficit

Some stakeholders were concerned that the primary deficit was targeted to be 2.2 per cent of projected 2018 GDP. Between January and May, 2018, the primary deficit was projected to be 1.1 per cent of GDP. However, it had already surpassed the annual target and stood at 2.3 per cent of projected 2018 GDP mainly driven by the high capital expenditure. This entailed that the Government had to borrow more and, therefore, incurred more costs to meet other expenses other than interest payments. Your Committee learnt that in order to finance the fiscal deficit, the Government planned to borrow 65 per cent from domestic markets and 35 per cent from external sources, consistent with the 2017-2019 Medium Term Debt Management Strategy (MTDS) to, among other things, minimise exchange rate risk. However, as at May, 2018, the share of net external financing which stood at 62 per cent was higher than that of net domestic financing of 37 per cent. This distortion was created by a large increase in fund disbursements to projects.

8.4 Debt Servicing

Some stakeholders were concerned that during January to May, 2018, Government spent 51 per cent of the planned Budget to service its debt. This amounted to K7.2 billion. The planned debt servicing for 2018 was estimated at K14.1 billion. External debt servicing stood at 56 per cent of the approved budget and was higher than domestic debt servicing which stood at 45 per cent. Particularly, interest payments on external debt reached 70 per cent of the planned spending in 2018. This was likely to be a major source of spending overruns in 2018 and, being denominated in foreign currency, it was likely to exert a lot of pressure on the nation's foreign exchange reserves. Table 5 below depicts the country's debt servicing from the period during January to May, 2018.

Table 5: Debt Servicing: January - May 2018

	Approved Budget	Jan-May 2018	% of approved Budget
Total Debt Servicing	14,140	7,187	51%
Domestic debt servicing	6,972	3,148	45%
Interest payments on domestic debt	6,764	2,959	44%
Domestic amortisation	208	190	91%
External debt servicing	7,168	4,039	56%
Interest payments on external debt	4,159	2,894	70%
External amortisation	3,009	1,145	38%

Source: Ministry of Finance and ZIPAR

PART III

9.0 QUARTERLY REVIEW OF THE PERFORMANCE OF THE 2018 BUDGET FOR SELECTED MINISTRIES AND CENTRAL PROVINCE

Your Committee reviewed the performance of the budgets for the Ministries of Transport and Communication; Tourism and Arts; and Higher Education. It also reviewed the budget of the office of the President Provincial Administration, Central Province. Your Committee's findings are presented below.

9.1 Consolidated Performance of Selected Ministries

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

9.1.1 Approved Budget and Expenditure Performance for 2018

Your Committee noted that the approved 2018 budget provision for the ministries and provinces under review amounted to approximately K2.8 billion. The Table below shows the breakdown of the allocations to these institutions.

Table 6: Total Budget Provision for Institutions under Review

Institution	2018 Approved Budget (K)
Ministry of Transport & Communication	346,679,800.00
Ministry of Higher Education	1,974,006,709.00
Ministry of Tourism & Arts	303,669,870.00
Central Province	155,090,130.00
Total	**2,779,446,509**

9.1.2 Comparison of Releases – First Quarter 2018 and Second Quarter 2018

Table 7 below details the releases to each of the reviewed institutions as a proportion of the 2018 approved budget.

Table 7: Releases as a Proportion of 2018 Approved Budget

	2018 Approved Budget (K)	First quarter out turn (K)	Percent age of Budget	Second quarter out turn (K)	%	Q1+Q2	%
Ministry of Transport & Communication	346,679,800.00	71,784,691.44	21%	113,864,154	33	185,648,845	54
Ministry of Higher Education	1,974,006,709.00	356,675,587	18%	437,339,515	22	794,015,102	40
Ministry of Tourism & Arts	303,669,870.00	69,408,368	23%	52,521,410	17	121,929,778	40
Central Province	153,969,910.00	117,600,094	11%	24,188,072	16	41,788,166	27
Total	**2,779,446,509**	**515,468,740**	19%	**627,913,150**	**23**	**1,143,381,890**	41

Note: *Releases for the second quarter based on figures up to 15th June, 2018*

Your Committee noted that during the second quarter of 2018, total releases for the four Heads of Expenditure under review amounted to K627.9 billion, which translated to 22.6 per cent of their 2018 approved budget. In comparison to the first quarter, the releases were higher by 4 percentage points or K112.4 billion. Your Committee was informed that the higher releases in the second quarter were mainly on account of the capital projects implemented in the second quarter.

9.1.3 Comparative Statement of Authorised Provision and Actual Expenditure for the Second Quarter of 2018 for Each of the Institution

Your Committee noted that actual expenditure for all institutions under review was well below 50 per cent with the highest being the Ministry of Higher Education at 32 per cent; and the lowest being Central Province at only 8 per cent. The institutions attributed this to the late release of funds. They informed your Committee that funds were only released towards the end of May 2018. This is illustrated in Table 8 below.

Table 8: Actual Expenditure for the Second Quarter for the institutions under review

HEAD	Institution	2018 Approved Estimates (K)	2018 Second Quarter Funding	2018 Second quarter (Reported) Expenditure	Actual Reported Expenditure as a % of Funding
51	**Ministry of Transport & Communication**	346,679,800.00	113,864,154	20,457,109	18%
65	**Ministry of Higher Education**	1,974,006,709.00	437,339,515	140,223,762	32%
68	**Ministry of Tourism & Arts**	303,669,870.00	52,521,410	10,873,288	21%
92	**Central Province**	153,969,910.00	24,188,072	1,994,046	8%

9.1.4 Absorption Capacity of Each Institution in the First Quarter of 2018 Compared with the Second Quarter of 2018

Your Committee was informed that absorption capacity for the institutions under review decreased drastically from an average of 74 per cent in the first quarter of 2018 to about 30 per cent in the second quarter of 2018 as shown in Table 9 below. This was attributed to the late release of funds.

Table 9: Absorption Capacity

NAME	2018 First Quarter Funding (K)	2018 First Quarter Actual Expenditure (K)	Absorption Capacity %	2018 Second Quarter Funding (K)	2018 Second Quarter Actual Expenditure (K)	Absorption Capacity %
Ministry of Transport & Communication	66,443,243.40	66,443,243.40	100%	113,864,154.06	20,457,108.65	18%
Ministry of Higher Education	348,255,589.00	294,743,585.00	85%	437,339,515.00	140,223,761.77	32%
Ministry of Tourism & Arts	10,302,738.75	6,952,388.72	67%	52,521,409.86	10,873,288.27	21%
Central Province	5,854,465.00	2,571,786.08	44%	24,188,071.52	1,994,045.73	56%
	430,513,263.15	**370,710,985.20**	74%	**627,913,150.44**	**173,548,204.42**	30%

9.2 Performance of Specific Ministries and Provinces

The budget performance of the specific ministries and Central Province in the Second quarter of the 2018 budget is analysed below.

9.2.1 Ministry of Transport and Communications

i) Approved Budgetary Provision for the Ministry for 2018

The Ministry of Transport and Communications had an approved budgetary provision of K297 million in 2017, compared to K346 million in 2018 as shown in Table 10 below.

Table 10: Approved Budget - Ministry of Transport and Communications

Expenditure Type	**2018 (K)**
Personal Emoluments (PEs)	23,133,410
Recurrent Departmental Charges (RDCs)	79,246,080
Grants	244,300,310
Supplementary Budget	Nil
Total Authorised Provision	**346,679,800**

ii) Proportion of Releases Against Provision for the First Quarter of 2018 Compared to the Second Quarter of 2018

The Ministry received a total of K74 million from the Treasury during the first quarter of 2018, representing 20.67 per cent of the total budget provision of K346 million while it received a total of K116 million in the second quarter of 2018, representing 34 per cent of the total budget of K346 million for the year as illustrated in Table 11 below.

***Table 11**: Proportion of Second Quarter Budget releases to the Total Budgets – Ministry of Transport and Communications*

Quarters	**First**			**Second**		
Description	**Budget**	**Releases**	**%**	**Budget**	**Releases**	**%**
PE's	23,133,410	5,783,352.45	1.67	23,133,410	5,783,352.45	1.67
RDC's	79,246,080	7,597,840.00	2.00	79,246,080	41,820,803	12.06
Grants	244,300,310	61,075,080.00	17.00	244,300,310	69,259,815	19.97
Total	**346,679,800**	**74,456,272.45**	**20.67**	**346,679,800**	**116,863,970.45**	**33.70**

iii) Comparison of Releases and Absorption Capacity For First Quarter of 2018 and Second 2018

Your Committee was informed that the Ministry had a 97 per cent absorption rate of the funds released in the second quarter of 2018, compared to 95 per cent in the first quarter.

Table 12: Absorption Capacity for Second Quarter – Ministry of Transport and Communications

Quarters 2018	**Budget Provision**	**Total Releases**	**Total Expenditure**	**% Expenditure Against Releases**
First	K346,679,800.00	K74,456,272.45	K71,260,484.34	95.70%
Second	K346,679,800.00	K116,863,970.45	K 113,479,461.72	97.10%

iv) First and Second Quarter Statement C Analysis at Department Level

Table 13: Statement of Actual Expenditure by Department - Ministry of Transport and Communications

Head	Departments	Total Budget Provision	Actual Expenditure 1st Quarter	Actual Expenditure 2nd Quarter	Variance against Provision 1stQtr %	Variance against Provision 2ndQtr %
5101	Human Resources and Administration	305,237,870.00	64,326,820.98	106,853,413.23	18.55	30.82
5103	Meteorological	9,724,340.00	1,722,054.20	1,453,813.20	0.50	0.41
5104	Maritime and Inland waterways	7,142,690.00	1,177,792.19	1,238,909.86	0.34	0.35
5105	Communication	8,575,040.00	960,898.40	933,909.19	0.28	0.26
5106	Transport	5,564,690.00	701,924.12	804,463.96	0.20	0.23
5110	Planning and Monitoring	6,574,940.00	1,642,682.65	1,532,898.87	0.47	0.44
5111	Finance	3,860,230.00	728,311.80	662,053.41	0.21	0.19
51	**Head Total**	**346,679,800.00**	**71,260,484.34**	**113,479,461.72**	**20.56**	**32.73**

v) 2018 First Quarter Revenue Compared with Second Quarter of 2018

Your Committee was informed that the Ministry of Transport and Communications had various statutory bodies and institutions under its charge and some of these collected revenue. A comparative analysis of revenues collected for the first and second quarters of 2018 is presented in Tables 14 and 15 below.

Table 14: Revenue Collections First Quarter 2018 - Ministry of Transport and Communications

Revenue Type	January	February	March	Total (K)
ZICTA License	13,835,608.34	14,985,786.91	30,653,759.17	59,475,154.42
Road Traffic Collections	62,155,244.00	25,021,611.00	31,981,007.00	119,157,862.00
Air Service Permit Fees	26,688.45	46,221.30	41,880.60	114,790.35
Aviation& Landing Fees	4,297,500.41	4,609,374.61	4,213,268.12	13,120,143.14
Maritime & Inland water ways fees	342.00	342.00	513.00	1,197.00
Total				**191,869,146.91**
Annual Estimates				**1,263,934,826.00**
Collection as a % of Annual Collection				**15.18**

Table 15: Revenue Collections Second Quarter 2018 - Ministry of Transport and Communications

Revenue Type	April	May	June	Total (K)
ZICTA License	14,986,179.07	16,718,934.19		31,705,113.26
Road Traffic Collections	37,598,361.00	19,235,183.00		58,833,544.00
Air Service Permit Fees	12,095.85	27,550.00		39,645.85
Aviation & Landing Fees	3,629,012.51	5,243,067.00		8,872,079.51
Maritime & Inland water ways fees	13,024.00	1,355.00		14,379.00
Total				**99,464,761.62**
Annual Estimates				**1,263,934,826.00**
Collection as a % of Annual Collection				**7.86**

9.2.2 Ministry of Tourism and Arts

i) Approved Budget for 2018

Table 16 below shows the budget for the Ministry of Tourism and Arts for 2018.

Table 16: Approved Budget Estimates for the year 2018- Ministry of Tourism and Arts

Department	2018(K)
Human Resource and Administration	70,896,816
Planning and Information Department	6,542,890
Department of Tourism	39,758,439
Department of Arts and Culture	11,432,739
Department of National Parks and Wildlife -Headquarters	153,579,873
Department of National Parks - Regions	16,129,130
Finance Department	5,329,920
	303,669,807

ii) Proportion of the 2018 Budget Estimates Released During the Second Quarter Compared to First Quarter 2018- Non Personal Emoluments

Your Committee was informed that during the second quarter of 2018, the Ministry received a sum of K29 million which translated to 16 per cent of the 2018 non personal emoluments Budget estimate and 5 per cent of the planned amount for the second quarter.

During the first quarter, the Ministry received a sum of K 53 million which translated to 30 per cent of the 2018 non personal budget Estimates and 99 per cent of the planned amount for the first quarter. Your Committee noted that there was a reduction in the releases by 14 percentage points. Table 17 below shows the proportion of budget estimates released against planned amounts.

Table 17: Proportion of the 2018 Budget Estimates Released During the Second Quarter Compared to First Quarter 2018- Ministry of Tourism and Arts

2018 Non PE Budget Estimate (K)	First Quarter 2018				Second Quarter 2018			
	Planned (K)	Received (K)	% Release of Annual Budget Estimate	% Release of Annual Planned Estimate	Planned (K)	Received(K)	% Release of Annual Budget Estimate	% Release of Annual Planned Estimate
178,796,329.00	54,211,174.00	53,542,128.58	30%	99%	53,427,626.25	29,268,884	16%	55%

iii) Comparison of the Ministry's Absorption Capacity during the First and Second Quarters of 2018

Your Committee was informed that during the second quarter of 2018, the Ministry received a total of K29 million for non personal emoluments out of which K24 million was spent. This translated to 83 per cent of the released amount. On the other hand, during the first quarter of 2018 the Ministry received K 53 million for non personal emoluments out of which K 42 million was spent, translating to 79 percent of the released amount. The Ministry's' absorption capacity marginally increased in the second quarter. The absorption capacity of the Ministry during the second quarter is illustrated in Table 18 below.

Table 18: Absorption Capacity during the First and Second Quarters of 2018 – Ministry of Tourism and Arts

First Quarter 2018			Second Quarter 2018		
Received (K)	Spent(K)	% Expenditure	Received(K)	Spent(K)	% Expenditure
53,542,128	42,695,052.71	80%	29,268,884	24,432,047.40	83%

iv) Revenue Collected

Table 19 below shows revenue collected by the Ministry of Tourism and Arts through the agencies under its charge for the first quarter and second quarters of 2018. Your Committee was informed that the Ministry had made more progress in collecting hunting and park revenue. The overall performance of revenue collection was quite low and this was attributed to inadequate funds to monitor and enforce the law.

Table 19: Revenue Collected in First and Second Quarter 2018 – Ministry of Tourism and Arts

DESCRIPTION OF REVENUE	2018 ESTIMATE	Total Receipts for First Quarter	Total Receipts for Second Quarter	Total Receipt to Date	% Receipt to Date
Casino License Fees	4,500,000.00	694,471.60	267,435	961,906.80	21%
Tourism Enterprise	3,000,000.00	740,811.00	281,275	1,022,086.00	34%
Hunting and Park	108,648,908.00	20,435,615.65	23645022.49	44,080,638.14	41%
Hotel Managers Registration	4,500,000.00	172,450.00	42,150	214,600.00	5%
Total	120,648,908.00	22,043,348.25	24,235,882.69	46,279,230.94	38%

9.2.3 Ministry of Higher Education

i) Approved Budgetary Provision for the Ministry for 2018

The Ministry of Higher Education was allocated a total of K1.9 billion in 2018 as shown in Table 20 below.

Table 20: Approved Budgetary Provision for 2017 and 2018-Ministry of Higher Education

Programme	2018 (K)
University Education	23,133,410
Skills Development	79,246,080
Science Technology and Innovation	244,300,310
Management and Support Services	Nil
Total	**1,974,006,709**

ii) Proportion of 2018 Budget Releases for the Second Quarter Compared to the First Quarter

Your Committee was informed that the Ministry received a total of K355 million from the Treasury during the first quarter of 2018 representing 18 per cent of the total budget while it received a total of K290 million in the second quarter of 2018 representing 15 per cent of the total budget for the year as depicted in the Table below.

Table 21: Proportion of 2018 First and Second Quarter Budget releases to the Total Budgets – Ministry of Higher Education

Programme	2018 Budget (K)	2018 Q1 Release (K)	2018 Q2 Release (K)	% of Q1 Release	% of Q2 Release
University Education	1,434,081,084	286,247,548	238,891,582	20%	17%
Skills Development	360,966,283	37,051,881	25,574,780	10%	7%
Science Technology and Innovation	127,223,807	26,421,657	22,116,681	21%	17%
Management and Support Services	51,735,335	6,134,021	3,864,842.03	12%	7%
Total	**1,974,006,709**	**355,855,107**	**290,447,885**	**18%**	**15%**

iii) Comparison of Releases and Absorption Capacity for First and Second Quarters of 2018

Your Committee noted that the Ministry had a 27 per cent absorption rate in the second quarter of 2018 compared to 89.0 per cent in the first quarter as shown in Table 22 below.

Table 22: Absorption Capacity - Ministry of Higher Education

Programme	2018 Q1 Release (K)	2018 Q2 Release (K)	2018 Q1 Expenditure (K)	2018 Q1 Expenditure (K)	%of Q1 Absorption	%of Q1 Absorption
University Education	286,247,548	238,891,582	259,374,337	48,383,815.62	91%	20%
Skills Development	37,051,881	25,574,780	35,053,449	10,313,620.13	95%	40%
Science Technology and Innovation	26,421,657	22,116,681	18,541,823	14,767,734.17	70%	67%
Management and Support Services	6,134,021	3,864,842	3,792,483	3,075,806.42	62%	80%
Total	**355,855,107**	**290,447,885**	**316,762,092**	**76,995,976.34**	**89%**	**27%**

iv) Budget Performance in the Second Quarter of 2018 Compared with Objectives

Your Committee was informed that K290 million was received and spent in the second quarter of 2018. The funding was insufficient and was received late in the quarter. The funding was not enough to cater for planned activities such as infrastructure development and dismantling of arrears, among others. The budget performance of the Ministry is depicted in Table 23 below.

Table 23: Budget Performance – Ministry of Higher Education

Programme	2018 Q2 Release	2018 Q2 Expenditure
University Education	23,891,582	48,383,815.62
Skills Development	25,574,780 ,	10,313,620.13
Science Technology and Innovation	22,116,681	14,767,734.17
Management and Support Services	3,864,842.03	3,075,806.42
	290,447,88.00	**76,995,976.34**

9.2.4 Office of the President – Central Province Administration

i) Approved Budget for Central Province

The total approved 2018 budget for the Central Province was K154 million.

Table 24: Approved 2018 - Central Province

Total Approved Budget (K)	Personal Emoluments (K)	Recurring Departmental Charges (K)
153,969,910	98,525,020	55,444,890

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

Your Committee was informed that a total of K2.9 million was released in the second quarter of 2018 representing a total of 5 per cent of the total annual budget of K153.97 million as compared to K4.6 million in the first quarter.

Table 25: Comparison of First and Second Quarter Budget Releases – Central Province

Period	Annual Budget (RDCs) (K)	Total Releases (K)	Percentage Release	Variance Releases	Variance (%)
Q2	55,444,890	2,951,773	5%	(1,745,320)	(37)
Q1	55,444,890	4,697,093	8%	0	0

iii) Absorption Capacity

Your Committee was informed that Central Province recorded an increase in the absorption capacity in the second quarter as compared to the first quarter as shown in Table 26 below.

Table 26: Absorption Capacity- Central Province

Period	Annual RDCs (K)	Quarterly Releases (K)	Quarterly Expenditure (K)	Absorption Rate (%)	Variance	Variance (%)
Q2	55,444,890	2,951,773	2,030,680	69	(619,345)	(23)
Q1	55,444,890	4,697,093	2,650,025	56.4	0	0

Table 27: Statement C for Second Quarter 2018– Central Province

Total Provision(K)	Personal Emoluments(K)	Recurring Departmental Charges(K)	Recurring Departmental Charges Expenditure(K)	% Expenditure Against Recurring Departmental Charges Provisions
153,969,910	98,525,020	55,444,890	5,008,196	11.79%

Your Committee was informed that all the profiled programme activities for Central Province in the second quarter were funded. However, funds were released very late in the quarter due to the breakdown of the Integrated Financial Management Information Systems (IFMIS).

PART IV

10.0 COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

From the outset, your Committee notes that this is the first review by your Committee of the second quarter performance of the national budget. This process is a progressed in the reform process of the role of Parliament in budget implementation which has hitherto been limited to approval and *ex post* consideration. Your Committee is of the view that the review of the second quarter which builds up on the review of the first quarter performance is an opportunity for the Government to update the nation regarding the budget performance mid-year. Where there is need to revise the set targets and measures for the remaining half of the year, this is also an important opportunity for the Government to inform the nation on the proposed measures. In making these comments, your Committee wishes to make the observations and recommendations set here under.

10.1 Failure to present the Budget and Planning Legislation for Enactment

Your Committee observes that the legislation to govern the budget process including quarterly review of the budget by Parliament has not been presented for enactment despite repeated assurances by the Government. Your Committee is concerned that the failure to present this piece of legislation for enactment is hampering the effective participation of various stakeholders in the budget process. Further, your Committee also notes that it did not have the opportunity to conduct a review of more Ministries, Provinces and Spending Agencies (MPSAs) in order to allow it conduct a more comprehensive analysis of the performance of the Budget.

In this regard, your Committee recommends that legislation governing the budget process be brought o Parliament for enactment as a matter of urgency. This piece of legislation will also ensure that adequate time is allocated to the consideration of the national budget.

10.2 Reduction in Grant inflows

Your Committee observes that grants from donors are a major component of budget support and notes with concern the non remittance of funds by the country's cooperating partners leading to the underperformance of grant inflows during the second quarter of 2018. Your Committee is also aware that generally, grants have been declining from time the country assumed lower middle income status.

Your Committee urges the Government to ensure that it meets the requirements agreed with the country's donors in order to avoid a negative impact to much needed donor fund supported programmes. As a long term measure, your Committee recommends that robust measures should be put in place to strengthen domestic resource mobilisation..

10.3 Increasing Debt

Your Committee acknowledges the completion of the Debt Sustainability Analysis conducted by the Ministry of Finance and in doing so expresses concern at the country's debt status. Your Committee observes that having already spent K7.2 billion to service its debt, the country requires a further K6.9 billion to meet its debt servicing obligations this year. The rising debt has led to increased spending on interest payments which are exerting significant pressure on the budget and if not addressed, will crowd out other areas of critical spending such as capital expenditure and spending on social protection programmes.

Your Committee, as a matter of urgency, urges the Government to reign in the escalating debt by among other things speeding up the presentation of the Loans and Guarantees (Authorisation) Act for amendment to ensure transparency and accountability in debt contraction. Your Committee further urges the Government to strengthen fiscal consolidation by streamlining and prioritising expenditure on projects that have high economic return.

10.4 Inclusive Economic Growth

Your Committee observes that the country is projecting a positive economic growth of 4.0 per cent in 2018. However, it is concerned that growth in Zambia has not been inclusive. Your Committee is also concerned that the country's growth is constrained by high government borrowing which is crowding out the private sector.

Your Committee recommends that measures should be put in place, not only to promote economic growth but also ensure that the growth is inclusive. Further, measure should be put in place to increase the levels of private sector borrowing in order to spur economic growth.

10.5 High Interest Rates

Your Committee observes that despite the Bank of Zambia's intervention to reduce the Policy Rate and the statutory reserve ratio, coupled with the prevailing single digit inflation rate, commercial bank interest rates still remain high

Your Committee urges the Government to engage the commercial banks to reduce the high interest rates.

10.6 Operations of Parastatals

Your Committee observes that parastatals are not paying any dividends to contribute towards the country's domestic revenue. Your Committee recommends that the Ministry of Finance should review the operations of the parastatals and work at ensuring that they become profitable and begin to pay dividends. Your Committee further recommends that the Ministry should ensure effective supervision of the Industrial Development Corporation in order for the Corporation to ensure there is adherence to performance targets for the various parastatals.

10.7 Low Absorptions Levels

Your Committee notes with concern that there is low absorption of funds by ministries and provincial administration offices because of late release of funds by the Treasury and also inadequate capacity to implement the Government programmes.

In this vein, your Committee urges the Government to ensure that the timely release of funds to MPSAs to facilitate implementation of various programmes and projects. The Government should also ensure adequate capacity in ministries and administrative officers so as to enhance absorption of resources.

10.8 Electronic Fiscal Devices

Your Committee observes with concern that the electronic fiscal devices (EFD) for all taxpayers registered for VAT to ensure that suppliers make correct declarations have not been adequately implemented.

Your Committee, therefore, recommends that the Government, as a matter of urgency, should expedite the implementation of electronic fiscal devices for all taxpayers in order to ensure that suppliers make correct declarations.

10.9 Inadequate Funding

Your Committee observes that the second quarter funding was inadequate to cater for a number of activities that were scheduled for the quarter, such as infrastructure development and dismantling of areas, among others.

In light of the above, your Committee recommends that the Government should adequately fund the ministries and provincial administrative offices in order for them to attain their quarterly targets.

10.10 Transaction Monitoring Devices

Your Committee notes with concern that despite advancements in technology, the country still lacks transaction monitoring devices for firms operating in the mobile telecommunication sector to ensure correct tax declarations.

Your Committee recommends that the Government should, as a matter of urgency, utilise transaction monitoring devices for mobile network telecommunication firms in order to get real-time information for revenue assurance for voice, data and SMS. This will provide an opportunity for the Government to access information for the administration of excise duty and other revenue measures in the telecommunications sector.

10.11 Customs Valuation Database

Your Committee notes with displeasure that there is an absence of a customs valuation database that can help to curb under-declaration of the value for duty purposes on selected imports.

In the light of the above, your Committee recommends that a customs valuation database be established in order to curb under-declaration of the value for duty purposes on selected imports in order to safeguard Government revenues.

10.12 Refund Processing Office

Your Committee notes that there is an absence of a dedicated office to monitor the VAT refund process in order to minimise refund fraud in the country.

Your Committee recommends that the Government should strengthen the newly established refund processing office at ZRA in order to curb fraudulent refund claims.

10.13 Systematic Interface with Other Institutions

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

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

10.14 Mineral Value Chain Monitoring

Your Committee notes that the Government has for a long time under-collected tax from the mining sector.

In this vein, your Committee urges the Government to put in place measures that will strengthen the implementation of the mineral value chain monitoring project, which will monitor the mineral value chain from exploration to exportation in order to enhance revenue collection from the mining sector.

10.15 Declining Gross International Reserves

Your Committee notes the continued decline in Zambia's gross international reserves from US$2.4 billion by the end of second quarter of 2017 to US$1.8 billion by the end of March 2018 which was largely triggered by the need to finance the country's widening current account deficit.

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

10.16. Foreign Exchange Rate

Your Committee observes that while the Kwacha has remained relatively stable against major trading currencies, the strong US dollar against the Kwacha has telling effects on the country's international reserves and on the debt levels.

In this regard, your Committee recommends that the Government should closely monitor the foreign exchange market with a view to smoothening out any adverse movements.

10.17 Adherence to set Programmes

Your Committee observes that the Government has in place well crafted programmes such as the Medium Term Debt Strategies and Economic Stabilisation Growth Programme. Your Committee further observes that several positive pronouncements have been made such as the withdrawal of the Government from the procurement of petroleum products on the international market. Your Committee is, however, concerned that the Government is wavering in some of its plans.

Your Committee urges the Government to ensure that it strictly adheres to any programmes, strategies and pronouncements that it set out for itself that are aimed at improving the country's budget performance.

11.0 CONCLUSION

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

M Simfukwe, MP	June, 2018
CHAIRPERSON	**LUSAKA**

APPENDIX I

List of Witnesses

Ministry of Finance
Dr E Pamu, Permanent Secretary
Mr L Soko, IFMIS – PM
Mr M Chanda, Acting Accountant General
Mr J M Chifulo, Economist
Mr P Musoni, Assistant Director
Mr k Chimfwembe, Chief Analyst - Budget
Mr J K Chabu, Economist
Mr A Mwandia, I T Director

Ministry of Transport and Communications
Mr M Lungu, Permanent Secretary
Ms B Mkuyamba, Director – Human Resource Administration
Mr S Mbewe, Director – Planning
Mr D Kongwa, Acting Director – Finance
Mr E Nkonde Acting Director – Meteorology
Ms I B M Tembo, Chief Planner
Mr W Kalaluka, Principal Planner
Mr T Phiri, Accountant
Mr N Chikwenya, Director Transport

Ministry of Tourism and Arts
Mr H Sikwela, Permanent Secretary
Mr F Mizinga, Director General
Ms M M Gwaba, Director – A C
Dr J K Chiwele, Head – Accounting
Mr C M Chomba, Accounts
Dr W Silungwe, Executive Director
Mr P Zyambo, Director
Mr M Ndiyoi, Chief Natural Heritage Officer
Mr L Zulu, Principal Planner
Mr M Chipindi, Director
Ms L Siwale, Chief Planner
Ms C Sikaneta, Planner
Mr T Chomba, Director – Human Resource
Ms S Makayi, Planner
Ms D Kofi, Marketing Manager
Mr F Chola, Chief Executive Officer

Ministry of Higher Education
Mr M Sakala, Permanent Secretary
Mr S Mubanga, Acting Director Planning

Bank of Zambia (BOZ)
Dr D K Kalyalya, Governor
Dr B E Ng'andu, Deputy Governor
Dr F Chipimo, Director – Economics

Mr K Mayandi, Assistant Director – Communications
Mr D Kaliba, Executive Assistant - Governor
Mr G Gaiyaba, Executive Assistant – Deputy Governor
Dr J Gaipili, D/Financial Markets
Mr E Palaba, SEC

Zambia Revenue Authority (ZRA)
Mr K Chanda, Commissioner General
Mr M Shuko, Commissioner Domestic Taxes
Mr E Phiri, Director Research and Policy

Office of the President, Provincial Administration - Central Province
Mr C Kabwe, Permanent Secretary
Mr Clifford Banda, A/Director Planning
Mr I Nkhoma, Principal Accountant
Mr G Kaumbi, Senior Internal Auditor
Mr A Mweemba, Senior Accountant
Mr B Malilwe, Senior Planner
Mr T Pambao, EO

Zambia Institute for Policy Analysis and Research (ZIPAR)
Ms P Nakamba-Kabaso, Executive Director
Ms M N Mubanga, Research Fellow
Mr B Tembo, Research Fellow
Mr I W Masilokwa, Associate Researcher
Mr M Bwalya, Associate Researcher
Mr S Nalishebo, Research Fellow
Mr K Mbewe, Associate Researcher
Mr Z Chikuba, Researcher
Ms F B Muleya, Research Fellow

APPENDIX II

List of National Assembly Officials

Ms C Musonda, Principal Clerk of Committees
Mr H Mulenga, Deputy Principal Clerk of Committee (FC)
Mr S Mtambo, Senior Committee Clerk (FC)
Mrs D C Mukwanka, Committee Clerk
Ms C R Mulenga, Committee Clerk
Mrs C K Mumba, Committee Clerk
Ms A Phiri, Typist
Mr M Chikome, Committee Assistant
Mr D Lupiya, Acting Committee Assistant
Mr M Mainga, Intern