The Budgetary Processes and Economic Governance in Zambia: A Literature Review

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Disclaimer
Abstract

This literature review is part of comparative study on seven Southern and Eastern African countries: Botswana, Kenya, Namibia, South Africa, Tanzania, Uganda, and Zambia. Based on the concept of ‘good economic governance’, the study analyses the budget process as a key element. Starting with mapping-out the budget process, the study analyses various crucial aspects: medium-term expenditure frameworks, the role of autonomous revenue authorities, and the role of parliaments, non-state actors and the Auditor General in controlling the budget.

The study on Zambia finds that the budget framework is weak, allowing virtually limitless expenditure with approval and giving high degrees of discretion and authority to the ministry of finance. The establishment of an autonomous revenue generating agency resulted in improved performance. The medium-term expenditure framework is meant to lead to better planning and management, but capacity to make it an effective tool still has to be built. The roles of parliament, civil society, and the Auditor General in the budget process are still limited due to capacity constraints.
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<th>Description</th>
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<tbody>
<tr>
<td>ABB</td>
<td>Activity Based Organisations</td>
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<tr>
<td>CBO</td>
<td>Community Based Organisations</td>
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<tr>
<td>EAZ</td>
<td>Economic Association of Zambia</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>GRZ</td>
<td>Government of the Republic of Zambia</td>
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<tr>
<td>FDD</td>
<td>Forum for Democracy and Development</td>
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<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
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<tr>
<td>INTOSAI</td>
<td>International Organisation of Supreme Audit Institutions</td>
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<tr>
<td>MMD</td>
<td>Movement for Multi-Party Democracy</td>
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<td>MTEF</td>
<td>Mid-Term Expenditure Framework</td>
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<tr>
<td>MOFNP</td>
<td>Ministry of Finance and National Planning</td>
</tr>
<tr>
<td>NGOCC</td>
<td>Non governmental Organisations Co-ordinating Council</td>
</tr>
<tr>
<td>NSA</td>
<td>Non State Actors</td>
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<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<tr>
<td>UNIP</td>
<td>United National Independence Party</td>
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<tr>
<td>UPND</td>
<td>United Party for National Development</td>
</tr>
<tr>
<td>TDNP</td>
<td>Transitional National Development Plan</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>ZACA</td>
<td>Zambia Association of Chartered Accountants</td>
</tr>
<tr>
<td>ZNFU</td>
<td>Zambia National Farmers Union</td>
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<td>ZRA</td>
<td>Zambia Revenue Authority</td>
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1. **INTRODUCTION**

Since the 1980s, Zambian policymakers have been pursuing a reform programme to arrest the deteriorating economic situation. Policies have been devised to resolve declining per capita incomes, the increasing poverty situation, and the declining budgetary allocations and effectiveness. An aspect of this reform process has focused on macroeconomics reform and budgetary policy.

The budgetary process has over the years become a very important aspect of macroeconomic management, resource allocation and governance in the country. This is evidenced by the high state of public discourse, which prevails in the country just before and after the Minister of Finance and National Planning (MOFNP) has presented his annual budget to Parliament.

This paper is a review of studies on and the state of this budgetary process. It is an attempt to review the literature that mainly exists in official documents. There is also an attempt to talk to the main actors and stakeholders in the budgetary process. This is in order to understand the system better. The paper is written as part of a comparative study on Budgetary Processes and Economic Governance in Southern and Eastern African countries. The overall work covers Zambia and six other countries. It is based on the theoretical framework developed by Fjeldstad et al. (2004).

2. **THE BUDGET PROCESS**

The budget is the most important economic policy tool for macroeconomic management and resource allocation for any government. It provides a comprehensive statement of the nation's priorities. Over the years, the budget has evolved from being a simple accounting tool to a planning and governance document upon which the success or failure of government policy can be evaluated.

In Zambia it has remained an annually repetitive process. The line ministries and departments are responsible for drawing up the budget. However, MOFNP is ultimately responsible for macroeconomic policy, the budget and the management of the budgetary process. It is empowered to coordinate and manage the budget process. The process consists five stages. These include the drafting, the legislative and approval, the implementation, the audit and the evaluation stages. We will look at each of these stages.

2.1. **The Drafting Stage**

The initial stage in the budget process is the drafting stage. Through this consultative process with other stakeholders, the MOFNP comes up with a national budget every year. The drafting stage involves four steps: the Call Circular,
submission of estimates, the discussion of revenue and expenditure and the preliminary budget.

2.1.1. The Call Circular

This stage is consultative. The MOFNP initiates the process by the issuance of a “Call Circular”. This is a document that gives the general economic policy guidelines on which the budget for the following year is to be based. This is issued to controlling officers in the line ministries and provinces.

The executive wing of government develops the Call Circular. Based on the guidelines in the Call Circular, the MOFNP considers the possible levels of revenues and ways of financing the budget. The total expenditure level is worked out.

On receipt of the Call Circular, the controlling officers in the budget units prepare the budget in the budget standard form. The budget units consist of the line ministries, departments and provinces. The budget units involved go through a routine procedure. Generally, the steps followed on receipt of the Call Circular from MOFNP are:

- receipt of the Call Circular from MOFNP
- appointment of Sectoral Planning Teams. These draw up the budget
- briefing of the Sectoral Teams
- identification of Sub-Sectoral programmes
- sectoral Planning Teams allocate ceilings to sub-sectors as reflected by the Medium Term Expenditure Framework (MTEF)
- costing the activities for the programmes. This is in accordance with the MOFNP mission statement.

In the recent past, the MOFNP has tended to extend its consultations to individuals, organisations and companies that are affected by the budget. To this effect, the government advertises in the local media to the general public, private sector and civil society to provide either oral or written submissions on what they wish to see reflected in the budget. However, not all submissions are considered and the government is not bound to provide feedback to the petitioners.

2.1.2. The Submission of Estimates

Controlling officers in the budget units will then submit their estimated expenditure to the Budget Office at MOFNP. The submission is supported by working papers. Budget units involved in the collection of non-tax revenue, in the form of levies, charges and miscellaneous receipts, are also required to submit estimates of revenue. This is accompanied by an explanatory memorandum indicating strategies
to be put in place so as to achieve the set targets. If the strategies to be put in place require the enactment of law, a draft statutory instrument is also submitted.

2.1.3. Discussion of Estimates of Revenue and Expenditure

The Budget Office draws up a timetable for meetings with all Budget Units. Each institution discusses its submission with the MOFNP. In an event that expenditures are more or below the required levels, adjustments are made to the required levels. The adjustments are based on MOFNP ceilings.

In the case of revenue, general assumptions are made on which revenue forecasts are made. These are then discussed and scrutinised with emphasis on the revenue targets to be achieved, measures to be put in place and the accompanying legislation. Adjustments are permitted depending on the perceived capacity of the collecting agency.

At this stage, changes in tax policy are analysed. This is done jointly by the MOFNP and the various stakeholders who make up the Tax Policy Review Committee. This is under the chairmanship of the Director of Budget at the Budget Office. The committee comprises officials from within the MOFNP and key line ministries, such as the ministries of Justice, Trade and Industry, Mines, and Home Affairs. Others on the committee include the Zambia Investment Centre, the Bank of Zambia and the Zambia Revenue Authority. Also included are government institutions and departments that collect or generate revenue. The task of the committee is to analyse submissions on revenue proposals received from the various stakeholders in the economy and recommend to the MOFNP possible proposals to be considered for inclusion in the following year's budget.

The committee breaks out into four Working Groups. These are the VAT, Customs and Excise, Direct Taxes and Non-Tax Revenue. The committees will assess the viability of the suggested measures and the capacity of the concerned institutions to generate the projected revenue.

Once all submissions and reviews have been discussed and concluded, the Budget Office processes the data and compiles a consolidated report, which is sent to the Permanent Secretary and the Secretary to the Treasury at MOFNP. Committees are not authorised to reject submissions. They can only accept whole submissions or some parts of the submissions.

2.1.4. The Preliminary Budget

The MOFNP prepares a Cabinet Memorandum on the Budget for consideration by the Cabinet. To support the budget items, the Cabinet Memorandum includes proposed fiscal measures required to generate the necessary revenue to implement the budget. The proposed expenditure measures could include those meant to reduce its total expenditure. Government is empowered to increase some taxes
while reducing others to achieve its financial objective. Any adjustments are always accompanied by pieces of legislation in the form of statutory instruments and bills with which to amend certain Acts. The Cabinet Memorandum may contain other government policy measures meant to address major policy issues.

The Cabinet extensively discusses the budget proposals. At this stage the Cabinet can subtract, add or totally eliminate some components of the proposed budget. The discussions provide ministers with a chance to defend their individual allocations. Once the Cabinet approves the budget proposals, a printed document of estimates of expenditures and revenue referred to as the Yellow Book\(^1\) is published. The figure below may give a rough idea of the timings of the budget process. These might change from year to year.

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\(^1\) The Yellow Book shows the allocations to each ministry/and department against the proposed activities
Figure 1: Budget Cycle

January, (Last Friday)
Budget presentation day

February/March
Legislation & approval into law by parliament on presidential assent

May/June
Call Circular

July/August
Submission of expenditure & revenue estimates

September/October
Hearing of submission &

November/December
Cabinet meetings on budget/Printing of Yellow Book

October/November
Policy level discussions, revision of expenditure & revenue estimates

December/January
Budget speech & tax legislations preparations in lay-man’s language
2.2. The Legislative Stage

After the approval of the proposed budget by Cabinet, the Constitution of Zambia mandates the Minister of Finance and National Planning to present it to the National Assembly. Only the National Assembly has the authority to raise tax and expend revenues.

Article 117(1) of the Constitution stipulates that “the Minister responsible for finance shall cause to be prepared and shall lay before the National Assembly within three months after the commencement of each financial year estimates of the revenues and expenditure of the republic for the financial year”. The time span of the authority to spend is restricted to twelve months from February.

The Minister’s presentation of the budget to the National Assembly is traditionally referred to as the ‘Budget Address’. It is an incident of major significance among stakeholders and society. Thereafter, the whole House simultaneously resolves into the ‘Committee of Supply’. This is to meticulously consider the expenditure proposals ministry by ministry. And then proceeds into the ‘Committee of Ways and Means’ for purposes of approving revenue proposals for the funding of suggested expenditures. Each allocation is discussed through the three stages of the house up to the vault level. Once the budget passes through the three stages of the house, the National Assembly approves the budget. It then enacts the Appropriation Act. This is immediately published in the government gazette for the information of the controlling officers in the budget units.

If there is any supplementary expenditure during the budget year, the MOFNP is required to prepare a supplementary appropriation bill. This will confirm the approval by the National Assembly of such expenditure or the excess of expenditure. This has to be done within a period of fifteen months after the end of the financial year. If the National Assembly is not in session, it has to be done within 30 days of its first seating.

2.3. The Implementation Stage

Once the Appropriation Act is made by the National Assembly, the President signs a General Warrant. This is passed onto the MOFNP. A copy is sent to the Auditor General for his information. The Warrant empowers the controlling officers in the budget units to start spending their allocations on current and capital projects.

The Permanent Secretary, MOFNP uses the General Warrant to apportion funds with respect to the requirements of the budget units. He notifies them by issuing Treasury Authority for recurrent expenditure and Capital Requisition for capital spending.

When they receive the Treasury Authority, the controlling officers in the budget units respond by issuing the Expenditure Warrant. This indicates the allocation for recurrent and capital expenditure. It is then sent to the Department Heads. These
hold the Expenditure Warrants. The Department Heads can then begin spending their allocations. The MOFNP is then ready to start releasing funds to the budget units that execute the activities spelt out in the budget.

In cases where unconstitutional expenditures are incurred during the financial year, the Minister of Finance is by law required to forward such expenditures to the appropriate committee of the National Assembly. This should be done within a given timeframe and it is for the purposes of the enactment of the excess expenditure Appropriation Bill by the National Assembly (See Article 117(5) of the Constitution of Zambia).

### 2.4. The Audit Stage

There is always an internal audit performed by the MOFNP. The Ministry continuously reviews the budget during the year. The administration of the budget itself takes many different dimensions as the budget changes to reflect realities during the year. Furthermore, the feedback from the post-budget reviews becomes valuable input for the subsequent year’s budget. By mid-year, the budget administration begins to contribute to the preparation of next year’s budget.

After the fiscal year has elapsed, the MOFNP prepares a financial report. This should be presented to the National Assembly within nine months. The report will consist of:

- the revenue and other moneys received by the government during the year
- the expenditure of government in the financial year, other than expenditures charged by the Constitution
- payments made in a particular fiscal year
- a statement of the financial position of the Republic at the end of the financial year and
- any such information that the National Assembly may require.

### 3. MANAGEMENT AND GOOD GOVERNANCE ISSUES ARISING FROM THE BUDGET PROCESS

For a long time the Zambian National Assembly operated as a rubber stamp to the national budgets raised by the Minister of Finance and National Planning. The government mostly applied the incremental accounting system to the preparation of the budget. The budget was taken to be an accounting and not a planning tool. However, there was a departure from this approach in 1993 when government introduced the cash budget system. This was mainly an activity based system. Since then, the issues of management and good governance have gained prominence in the budget process.
Clearly, the budget cycle for a single annual budget extends for over a year (from initiation, formulation to assessment at the end of year). As such, the Budget Office at MOFNP deals with three different budgets that encompass, one for the year just ended, another one for the current year and the thirdly budget plans for the forthcoming fiscal year. This load on the few budget staff at MOFNP raises questions as to whether they are capable of handling the three budgets simultaneously. This requires adequate capacity. The scarce qualified human resource is often stressed.

In 2000, the National Assembly carried out a study to analyse the budget process in Zambia. The study observed that the budget system in Zambia was affected by several practical limitations. For instance, it found that at the time when the budget is being prepared, some important stakeholders are not consulted. The study observed that the budget releases from MOFNP were erratic and minimal. This always frustrated the plans of the budget units and delayed the execution of their activities.

Furthermore, the study observed that the initial budget estimates (the ministry ceilings) received from the MOFNP invariably determine the final budget estimates. In spite of the determined ceilings for the executing agencies, it is not guaranteed that all the approved funds will be availed during the implementing process. The MOFNP usually adjusts and releases funds when available. Such unpredictable adjustments tend to have implications on both the extent to which the budget units' plans and targets are achieved. This makes the Zambian budgeting system a weak tool in supporting meaningful development.

Generally, a number of community based organisations, NGOs, professional bodies and individuals are allowed to submit their suggestions and proposals to the Budget Office at MOFNP. They indicate what they wish to see included in the budget. There are many civil society organisations that are actively involved in the budget process. Their participation, however, depends on their own capacity and ability to organise themselves.

The issue of transparency becomes defeated mainly due to their lack of information on government priorities, previous expenditure and revenue performances, timing of the budget cycle and the lack of qualified manpower to interpret the highly technical budget presentation and format.

Mwanawina et al (2002) conclude that the Zambian budgetary system has both a weak legal framework and weak transparency and participation. Over the years, the National Assembly was expected to simply rubber stamp the Supplementary and Excess Appropriation Bill necessary to legalise these expenditures in retrospect. Further, although, the Yellow Book provides detailed revenue and expenditure estimates of the budget, the time given to parliamentarians to scrutinise the budget document is insufficient rendering the whole legislation process ineffective. Amendments to the ministerial budget rarely succeed. They were only successful in 2002 and 2004 fiscal years.
Commonly, the budgetary framework allows for virtually limitless expenditure with approval and very little information published for public assessment. The 2000 Parliamentary Study Committee also observed that the format of presentation and the structure of the budget had remained too technical even to economists. The Yellow Book was considered inadequate since it merely gave the budgeted figures. There is no indication of the deplorable extent to which the budget was not adhered to during implementation in the previous year.

The World Bank (2003) argues that the Zambian budget system is not comprehensive because it is simply confined to central government. It lacks information on the state-owned enterprises, pensions funds, special funds and local government expenditures. This tends to present a misleading picture of the financial position of the state, especially due to the heavy losses and contingent liabilities coming from the state enterprises and public sector pension funds.

Although the guidelines and rules of executing the budget by the budget units and the quasi-government institutions are clear, the 2000 Parliamentary Study Committee noted that they are, in practice, not followed. There is usually insufficient reporting on extra-budgetary out-turns, the level and the debt composition and the changes therein. Thus, the Committee observed that the annual budget figures no longer serve as a guide to the actual spending. It further noted that the disbursement of funds by MOFNP is not combined with effective control mechanisms to establish whether or not the released funds are actually spent on allocated purposes. Such a budgeting system cannot act as an incentive to sustainable development.

The World Bank (2003) notes that the link between policy, planning, and budgeting has been very weak. There is poor communication between the donors and the state. This compounds the budgetary process. This is despite the fact that donors finance a significant part of the budget. In some instances, the donor funds are actually not integrated into the budget as they are given to line ministries/and departments without the knowledge of MOFNP.

Government policy is ambiguous on the role of the civil society in the budgetary process. Although government provides an opportunity to civil society to submit proposals to the budget, it is not obliged to take the submissions into account. Civil society also lacks information on the process and capacity to enable them to effectively interact with the public institutions in order for them to make meaningful submissions.

In a nutshell, the Zambian budgetary process is not sufficiently democratic and transparent to ensure good governance and sustainable development.
4. Revenue Agencies

4.1. The Zambia Revenue Authority

4.1.1. Introduction

In 1994 the role of tax revenue administration and collection was transferred from MOFNP to an autonomous institution - the Zambia Revenue Authority (ZRA). These functions were transferred from the Departments of Taxes, and Customs and Excise at MOFNP. This was under an Act of Parliament, Act 28 (9) of 1993. The Act provides for ZRA to collect taxes (customs and excise, direct and indirect taxes) on behalf of the MOFNP. The ZRA was given the responsibility of assessing, charging, levying, collecting and accounting for government revenue in the form of taxes, duties, sales tax and other statutory charges. This is on behalf of the government. The Act established the ZRA as a corporate body with perpetual succession and a common seal capable of suing and being sued in its corporate name. And subject to the Act, to enjoy all rights and liabilities that the corporate status confers.

The transfer of revenue administration from the Department of Customs and Excise and the Income Tax Department of the MOFNP came amid a sharp shift in the government’s system of economic administration that began in 1991. This was a result of the government’s adoption of the reform programme under the IMF and World Bank. The need to rationalise government expenditures to meet the newly introduced cash budgeting system was met by the need to arrest declining government revenue. The major reason for the decline in government revenue collections was attributed to the inherent weaknesses in the revenue collection institutional framework (Mudenda, 1994).

Under the old system, the Customs Clearing and Forwarding agents were mandated to determine the correct customs, tariffs and taxes on behalf of government. They acted as agents for both importers and the government. This system led to poor administration, false declarations and corruption among the customs officers and the clearing agents leading to the loss of revenue.

Sales tax enforcement and collection were non-existent. Only a small percentage of eligible payers were registered with the authorities. Poor conditions of service in the two departments dampened the morale of the tax collecting civil servants. There was no sufficient remuneration to attract and retain skilled manpower.

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2 The Society for general de surveillance (SGS) observed that government lost over 50% of revenue due to poor excise and customs administration and false declaration. The Zambian Association of Manufacturers quoted ZMK3.8 Billion loss of revenue in three months due to self clearing of tinned beer (see profit magazine February 1993 issue).
In an event of misconduct, the department’s heads had no powers to take immediate action. The disciplinary procedures under the civil service were seen to be too long. The heads of department were required to refer all cases to the Permanent Secretary at MOFNP. He was the only one eligible to refer cases to the civil service commission, which often took too long or took no action at all.

The heads of department under the old system had no power to fire and hire personnel. This inhibited innovation and the ability to make independent decisions. Government did not invest in the two departments. Thus we can safely say that; the inadequate capacity to collect revenue, the administrative bottlenecks, the lack of government investment in the two departments, poor conditions of service, the low level of discipline enforcement, poor transport and communication facilities, rampant fraud and corruption in the revenue collecting process prompted government to set up the ZRA. Thus the ZRA was set up to correct the inherent ills in the Departments of Income Tax and Customs and Excise. Additionally, the general trend in economic reforms acted as a catalyst.

4.1.2. The ZRA Board

The Act establishing the ZRA set it up as an independent and autonomous authority. It set up a board to run the affairs of the Authority. According to the ZRA Act, 10 of 1995, the board is composed of the Permanent Secretaries from the MOFNP, the Permanent Secretary from the Ministry of Justice, the Secretary to the Treasury and the Bank of Zambia Governor. There are also four other persons representing the Law Association of Zambia (LAZ), the Confederation of the Chamber of Commerce and Industry, the Zambia Institute of Certified Accountants and the Bankers Association of Zambia. These respective groups nominate the four representatives. In addition to these, the Minister of Finance is authorised to appoint two other members. This brings the total number to nine members.

The Board is authorised to choose its chairman and his deputy. However, the Commissioner General is appointed and can only be disappointed by the President. This is provided for under section nine of the Act. Although the Commissioner General is the chief executive of the authority, he is not a member of the board. He simply implements what is delegated to him by the board. Some observers have argued that the Commissioner General is supposed to be on the board to afford some leverage and influence decisions as the risk bearer of the Authority.

The ZRA board and the management work well and seem not to pose any administrative or any other problems. However, the stipulations of the Act on the appointment and removal of the Commissioner General is potentially a problem, since the incumbent holds office solely at the discretion of the President.

Other than through legislation, the ZRA has no other links with Parliament or indeed any other institution except the MOFNP. And this is on issues of budgeting and
revenue generation. Thus, the ZRA operates within an independent environment that does not pose any potential conflict with other institutions in the revenue collection and planning processes.

4.1.3. Functions of the ZRA

Section 11 of the ZRA Act authorises the board to do the following:

- charge, levy and collect all revenue due to the government under such law as the minister may by statutory instrument specify
- ensure that all revenue collected is as soon as reasonably practicable, credited to the treasury
- the right to delegate to the commissioner general or any other member of the committee to carry out, on behalf of the authority such functions as the board may determine
- to perform such other functions as the minister may determine. The minister of finance may delegate to the board general directives with respect to carrying out any functions under the Act
- in addition, the Authority is also mandated to facilitate trade and give advise to ministers on aspects of tax policy

4.1.4. Performance Indicators

The key performance indicators of the ZRA are based on the philosophy behind the creation of the Authority. The government’s main triggers that it uses to judge the performance and efficiency of the Authority are:

- ability to meet the projected revenue to finance the annual budget. Apart from its monthly financial reports, the Authority also reports its performance on a quarterly basis. This is in order to gauge whether it is on track or not. As an incentive, the government has in the past given the Authority a bonus for any collection above the targeted projections. For instance this year, the ZRA was supposed to receive about ZMK 15billion (Approximately US$3.5million);
- the level of government revenue to gross domestic income.

ZRA also sets up its own criteria. These complement the government’s overall goal. These criteria include and cover:

- the ability of ZRA to meet the targeted revenue. Once the annual target is set, the ZRA sets monthly targets against which it measures its efficiency. The cost of collecting such revenue is weighed against the amount of the collected revenue;
• the ability to curb tax evasion and corruption by both clients and staff. This responsibility is executed by the Central Investigations Unit and the Internal Affairs Departments, for tax evasion and internal investigations respectively;

• the number of successful prosecutions carried out by Legal Department;

• the number of customs clearances at the border per day. This is looked at as a way of facilitating trade;

• the retention of high calibre manpower. This is based on qualifications and performance appraisals;

• the number of registered tax payers.

Overall, the ZRA and the MOFNP do not have any differences about the revenue collection targets. The two institutions work together on the annual revenue projections. They work together in drafting the required legislation to foster the implementation of the suggested strategies during the budgetary process. Since inception, ZRA has always exceeded GRZ revenue targets. A steady average annual increase of 32 per cent in revenue collections has been maintained from 1994 to date (see the table below). During the budgetary process the two institutions agree on the target that the Authority should meet.
Table 1: ZRA Revenue Statistics (1994-2003 K’ Billion)

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</tr>
</thead>
<tbody>
<tr>
<td>Total Tax Revenue</td>
<td>421.0</td>
<td>550.0</td>
<td>725.2</td>
<td>954.4</td>
<td>1,090.3</td>
<td>1,289.6</td>
<td>1,739.5</td>
<td>2,448.4</td>
<td>2,848.8</td>
<td>3,549.5</td>
</tr>
<tr>
<td>GRZ Target</td>
<td>304.0</td>
<td>506.0</td>
<td>676.0</td>
<td>935.0</td>
<td>1,090.0</td>
<td>1,267.0</td>
<td>1,600.0</td>
<td>2,325.4</td>
<td>2,818.0</td>
<td>3,522.0</td>
</tr>
<tr>
<td>Variance</td>
<td>117.0</td>
<td>44.5</td>
<td>49.2</td>
<td>19.4</td>
<td>0.3</td>
<td>22.6</td>
<td>139.5</td>
<td>123.0</td>
<td>30.8</td>
<td>27.5</td>
</tr>
<tr>
<td>% change over previous year</td>
<td>85.0</td>
<td>30.8</td>
<td>31.7</td>
<td>31.6</td>
<td>14.2</td>
<td>18.3</td>
<td>34.9</td>
<td>40.8</td>
<td>16.4</td>
<td>24.6%</td>
</tr>
</tbody>
</table>

Source: ZRA
4.1.5. Employee Remuneration and Staffing

As a corporate body, the ZRA has the right to hire and fire its own staff. Most of the management staff is on short term renewable contracts. These usually last for three to four years. Contract renewal is tied to the individual’s performance and integrity. Only low-level staff, like administrative clerks, accounting clerks, cleaners, secretaries and office orderlies are employed on a permanent basis. The Internal administrative structure empowers and gives leverage to management and the board to discipline or dismiss employees within the shortest possible time. This is determined on the basis of performance and malpractices.

On the other hand, the MOFNP employees are hired by the Civil Service Commission and are usually permanent and pensionable. They subscribe to the ‘General Orders’ set by the government. They are remunerated like any other civil servant. In terms of remuneration, the ZRA pays its staff salaries that are up to more than three times higher than those in the Civil Service. This excludes other incentives. In determining the pay schedules the Authority compares its salaries and other incentives to other corporate organisations on the market. The lucrative pay schedule is meant to attract, retain and ensure transparency and integrity in the discharge of duties by the staff. Government has no role in staff management issues at the ZRA.

4.1.6. Funding of the ZRA

The Act establishing the ZRA provides for three sources of funds for the Authority. These could:

- be appropriated by Parliament for the purpose of the authority;
- be paid to the Authority by way of grants or donations;
- vested in or accrued to the Authority;
- the Minister of Finance and National Planning can write or direct the Authority to retain some of its revenue.

In addition to these sources, the Authority is permitted to accept funds:

- by way of loans subject to approval by the minister;
- charge and collect fees in respect of programmes.

Commonly, the revenue authority is funded through the retention of its revenue. MOFNP permits the Authority to retain a percentage of its collections to meet its daily activities. Such funds are then reflected in the national budget. In a few instances, the Authority received funds from donors for special projects linked to capacity building. However, in most cases ZRA has financed itself from retained revenue.
4.2. Non-Tax Revenue Generating Agencies

Apart from the ZRA, Zambian law under various legislations and Acts of Parliament authorises some government agencies and ministries (see Table 1) to collect non-tax revenues on its behalf. The specific ministries are assigned this responsibility for efficient administration of the collection process. Apart from submitting their expected expenditures for the following year, these institutions are also required to provide MOFNP, their expected revenues during the budget year and the strategies that they have devised to collect the funds. If need be, they must also supply an empowering draft bill for consideration.

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Main Sources of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Transport and Communications</td>
<td>Road traffic collections, Maritime fees</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>Dividends from corporations and companies</td>
</tr>
<tr>
<td>Ministry of home affairs</td>
<td>Police, immigration and passports</td>
</tr>
<tr>
<td>Ministry of Lands</td>
<td>Ground rent, survey and miscellaneous</td>
</tr>
<tr>
<td>Ministry of Foreign Affairs</td>
<td>Visa fees and property rates</td>
</tr>
<tr>
<td>Ministry of Environment and Tourism</td>
<td>Forest Revenue, Hotel license, Casino fees</td>
</tr>
<tr>
<td>Judiciary</td>
<td>Court fees and court fines</td>
</tr>
<tr>
<td>Ministry of Finance</td>
<td>Rents</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance Yellow Book, 2004

In the budgetary process, the leading collectors (such as Ministries of Home Affairs, Transport and Communications) of non-tax revenue form part of the main committee on budget formulation. They, through this process, discuss the strategies that will be employed and how much revenue will be collected. Their effectiveness is mainly gauged by their meeting the estimated revenue and capturing as many eligible payers as possible. Most of them complain of poor funding as the major constrain to increased revenue generation.

5. THE MID-TERM EXPENDITURE FRAMEWORK

5.1. Introduction

Since 1993, Zambia has attempted a number of budgeting systems which range from cash to activity based budgeting. The reform programme under the IMF and World Bank has largely influenced the type of budgeting system that the country has pursued. In the recent past, the government’s guiding post in budgeting has been
the Poverty Reduction Strategy Paper. The preparation of the Poverty Reduction Strategy Paper (PRSP) was part of the conditions to reaching the completion point under the HIPC initiative; Zambia is expected to strengthen the synergy between development planning and the budgetary process. Thus between 2002 and 2003, the World Bank and the Government undertook a budgetary process review study that revealed inherent weaknesses in the nature of the budgeting system. The identified weaknesses included a lack of support to long term development projects, little consultation with stakeholders, late involvement of the Cabinet and Parliament, and the lack of fiscal discipline and accountability of public resources amongst controlling officers. In order to arrest these problems, the Government in 2004 introduced the Mid-Term Expenditure Framework (MTEF). In this process the controlling officers are encouraged to involve their Ministers and all stakeholders in preparing the budget. Thus the MTEF in Zambia was introduced to:

- ensure the efficient allocation and management of public resources;
- develop and maintain fiscal discipline in planning and management of public resources;
- ensure commitment to budget priorities at the national and sector levels;
- improve the accountability of public resources;
- improve the predictability of available resources.

During the first year of the MTEF, the Government’s broad macroeconomic programme for 2004 – 2006 was built on the PRSP and the Transitional National Development Plan (TNDP). PRSP and TNDP programmes have been translated into the MTEF and the budget. In the absence of a comprehensive METF, the PRSP and TDNP formed the basis of the budgetary process for the 2004 budget in the country. It is envisaged that the MTEF will continue to guide the formulation of annual budgets. To this end, the cash budgeting system has been abandoned in favour of the activity based budgeting and classification of programmes. Unlike the traditional budget preparations the MTEF includes:

- setting the budget within a three-year framework. This includes all resources both domestic and foreign. The budget ceilings provided in the current year are final. The ones for the following years are considered to be indicative and subject to revision;
- projections are made for all types of expenditure; both statutory and discretionary within the framework;
- sector Ministries, Provinces and other Spending Agencies (MPSA) develop comprehensive plans focused on achieving agreed objectives and outputs targets;
- sector MPSA’s prioritising their activities to fit within the ceilings, moving away from the shopping list approach. The priority programmes are derived from the PRSP and the TNDP.
5.2. The MTEF Process in Zambia

Having used the MTEF for the 2004 budget estimates, the MOFNP has endeavoured to improve the MTEF process. As a result, the MTEF consultative groups (MCGs) and the sectoral advisory groups (SAGs) drawn from various professions and interest groups were constituted to have an input in the MTEF process. This is in order to strengthen the top down and bottom up approach to budgeting. As the figure below shows, the MTEF process as undertaken for the 2005-2007 period comprises five main stages.

First, the MOFNP defines the macroeconomic framework. Based on the current MTEF document, the macroeconomic and sector performances are reviewed as inputs into the macroeconomic projections. The MOFNP obtains the expected external resources flows. Within this stage, the macroeconomic framework is prepared. This comprises projections of GDP, inflation, fiscal deficits and the overall resource envelope (from both domestic and donors).

Second, the MCGs define sector goals and outcomes. They review MPSAs objectives and programmes to identify priorities. This should be in line with the TNDP and PRSP and consistent with the macroeconomic framework. The SAGs then analyse and review the output on sector objectives as inputs into the Green Paper.

In the third stage, the Green Paper and the Call Circular are developed based on outputs of the preceding stage. The draft Green Paper is then presented to Cabinet for discussion and approval. At the same time, it is also availed to the Estimates Committee of Parliament and the civil society. It is at this stage that the MPSAs are provided with the budget guidelines for the following year.
Next, the MPSAs prepare Budget Framework Papers (BFPs). These include sector goals and outcomes linked to the policy framework, objectives, programmes, outputs and activities. The activities are costed over the three-year period in order of priority within the ceilings. From these activities, the budget hearings are then held to discuss BFPs with MOFNP.

To finalise the MTEF process, the MOFNP updates the macroeconomic policy framework and consolidates the MPSAs’ BFPs into the MTEF based on the outcome of the Green Paper, budget hearings of the Estimates Committee and civil society. The MTEF is then discussed and approved by the Cabinet along with the ceilings for the budget year and the MTEF period.

5.3. Performance of the MTEF

The MTEF process is a relatively new approach. The challenge for MOFNP is to ensure that stakeholders understand the MTEF process. One of the major set backs so far is that the SAGs rarely meet to undertake compressive analysis of their sectors. The groups, which are supposed to be headed by the Permanent Secretaries in the ministries, have usually ended up being led by Directors in the ministries. These act on behalf of their Permanent Secretaries. This reduces the commitment of other SAG member. The SAGs rarely meet to review the performance of the budget. However, the MTEF is being hailed as the best way of sustaining huge projects as the costs are spread over a number of years. It is
envisaged that it will resolve the white elephant projects synonymous with the previous budgeting systems.

6. THE ROLE OF PARLIAMENT, NON-STATE ACTORS, AND THE AUDITOR GENERAL IN THE BUDGETARY PROCESS.

6.1. The Role of Parliament

6.1.1. Introduction

Parliament is a body of elected officials representing the interests of the country. It should therefore, ordinarily have a very crucial role to play in the budgetary process.

The legal basis of the role of Parliament in the budget process is the Constitution of Zambia. This gives power to Parliament to approve any taxation and expenditures from the general revenues in the country.

6.1.2. Laws Governing the Budget Process in Parliament

The Zambian Constitution authorises the Minister responsible for finance to draft the budget and spend the funds in accordance with the budget as approved by Parliament. Article 117(1) of the Constitution stipulates that:

The Minister responsible for finance shall cause to be prepared and shall lay before the National Assembly within three months after the commencement of each financial year estimates of the revenue and expenditure of the Republic for the financial year. Similarly, the Constitution authorises the executive to raise the required funds, but only with the approval of Parliament.

The ultimate authority in the budget process lies with Parliament. The Constitution of Zambia stipulates that no taxation shall be imposed or altered except by or under an Act of Parliament. No funds shall be expended from the general revenues of the Republic unless, the expenditure is authorised by a warrant under the hand of the President; the expenditure is charged by the Constitution or any other law on the general revenues of the Republic; or the expenditure is from funds received by a department of government and is made under the provisions of any law which authorises that department to retain and expend those funds for defraying the expenses of the department (see Article 115 (1) of the Constitution).

After the approval of the Estimates of Expenditure, the Heads of Estimates and the corresponding approved amounts are included in the Appropriation Bill. A Bill providing for imposition or alteration of tax has the force of law on publication. However, it will cease to have effect within a given timeframe and under certain
conditions. The President has to assent to the Bill. Article 114 (4) of the Constitution gives authority to the local government authorities to impose or alter tax within their areas of jurisdiction.

6.1.3. Composition of Parliament

Parliament consists of the President, 150 elected members and eight nominated members. The National Assembly consists only of the elected and nominated members. The nominated members are appointed by the President. The original idea of having nominated members was to broaden the representation of society in Parliament. However, it is currently being used to increase the numbers of the ruling party in Parliament. The parliamentary term of office is five years. There are currently six parties represented in the house. The ruling party is the Movement for Multi-party Democracy (MMD). The opposition parties are the United Party for National Development (UPND), the Forum for Development and Democracy (FDD), the United National Independence Party (UNIP), the Heritage Party (HP) and the Patriotic Front (PF). There is also one independent Member of Parliament. The MMD has a dominant presence in Parliament. This complexion of Parliament, especially the domination of Parliament by one party is important for the budget process. A study of voting patterns in the Zambian Parliament shows that Members almost always vote along party lines. This has implications for the budget process in a situation where one party is dominant. In this case, there is likely to be little debate on budgetary issues. The critical legislative role of Parliament is therefore likely to be blunt.

6.1.4. Committees of Parliament

Parliament has a committee system to support its work. There are, altogether, about twelve Committees. The most important ones in terms of the budgetary process are the Committee on Estimates and the Public Accounts Committee. The latter is especially important for its scrutiny role. The current Chairman of the Public Accountants Committee is an independent Member of Parliament. Traditionally, there is an effort to have the committee headed by a member from the opposition. The committees are able to summon controlling officers and other government officials to their meetings. The committees allow the participation from the public over relevant issues.

6.1.5. The Legislative Stage of the Budget

The legislative phase begins when the budget is presented to Parliament for debate and final approval. It is also the time that the budget becomes available to the public. The public can then also participate in the debate and consult their Members of Parliament to influence the nature of the debate in Parliament.
Parliament is responsible for scrutinising and approving the budget proposals submitted by the Executive. The responsibility for this function lies in Parliament as a whole. Parliament also approves amendments that are done at committee stage. In considering the budget proposals, Parliament does not call for budget hearings. It also does not suggest amendments or coordinate assessment of the budget, even though it has the power to adjust revenue and expenditure downward. Parliamentary debate on the budget is limited by insufficient time given for scrutinising the voluminous documents provided with the budget. This is worsened by lack of in-house expertise to provide technical advice to Parliament (Government of the Republic of Zambia, Report of the Committee on Estimates, 2000).

6.1.6. Involvement of the Public and Constituencies

Public availability of budget information is a fundamental requirement for fiscal transparency and accountability. The information must be comprehensive, reliable and useful. The public and constituencies must be provided with full information on the past, current and projected fiscal activities of government. The annual budget should cover all central government extra-budgetary activities. In addition, sufficient information should be provided on the revenue and expenditure sides of local government to allow for a consolidated financial position of government to be presented (World Bank 2003).

The national budgetary process in Zambia is not consultative and inclusive enough. It needs further reform in this respect (Centre for Policy Research and Analysis, 2002). This state of affairs is especially prominent in the involvement of the public in the constituencies in the budget process.

In recognition of this, the 2000 Parliamentary Committee of Estimates Report called upon the Government to subscribe to and implement the Code of Good Practices on Fiscal Transparency, developed by the IMF. The Committee observed that if the Government is committed to improving fiscal management, there is no reason why it could not affirm its determination by subscribing to these principles, and incorporating them into Zambian Law.

Furthermore, the 2000 Report observed that, transparency is a key component of good and prudent fiscal governance. It recommended public access to the work of Parliamentary Committees, such as the Committee on Estimates and the Public Account Committee. These should be allowed to hold public hearings. The Committee further observed that for cases where open sessions are likely to inhibit full disclosure by officials called before a Committee, or where openness would objectively jeopardise national interest, committees could resolve to hold sessions on camera. Parliament can play a crucial role in establishing a credible and meaningful budgetary process by facilitating public awareness of the budgetary intentions and policies of the executive against which the latter can be held to account.
6.1.7. Operations of Parliamentary Committees

The debate and the review of the proposed budget in Parliament are mainly carried out on the floor than the committee stage. It has been argued that, while the floor of the house is suited for broader policy discussions, comparative evidence suggests that Parliamentary Committees constitute the engine room of Parliament. Therefore, because Parliament focuses on the floor of the house the discussion on the budget, there is little in-depth analysis and amendments are rare. It is only at the Committee level that an in-depth, technical debate can be fostered amongst Members of Parliament with a degree of specialisation.

Therefore there should be more time given to the committee stage in the budget discussions. The sectoral committees should be encouraged to engage with their respective sectoral budgets. The Committee on Estimates should have a central role in coordinating recommendations and consolidating budget amendments (GRZ, National Assembly Committee on Estimates, 2000).

During the fiscal year, the Committee of Supplies scrutinises spending. The sessional Committee of Parliament conducts hearings on expenditures. There are several Sessional Committees. These include the Committees on Public Accounts, Parastatals, and Social Services.

In the audit phase the Public Accounts Committee scrutinises audit reports and makes recommendations. The follow-up on the audit reports is the responsibility of the Auditor General (World Bank, 2003).

Parliament is responsible for scrutinising and approving budget proposals. It also approves amendments that are done at the Committee stage. In considering the budget proposals, Parliament does not call for budget hearings. It does not suggest amendments or coordinate assessment of the budget, even though it has the power to adjust revenue and expenditure in any way it considers appropriate. The debate on the budget is limited by insufficient time given for scrutinising the voluminous documents on the budget. This capacity is worsened by the lack of in-house expertise to provide technical advice to Parliament (Mwanawina, et al., 2003). Consequently, it has been argued that parliamentary debate is inconsequential. There is need to change the nature of the debate and at least make it possible for Parliament to shift funds between heads of expenditure as long as the deficit is not increased (World Bank, 2003).

6.1.8. Factors Hampering the Role of Parliament

Several issues have been raised highlighting the major inadequacies and problems facing the current budgetary process (GRZ, Report of the Committee on Estimates, 2000). These are:

- The budget is tabled after the commencement of the fiscal year to which it pertains. By the time Parliament approves the budget, expenditures for the
first three months of the fiscal year will have been undertaken. This is done on the basis of the Presidential Provisional Warrant. This built-in late approval of the budget is inconsistent with prudent financial management and good governance. It undermines the role of Parliament in the budgetary process. It also challenges the integrity of the budget as an annual outline of governmental activities. The interim management of the budgetary process on the basis of Presidential Provisional Warrant does not guarantee that these spending activities will match the budget once it has been approved.

- There is a pattern of allocating substantially less to budget units than requested in their initial spending proposals submitted to the Budget Office at the MOFNP. Even though the amounts are already approved by Parliament. This frustrates departmental planning. It destroys incentives for departments to develop credible spending plans. Departments are not informed of what criteria, if any, that are used to cut their spending requests. Departmental planning is further undermined by the fact that the estimates are only tabled at the end of the first month of the fiscal year, and are approved about two months later.

- There is need to co-ordinate the general revenues and donor funding in a way that donor funding complements rather than adjusts the priorities of the budget. In addition, the timely availability of Counterpart Funds needs to be ensured in order not to delay the disbursement of donor funds. However, in the long run, the dependence of the budget on donor funding for capital expenditure is not sustainable. There should therefore be efforts to review the spending activities, broaden the internal tax base and improve revenue collection.

- It is apparent that the budget no longer serves as a reliable guide to the actual spending activities of the government. The disbursement of funds by the MOFNP is not combined with effective control mechanisms to establish whether the released funds were actually spent on the allocated purposes. For example, in the 1997 fiscal year, the Auditor-General reported that there was a net under-expenditure of 31 per cent of the total authorised expenditure during the year. In addition, 25 per cent of all actual expenditure during the year was unauthorised.

- A pattern of abuse has emerged with regard to a number of special funds, such as the Roads Fund and the Rural Electrification Fund. This has escaped parliamentary scrutiny. The MOFNP has usually withheld these funds and diverted them to other activities, other than those for which the revenues were earmarked. For example, the Auditor-General has reported that in 1996, 1997 and 1998, the MOFNP did not release funds from the Rural Electrification Fund. This amounted to about K6.5 billion. The Ministry of Energy and Water Development borrowed from the Rural Electrification Fund to fund routine activities for the Ministry. This amounted to K231,923,894 in 1997. This is obviously an abuse of the budgetary process and a violation of the legislative powers of Parliament. Unfortunately, the MOFNP has done little else than
“taking note” of the situation. An overall strategy to improve the management of special funds has to be determined by Parliament and the Executive.

- Budget estimates are currently presented in a format that does not permit critical analysis to establish their consistency with sectoral activities and policies. The budget contains no functional classification or classification by program. The format of the Yellow Book does not reflect the Activity-Based-Budgeting (ABB) approach that is allegedly used during the drafting process. Although the MOFNP had contemplated the reform of the budget format for the 2001 budget, Parliament has not been consulted on this crucial matter. Parliament’s effective exercise of its scrutiny and oversight role substantially depends on the usefulness of the budget figures as presented.

- The Yellow Book, containing the annual estimates, does not give preliminary estimates of the actual expenditures for the year preceding that under consideration. It merely gives the approved and supplementary estimates. This is insufficient. The budgeted figures do not give an indication of the deplorable extent to which the budget was not adhered to during implementation in the previous year.

- There is inadequate disclosure of the debt service costs. The Yellow Book merely gives the total amounts for constitutional and statutory expenditures. This reflects the overall cost of servicing internal and external debt. Given that total debt servicing costs constitute 27 per cent of the budget estimates in the fiscal year 2000, Parliament has a right and duty to be informed about the composition, management and the likely impact of the debt portfolio on the economy. For instance, the issuing of Treasury Bills and Bonds by the Bank of Zambia absorbs much of the investment capacity of commercial banks and thereby crowds out the private sector.

- There is a lack of information on the quasi-fiscal public sector deficit. The operations of pension funds, public enterprises, local Councils and the Bank of Zambia have to be taken into account, in addition to the central government operations, in the calculation of the deficit. The overall quasi-fiscal public deficit has been estimated at 18.4 per cent of GDP in 1995, and 17.8 and 13.6 per cent of GDP in 1996 and 1997, respectively. The Government must make full disclosure of these circumstances, as the taxpayer will ultimately have to foot the bill for these loss-making activities.

- There is insufficient information on the state of local council finances and the system of intergovernmental fiscal relations. This is unfortunate given the immediate importance of local councils as catalysts for development and providers of a range of essential services. There should be regular reporting on, amongst others, the overall Local Government deficit (estimated at 2.1 per cent of GDP in 1997), the development of payment default levels (currently estimated at above 50 per cent), and developments in the composition of expenditures (it is estimated that local governments spend more than 90 per cent of their budgets on recurrent expenditures).
The above issues and problems in the budgetary process impinge on the efficacy of the budgetary process. It tends to undermine the role of Parliament and strengthen the role of the executive. It is therefore extremely important to work on these issues in the reform of the budgetary process.

6.1.9. Accountability in the Implementation of the Budget

The legal framework for financial management underpinning the implementation of the budget does not promote accountability in the execution of the budget. There is need to reform the legal framework so as to build into budget execution the commitment of the process to handle public funds in a responsible, accountable and transparent manner. Such reform would focus on harnessing principles of good fiscal governance and strengthening the reporting requirements on budget implementation.

It has been suggested that the Finance Act should be reviewed to build in automatic disciplinary measures to penalise irregularities, corruption and inefficiency among controlling officers. Further, that the annual report of the Auditor General should automatically trigger off investigations were irregularities and mismanagement has been identified. (GRZ, Report of the Estimates Committee, 2000). The Auditor General should be given power to penalise any individual responsible for unauthorised expenditures. This would ensure a close link between the Auditor General’s reports and legal action in cases of irregularities. This link does not presently exist (World Bank, 2003). Furthermore, both the Auditor-General and the Public Accounts Committee should be given powers to refer cases directly to the Anti-Corruption Commission for investigation.

6.1.10. Independent Research Capacity

Members of Parliament and the Parliamentary Committees have limited access to independent research capacity. This is prominent in respect of technical and specialised issues on the budget. There is research capacity available on general issues from research units and organisations in the country. However, much of the research comes from government institutions. In any case, there is a general dearth of research capacity in the country. There have been suggestions that there should be established a Parliamentary Budget Unit to provide non-partisan, objective, timely and accurate analysis to support the work of Parliament and its committees (GRZ, Committee on Estimates, 2000). At the same time research capacity should be built in the country to do independent research on the budget.
6.2. The Role of Non-State Actors

6.2.1. Introduction

Over the past few years civil society has become important in influencing the course of political events in the country. This has also spread to the budgetary process. There is no constitutional obligation on the part of government to allow civil society to input into the budget process. However, for the purposes of participation and transparency, the government has not only allowed, but also encouraged civil society to participate in the process.

6.2.2. The Nature of Civil Society Participation

Civil society is usually unclear as to what its potential role is or should be in the budgetary process. In addition, most organisations can only fulfil their roles to a limited extent, because of the lack of hard budget information and contextual information. In combination, these two factors constrain the quantity and quality of civil society interaction with the budget process, and the development of capacity in the civil society to provide meaningful input.

Civil society budget engagement is severely constrained by the lack of information. Information on the budget process is not regularly provided to the public. Information on actual spending in the previous budget year is not sufficiently timely to allow civil organisations to engage meaningfully with current estimates. There is inadequate information on the estimates themselves. The budget format is not useful. It is not properly framed within the context of government policies and spending objectives. The budget format is not user friendly (Folscher 2002).

There are no official or informal access points for civil society in the budget process. Parliament's oversight role over the budget is so much weakened by low capacity and lack of time. There is no sufficient time for Parliament to access civil society and other stakeholders. Some organisations, however, provide input into the drafting process. This is done directly or through advocacy in the public media. However, it is left to the discretion of MOFNP to decide whether or not to use the information from the civil society (GRZ, National Assembly Committee on Estimates, 2000).

Civil society organises itself only to a limited extent by making joint representations on the budget and its engagement is meaningful and effective only to a limited extent. While civil society generally lacks the capacity to engage with the budget process, there are individual organisations that have invested in manpower and knowledge bases that enable them to work with the technical budget information and have very effectively engaged the government in the budget process. Such organisations like the Catholic Commission for Justice and Peace (CCJP), Zambia Association of the Chambers of Commerce and Industry (ZACCI), Zambia Association of Manufactures (ZAM) and Economic Association of Zambia (EAZ).
There are many civil society organisations currently engaged in the budget process. Some have only been active in the past couple of years. These are CCJP, EAZ, the Non Governmental Organisation Coordinating Committee (NGOCC), the Zambia National Farmers Union (ZNFU), ZAM, Women for Change, the National Union of Accountants, the Federation for Employers and ZACCI. Organisations such as CCJP, ZACCI, EAZ and the Federation for Employers present submissions to government during the drafting stage and have budget discussion meetings with the MOFNP. They also hold workshops on the budget. Some like, CCJP, attempt to monitor budget implementation throughout the year. They carry out research at community levels to compare budget proposals, approvals and actual allocations on the ground. CCJP largely focuses on social sectors. It compares mid-year allocations against approved budgets. The findings of the research are shared with interested stakeholders, including the government (Mwanawina et al, 2002).

One successful change that can be related to civil society interaction has been the inclusion of poverty issues in the budget from 1998. This is after the CCJP pointed out the lack of attention to poverty issues in its comments on the 1997 budget. The growing effort to increase resource flows to the social sectors can also be related to pressure from organisations such as the CCJP and the NGOCC. (Mwanawina et al, 2002).

Another successful change that can be related to civil society interaction has been the reduction of duty and thus the cost of energy, which will in turn reduce the local cost of production. The government in 2003 reduced duty on diesel (a major input into farm operations). This was after submissions by the ZNFU. In addition, the ZNFU negotiated reduction of electricity tariffs for farmers with the Zambia Electricity Supply Corporation, a state-owned company, in 2003. (Haantuba et al 2004). In general terms government welcomes and encourages NSA to be involved in the budget process.

6.2.3. Type and Limitations of Civil Society

Civil society organisations represent different shades and interests. Some are not active in budgetary issues but do address issues relevant to the budget. Such issues include poverty eradication, HIV/AIDS and agitating for increased government spending on social sectors. The active organisations are professional organisations such as EAZ or ZACA. NGOCC or Women for Change have a focus on gender. CCJP has a focus on poverty and others have a general focus.

The organisations are either funded locally or are donor funded. Most professional and business organisations are locally funded. Most other organisations are donor funded. This creates a problem to government in advocacy work or in accepting their ideas and input.

The major limitations of civil society organisations in their participation in the budget process are lack of information on the budgetary process, capacity of the
organisation’s personnel to have a broader knowledge of macroeconomic issues and budgeting.

6.2.4. Non-State Actors Representation in the Budget Process

The non-state actors (NSA) with a voice on the budget process represent different groups and interests in the community and society. This involvement is not structured and depends in most cases on the quality of leadership and how well funded the organisations are. In most cases the involvement in the budget is focused on debates on general policy issues.

For example, CCJP represents mainly the interests of the poor. The organisation’s coverage is nationwide. ZNFU broadly represents the interests of farmers. This covers both small-scale and commercial farmers in the country.

Women for Change represent the interests of women. This representation is urban centred as the organisation is mostly in urban areas. The NGOCC, which coordinates the activities of NGOs in Zambia, represents the interests of NGO organizations that are members. The FEZ and ZACCI represent the interests of employers and commerce and industry. There are also professional organisations, like the National Union of Accountants and EAZ.

6.3. The Role of the Auditor General

6.4. Introduction

The establishment and jurisdiction of the Office of the Auditor General is spelt out in Article 121 of the Constitution. This stipulates that the appointment of the Auditor General is done by the President. The appointment has to be ratified by the National Assembly. The tenure of office is very secure. The duties of the Auditor General are:

1. to satisfy his/herself that the constitutional provisions relating to finances are being complied with;

2. satisfy his/herself that funds expended have been applied to the purpose for which they are appropriated by the Appropriations Act or in accordance with the approved Supplementary Estimates, or in accordance with the Excess Expenditure Appropriation Act. And that expenditure conforms to the authority that governs it;

3. to audit the accounts relating to the general revenues and the expenditure of funds appropriated by Parliament for the National Assembly, the judicature, the accounts relating to the stocks and stores of government and the accounts of such other bodies as may be prescribed by or under any law;
4. to audit the accounts relating to any expenditure charged by the Constitution or any other law on the general revenues of the republic and to submit a report thereon to the President not later than 12 months after the end of each financial year.

By virtue of his/her responsibilities the Constitution authorises the Auditor General access to all books, records and other documents relating to any of the accounts. The office is very secure. he/she vacates office at age of 60. He/she may be removed for inability to perform his/her duties due to infirmity of the body or the mind, or incompetence or misbehaviour. He/she cannot be removed unless the National Assembly resolves that the question of removing her ought to be investigated as provided for in the Constitution. For that purpose, a tribunal has to be established.

### 6.4.1. The Audit System

The law empowers the Auditor General to audit all government accounts as provided for by the Constitution. The Auditor General has no prosecution power. He/she simply audits the accounts to assess the fairness and accuracy of the financial flows as provided by the budget. The actual releases are compared to the estimates and it is determined if the funds were used for the intended purpose. The report from the Auditor General is passed onto the President who should in turn bring the Auditor General's report to the National Assembly not later than seven days after the first sitting of the Assembly. If the President doesn't submit the report, the Auditor General will bring it before the National Assembly. In the exercise of his/her duties the law provides that the Auditor General shall not be subject to the direction or control of any other person or authority.

### 6.4.2. Relationship with Parliament

Other than being approved by Parliament on the assumption of office, the Auditor General works closely with Parliament. Parliament is empowered by law to scrutinise and make follow-up audit reports through the Public Accounts committee and other sessional committees. These have power to summon any office holder or person to explain how the public funds were used (Mwanawina et al, 2002). The committees then recommend to Parliament the necessary course of action. However, Parliament does not submit cases for prosecution and does not follow up prosecutions.

In addition, the Auditor General is a permanent witness on the Public Accounts committee and provides technical support to Parliament. The findings of the Auditor General are freely reported in the press and citizens in their individual capacity can take legal action against any offenders.

To the other institutions, the Auditor General’s role is basically to assess compliance to the authorised allocations of funds. The Auditor General’s office is allowed to
have access to all reports, accounts and records that can help it undertake the audit function.

6.4.3. Prosecution Capacity and Independence

The Auditor General’s office is independent from other institutions in the exercise of her duties. The law provides that the Auditor General shall not be subject to the direction or control of any other person or authority. As observed above, she has, however, no legal power to prosecute officers that do not adhere to sound financial management principles. Moreover, there is no public institution mandated to investigate and institute criminal prosecution based on the findings of the Auditor General. In practice, unconstitutional expenditures are normally taken care off through the enactment of the Excess Expenditure Bill specifically set up for that purpose. The Office’s role is simply to oversee the management of public funds. To monitor whether or not they are channelled in right amounts to the right areas that they are budgeted for.

6.4.4. Funding

The Auditor General's office is funded by the government. It has to submit estimates of its expenditure during the budgetary process for consideration by the MOFNP. This has to be approved by Parliament. However, as the National Assembly Committee on estimates (2000) observed, the office is poorly funded. For instance, while its budget estimate in 2000 was ZMK5.8billion, the MOFNP gave the Office a ceiling of ZMK2billion. This resulted in a shortfall of over 50 per cent of its required amount. Such trends tend to compromise the motivation of the already poorly paid staff and eventually the quality of work.

6.4.5. Dissemination of the Reports

The Constitution stipulates that the Auditor General is to submit the audit report to the President at least 12 months after the end of the financial year. So far, it seems the Auditor General’s office has met its deadlines. However, the work of the Auditor General is often hampered by the insufficient and late release of reports from the ministries and departments that are used to prepare it. Thus, the Auditor General’s reports are usually two years late.

6.4.6. Management and Governance Issues Relating to the Auditor General

There are clear guidelines and rules provided by the law on the conduct of the financial affairs of the country. A lot of latitude is left to the Minister responsible for finance and the President. The provisions in the Constitution with respect to supplementary and excess expenditure provides for a nearly limitless window to
change the original budget. At the same time it makes it almost impossible to follow up cases of budget abuse. It takes at least two years for unconstitutional expenditure to be legalised through the Excess Expenditure Act. The law itself is not clear on what items should be included in the excess expenditure. The entire process is left to the discretion of the Parliamentary Public Accounts Committee. In the final analysis all the unconstitutional expenditures become legitimatised (Mwanawina, et al., 2002)

One of the most important issues facing Zambia is the inconsistency between the legal framework for public finance and the actual structures and incentives in place to assure accountability. First, this is reflected in the fact that the Constitution seems to grant an excessive amount of discretion or authority to the MOFNP. Typically, in a system with democratic control of public expenditure, Parliament approves the budget presented by the Executive as well as any major changes that are needed during the budget year. In contrast, under the current financial provisions in the Constitution, MOFNP has power to make sweeping changes in budget allocations without any prior consent of Parliament. These flexibilities given to the Minister of Finance could easily be misused in the absence of a strong Auditor General’s office and adequate and experienced parliamentary oversight. A review of other Constitutions and Finance Acts in Africa provides important insights on how Zambia might achieve a better balance (World Bank 2003).

Even where the legal provisions are appropriate, they hinge upon a system of enforcement and accountability that has never been made to function in practice. The current public finance rules are based on an assumption that the Ministry of Finance plays a primary role of stewardship or guardianship over public funds and that it enforces an adherence to the rules by line ministries. However, the Ministry of Finance has not held Controlling Officers accountable for their management of resources, nor has Parliament generally been in a position to hold the Executive accountable. Without these checks and balances, the system has simply broken down (World Bank 2003).

In Zambia, the audit system used is based on the Westminster System, in which the Auditor General’s Office is an independent body that reports to Parliament. The office is made up of professional auditors and technical experts. There is little emphasis on legal compliance and the office serves no judicial function, while its findings may be passed to legal authorities for further action (World Bank, 2001).

The Audit planning and methods are, in principle, those recommended by the International Organisation of Supreme Audit Institutions (INTOSAI) but the degree of compliance is low. The audit reports consist mainly of financial and regularity audit, which are often limited in scope. The audit reports are inconclusive and untimely. The office of the Auditor General is operating with severe staffing problems, and has only one professionally qualified Auditor (World Bank, 2003).

The Internal Audit department of the MOFNP has a critical role to play in maintaining the pre-audit controls on expenditure, as well as in assessing the overall adequacy
of the financial management systems and procedures in place. In Zambia, the Internal Auditors have been effective in diagnosing problems in the financial management procedures, but their potential impact is still severely limited by the lack of adequate human and financial resources to carry out their work and insufficient follow-up on their recommendations by Controlling Officers (World Bank 2003).

7. Conclusion

This literature review has looked at the state of play of the budgetary processes in Zambia. We looked at the budget process through the various stages. This showed that the budget framework allows virtually limitless expenditure with approval. There is too much discretion and authority given to MOFNP in the process. There is little information published for public debate. Accountability in the implementation of the approved budget is lacking. The budget process is not comprehensive. It is, for instance, confined to central government activities.

The revenue generating agencies, such as ZRA and the non-tax agencies seem to be performing better than the previous system. The transfer of tax administration and collection from MOFNP to an autonomous agency has improved tax administration and enhanced the collection of revenues.

To make the budgetary process more effective, the MOFNP have recently introduced the MTEF. This is meant to improve the budgetary process so as to make it more consultative with other stakeholders and improve management and accountability of the budget. The MOFNP is still developing the MTEF process.

Our review shows that there is need to reform Parliament so as to enhance its role in the formulation, implementation and review of the budget. Civil society need to be more involved in the budget processes. Research capacity needs to be created to support the work of the civil society and Members of Parliament. The Auditor General’s office needs to be empowered to enforce compliance and accountability in the implementation of the budget. This should include powers to penalise any individual responsible for unauthorised expenditures.

8. REFERENCES


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