



PMRC 2020 ZAMBIA NATIONAL BUDGET ANALYSIS

THEME: "FOCUSING NATIONAL PRIORITIES TOWARDS
STIMULATING THE DOMESTIC ECONOMY"

PREPARED BY:

RESEARCH:

The PMRC Research team [**Salim Kaunda** (Head of Research and Analysis) **Akabondo Kabechani** (Head Monitoring & Evaluation) **Albert Kasoma** (Researcher), **Chileshe Chaunga** (Researcher) **Leya Namonje** (Researcher) **Esther Nyemba** (Researcher) with the support of Mrs. **Bernadette Deka Zulu** (Executive Director)

TECHNICAL REVIEW:

Salim Kaunda (Head of Research and Analysis)
Akabondo Kabechani (Head Monitoring & Evaluation)

EDITORIAL TEAM:

Brian Sambo Mwila (Communication Specialist) **Layout and Design**
Melody M. Simukali (Head Communications and Grants) **Editorial**

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The Domestic Economy.”

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ABBREVIATIONS

7NDP	Seventh National Development Plan
AEOI	Automatic Exchange of Information
CFTA	Continental Free Trade Area
CSO	Civil Society Organization
DIS	Direct Input Supply
DRM	Domestic Resource Mobilization
ERB	Energy Regulation Board
FISP	Farmers Input Support Programme
GDP]	Gross Domestic Product
GHG	Green House Gas
ICT	Information and Communication Technology
IPP	Independent Power Producers
LPG	Liquefied Petroleum Gas
MTEF	Medium Term Expenditure Framework
NHI	National Health Insurance
PMRC	Policy Monitoring and Research Center
PPA	Public Procurement Act
PPP	Public Private Partnership
SCT	Social Cash Transfer
VAT	Value-Added Tax
ZAED	Zambia Aquaculture Enterprise Development
ZIAMIS	Zambia Integrated Agriculture Management Information System
ZRA	Zambia Revenue Authority

INTRODUCTION

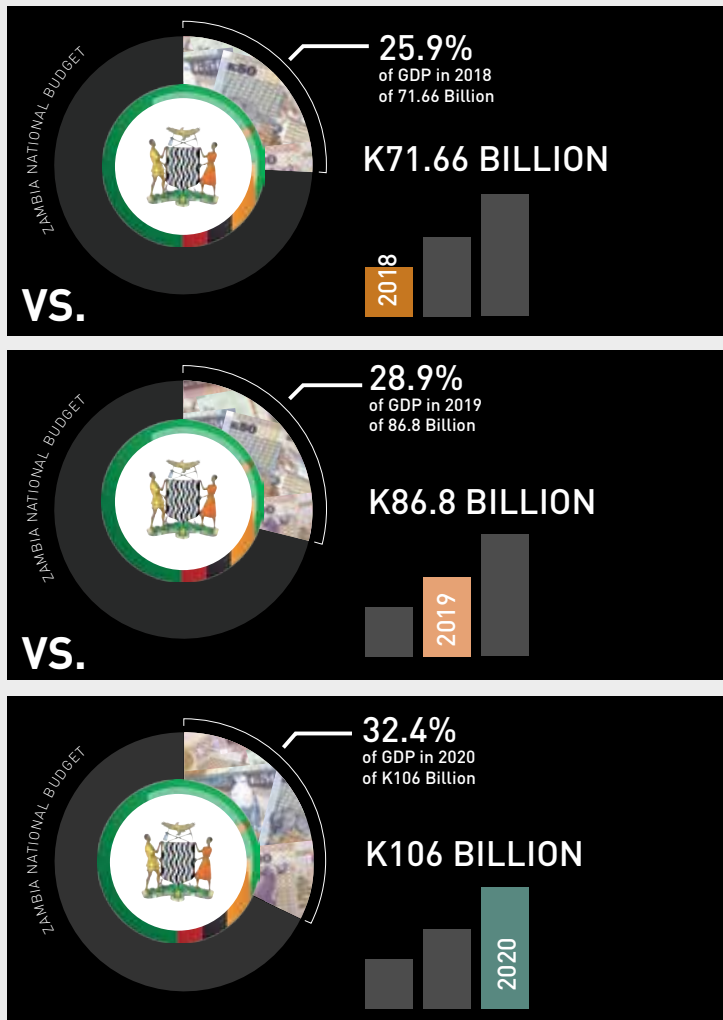
On Friday 27th September 2019, the Minister of Finance, Honourable Dr. Bwalya K.E. Ng'andu, MP delivered the 2020 Budget address to the National Assembly under the theme “**Focusing national priorities towards stimulating the domestic economy.**”

KEY MESSAGES

- The 2019 National Budget was formulated against the backdrop of the austerity measures being implemented by Government to deliver fiscal consolidation. It provided a firm foundation for the country to return to moderate debt levels, entrench overall macroeconomic stability and promote sustained and inclusive growth.
- The 2020 Budget focuses on **stimulating the domestic economy by reducing the budget deficit, rationalising debt contraction and dismantling of domestic arrears while protecting social sector allocations.** This is in line with the Seventh National Development Plan, austerity measures and key reform areas in the **Economic Stabilisation and Growth Programme.**
- The 2020 Budget seeks to further consolidate the austerity measures that Government has been implementing by directing resources and efforts towards stimulating the domestic economy by dismantling domestic arrears and addressing the debt overhang. The process of **formulating the 2020 Budget was informed by the compelling need to continue consolidating the fiscal position whilst safeguarding the allocations on social protection and other core service delivery areas.**
- Government proposes to spend **K106.0 billion in 2020, representing 32.4% of GDP.** Of this amount, K72.0 billion, representing 22.0% of GDP will come from domestic revenues, while the balance will be raised through domestic and external financing.
- The fiscal deficit is projected to reduce to 5.5% of GDP in 2020 from 6.5% in 2019.
- To efficiently allocate resources in the 2020 Budget, the Output Based Budgeting system has been rolled out to 22 more Ministries and Spending Agencies from seven in 2019.

BUDGET REVENUES

In the 2020 Budget, Government proposes to spend K 106 billion or 32.4% of GDP compared to 28.9 % of GDP in 2019 and 25.9% of GDP in 2018



The details on how resources were allocated across the broad functions of Government are indicated in Table 1

Table 1: Government Expenditure by Functions (2017 - 2020)

All Currency is In **Zambian Kwacha**

Expenditure by years	Functions	2020 Budget		2019 Budget		2018 Budget		2017 Budget	
		ZMW	Percentage of Budget	ZMW	Percentage of Budget	ZMW	Percentage of Budget	ZMW	Percentage of Budget
	General Public Services	4.4 billion	41.6%	31.2billion	36.03%	25.8 billion	36.10%	17.9 billion	27.90%
	Defence	6.5 billion	6.2%	5 billion	5.84%	3.4 billion	4.90%	3.2 billion	5.00%
	Public Order & Safety	4 billion	3.8	2.8 billion	3.30%	2.1 billion	3.00%	2.3 billion	3.60%
	Economic Affairs	21.8 billion	20.6%	20.6 billion	23.79%	17.2 billion	24.10%	20.1 billion	31.10%
	Environmental Protection	611.7 million	0.6%	875million	1.01%	951 million	1.30%	616 million	1.00%
	Housing & Community Amenities	3.4 million	3.3%	2.23 billion	2.58%	816 million	1.10%	822 million	1.30%
	Health	9.4 billion	8.8%	8 billion	9.30%	6.7 billion	9.50%	5.7 billion	8.90%
	Recreation, Culture & Religion	383 million	0.4%	297million	0.34%	451 million	0.60%	323million	0.50%
	Education	13.1 billion	12.4%	13.2 billion	15.29%	11.5 billion	16.10%	10billion	16.50%
	Social Protection	2.6 billion	2.4%	2.1 billion	2.52%	2.3 billion	3.20%	2.6 billion	4.20%
	Total	106 BILLION	100.00%	86.8 BILLION	100.00%	71.6 BILLION	100.00%	64.5 BILLION	100%

Sources: adapted from the budgets

Macroeconomic Targets for 2020

The specific macroeconomic objectives for 2020 will be to:



i. Achieve a real GDP growth rate of at least 3 %;



ii. Achieve and maintain inflation within the target range of 6 to 8 %;



iii. Increase international reserves to at least 2.5 months of import cover;



iv. Reduce the fiscal deficit to 5.5 % of GDP; and



v. Increase domestic revenue mobilization to at least 22 % of GDP.

The pillar reinforces economic diversification and job creation. The main sectors of focus are; **agriculture, tourism, mining, energy and manufacturing sectors.**

Agriculture, Livestock and Fisheries



The budget emphasizes the diverse effects of climate change and commits towards the importance of risk mitigation and management measures. It further commits to the adoption of climate smart agricultural technologies and practices in the 2019/2020 farming season and will continue in the subsequent farming seasons. Another notable feature is the aspect of providing farmers with the latest weather information.

PMRC observes that in order to enhance our Agriculture sector, we need to urgently address the challenge of climate change. To this effect, our dependence on rain-fed agriculture must be reduced, **we need to invest in water infrastructure, ranging from canals, irrigation dams and schemes as well as investing in rainwater harvesting mechanisms to provide for water storage in situations where there is adequate rainfall.** This should be a matter for priority for the Government, as the water situation is vital especially if we have to boost our Agriculture Sector. Projects such as the Mwomboshi Dam in Chisamba District should be prioritized, as they go a long way towards addressing sustainable water management.

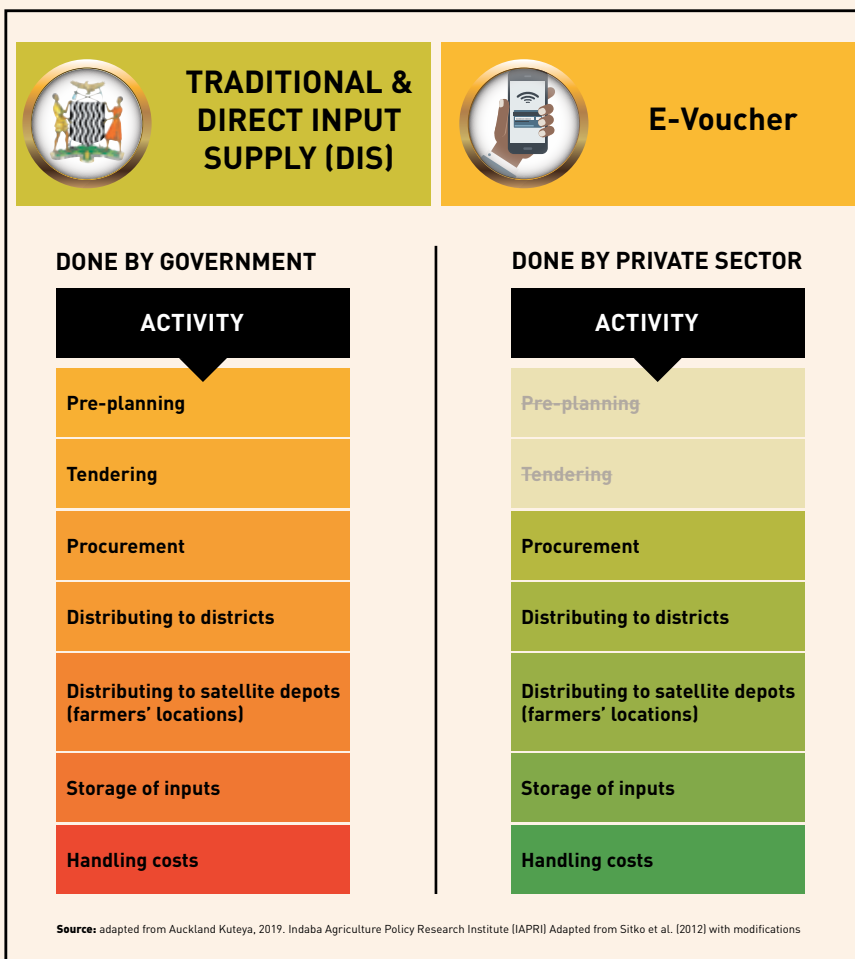
The Farmer Input Support Programme is being implemented under a dual system, with 60% of the 1 million eligible farmers under the Direct Input Supply (DIS) and 40% to be covered under the e-Voucher system.

PMRC has been conducting extensive research on the e-Voucher and some of our findings and recommendations are captured herein;

DIS AND E-VOUCHER- THE MISCONCEPTION

There has been a growing need to differentiate the DIS from the e-Voucher. The assumption by various stakeholders is that the DIS is similar to the e-Voucher, whereas in reality, it is essentially the traditional mode of FISP distribution only differentiated by one major aspect, which is the use of the enhanced Zambia **Integrated Agriculture Management Information System (ZIAMIS) platform**.

All processes in the DIS are the same as those of the traditional FISP mode of input distribution and this is presented in the illustration below.



1. Promotes diversification: farmers have the choice over a wide variety of inputs.



3. Creates jobs: "5,800 Agro-Dealers Participated in the Supply of Inputs which resulted in the creation of over 23,000 jobs for our people DIS threatens these jobs" [H.E President Edgar Lungu-Third Session of the twelfth National Assembly].

1. Use of electronic card less system and the ZIAMS is progressive and cost saving- the use of ZIAMS enabled Government **exclude about 20,000 alleged excluded ghost farmers from the programme in 2017.**

Ghost farmers from the programme in 2017

20,000

3. Improved coordination amongst players- this resulted in a high percentage of farmer deposits. 998,738 out of 1,022,434 beneficiaries deposits were made, representing **98% of the total number of beneficiaries.**



98%

of the total number of beneficiaries

4. Provides an opportunity for job creation through private sector participation.



2. Presents an opportunity for farmers to **benefit from a wide variety of inputs- advancing the crop diversification agenda.**

CONCLUSIONS AND - RECOMMENDATIONS GOING FORWARD

1. Focus on improving the e-Voucher and return to the country wide implementation of the system, as opposed to the current 40/60 DIS/E-Voucher implementation approach.



2. Government must look into improving payment solutions to agro- dealers and improving funding modalities towards the programme in order to actualise real time payments, which may reduce on the delayed input distribution.

3. There is a need for additional capacity strengthening of parties involved at various levels of implementation (especially DACO's and agro- dealers.



4. A continuous robust communications approach to profile and publicize the successes and benefits of e-Voucher must be adopted.



5. Consideration of use of mobile phone given the high rate of access through mobile phone subscription. Greater opportunities exists, given the Government's infrastructure project aimed at building communication towers throughout the country to attain 100% mobile phone coverage.



Aquaculture presents huge opportunities for the country especially in terms of food security, employment and revenue generation. There is urgent need to stimulate activity in this sector especially considering that PMRC has been advocating for enhancement of the Blue Economy, which also includes fisheries sub-sector. Government established a Fisheries Development fund to stimulate growth in this sector but there has been inadequate information to ascertain the effectiveness of the fund and how much funds have been realized so far. ***Further, we commend projects such as the Zambia Aquaculture Enterprise Development Project, which aims to train more than 1,000 farmers by 2022.*** This needs to be adequately supported. From the enforcement side, fish bans should be adhered to , productivity should be enhanced coupled with capacity building on modern practices and this will set the country on a path towards being self reliant in fish production.



INDUSTRIALIZATION



Industrialization is key, if Zambia is to attain the status of being a developed middle income nation by the year 2030. However, in view of the austerity measures in place, ***Government must continue to pursue Public Private Partnerships (PPPs) and also attach infrastructure development and maintenance obligations in investments that come into the country, as this would ease fiscal pressures of the treasury.*** To attain this, implementation of the National Industrial Policy will be key and this should call for another strategy focused on revamping the manufacturing sector in the country. Emphasis should also be placed on the ***full enactment of the National Local Content Strategy and establishment of Industrial Yards across the country.*** The budget highlights that Industrial Yards being constructed in Solwezi, Ndola, Kasama, Mongu and Chipata districts, are expected to be completed this year, while those in Kitwe, Lusaka and Mansa, will be completed in 2020. Upon completion, these yards are expected to result in increased access to processing facilities and the creation of more than 4,000 direct jobs. PMRC will commit to monitor this commitment.

REGIONAL AND INTERNATIONAL TRADE



A key development under this section in securing markets was the signing of the African Continental Free Trade Agreement by Government. This Agreement aims to create a market that will offer vast opportunities for growth and job creation.

We have conducted as extensive analysis as PMRC to understand the potential challenges and benefits of the CFTA as outlined below:

As the region becomes a large single market, competition is likely to increase for Zambian producers in particular. It is essential for Zambian producers and businesses to be able to survive in this very competitive market. Research on the potential demands of products that Zambia may have comparative advantage in should be carried out to ensure necessary targeting is done. This will give Zambia an advantage as it services varying customers in different countries. Cost benefit analysis of the best means of business must be undertaken to ensure efficiency and to benefit from economies of scale. Zambia must also invest in technology and equipment, which improve the productivity.

Zambia can also mobilize domestic resources in such a way that it can survive the potential short term losses that come with developing the CFTA. In this way the country may not incur a lot of costs despite the reduction in tariff revenue. The removal of trade barriers is likely to bring about foreign direct investment and more multinational companies that need to be regulated. The issue of cross-border tax avoidance may arise as a result of this. Zambia may avoid this by endorsing a global common reporting standard for Automatic Exchange of Information (AEOI) which allows easier access to financial information to the residence country.

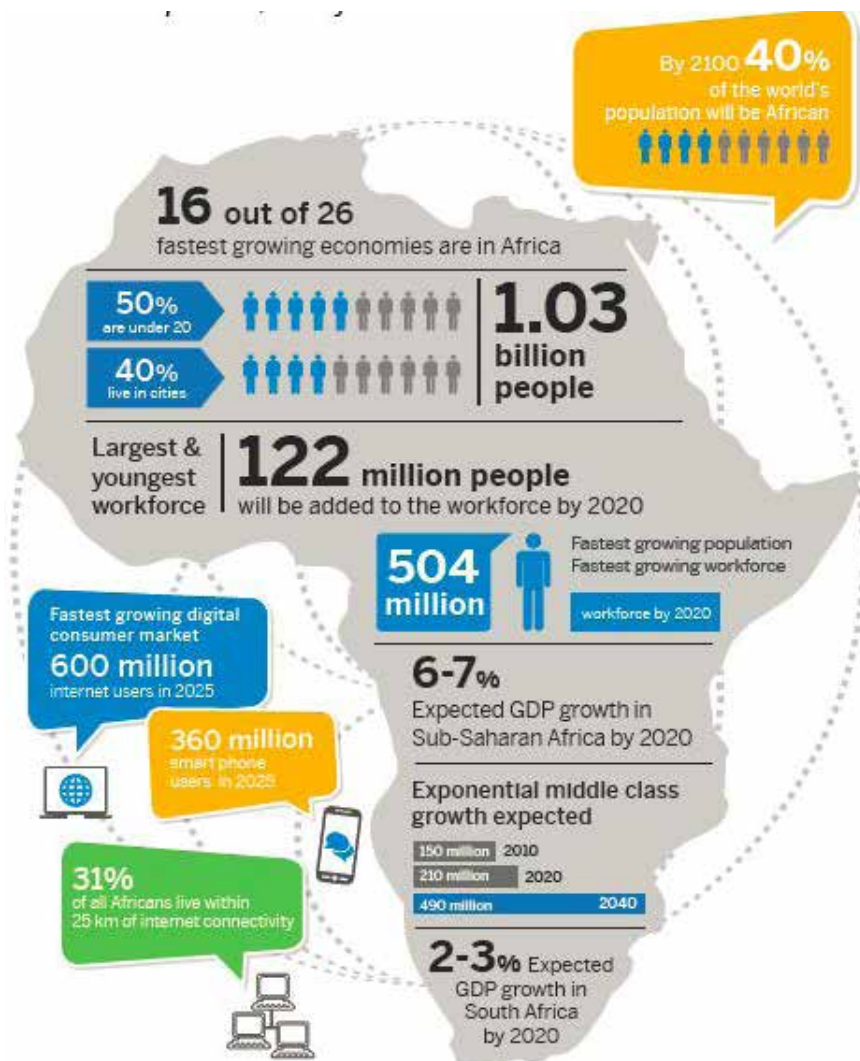
Support must be provided for small scale producers to avoid crowding out by a market run by the private sector. Small scale producers may adapt to the post-CFTA market through enhanced technical, managerial and financial skills and meet industry standards. The Government may assist in investment of these attributes.

Zambia's priorities in its trading arrangements is currently focused on interventions that promote value addition, diversification and job & wealth creation. In order to achieve this Zambia has recently developed an export strategy that is focused on ensuring beneficiation for the domestic industry and manufacturing products that will be able to meet the demands of the CFTA countries

RECOMMENDATIONS

1. The Government through the Ministry of Commerce, Trade and Industry should build capacity of Zambian firms to compete in the continental market. Manufacturing industries will need to be strategically considered by promoting value addition, as this is the sure way Zambia can benefit. In view of this, Government must implement strategic policies to encourage investment in the manufacturing sector. **Special focus should be given to Industrial policy, Trade policy and other policies related to cost and ease of doing business.**
2. Government must prioritize sectors where Zambia has comparative advantage and build domestic production capacity e.g. Agro-processing and Mining.

3. There is need to increase sensitization on the CFTA and promote building consensus and understanding the impact of Zambia joining. This would also adequately equip businesses and manufacturers to strategically position themselves and benefit from CFTA.
4. There is need to identify products that will be floated on the CFTA market.



Source: <http://atigs2018.com/africa-projection-facts/>

TOURISM



The 2020 budget commits towards developing the Northern Circuit and facilitating the actualization of pledges in the sector made during the provincial Investment Expositions.

Zambia's tourism sector has been identified as one of the key economic sectors for diversification of the economy. Government and key stakeholders recognize the potential the sector has in contributing to the economy through job creation, foreign exchange earning, contributions to Gross Domestic Product (GDP) and other economic facets. The sector's potential to contribute to the economy has not however been fully unlocked due to a number of impediments. Some of these include ***delays in policy and legislative reforms and administrative and structural reforms.***

MINING



To diversify the mining sector, Government is promoting the exploration of non-traditional minerals such as gold and manganese. In this regard, the Budget allocates additional resources for the generation of geological information on the extent of these deposits in order to attract investment.

NOTABLE MEASURES

- Limit input VAT claims by mining companies on diesel to 70 % from 90 %;
- Limit input VAT claims by mining companies on electricity to 80 % from 100 %;
- Introduction of duty at 10 % on specified capital equipment and machinery imported by mining companies which are currently duty free or attract 5 %. [a measure intended to raise revenue for the Government and discourage transfer pricing.]
- To rationalize the capital relief granted to mining companies, Government intends to reduce capital allowances claimed by mining companies in respect of capital expenditure from 25 % to 20 %.



Under the Energy sector, the effects of climate change were emphasized especially with the low water levels that have affected power generation at Kariba Hydro Power Plant. As a matter of fact, the electricity deficit in the country has widened and business operations and communities have been affected due to increased hours of load shedding. PMRC has been repeatedly calling for Government to step up the diversification of energy sources especially with the fact that the country has abundant resources in form of sun radiation for solar among others.

Extract from PMRC Energy Analysis - The Case of Zambia

- *Zambia like many African countries is faced with the challenge to meet rising demand for electricity as the economy, population and electrification continue to grow.*
- *Power deficits have continued to rise and this is affecting economic productivity.*
- *This demonstrates the need for Government to look to increased investment in Independent Power Producers (IPPs) to develop energy capacity.*
- *IPPs offer a sustainable route to increased energy capacity across sub-Saharan Africa, where public and utility financing has traditionally been the largest source of investment in power generation.*
- *Zambia has faced significant challenges in attracting IPPs investment for several reasons, including below-cost tariffs, its regulatory framework and procurement processes, all of which need to be addressed if Zambia is to better exploit the opportunities that IPPs provide.*



Overdependence on Hydropower and Climate Change

- Hydropower made up 82.76% of installed capacity as at 2018. With 10.35% coal, 3.06% Diesel, 3.80% HFO and 0.04% Solar
- Highly concentrated, with just three large hydropower plants at **Kariba North, Kafue Gorge and Kariba North Bank Extension** making up almost three-quarters of the country's total.
- All of these large plants (along with a number of smaller ones) are located within the Zambezi River Basin (Single watershed including Itzhi-tezhi)
- Modelling of trends in the Basin suggests that hydropower potential will gradually decline in future, due to climate change and increasing water demand from other sources.
- The potential of Lake Kariba may fall by one-third by 2030.

Potential pipeline of new capacity – selected major projects

Project	Type	Expected completion	Expected capacity (MW)
IDC Solar	Solar	TBA	88
Maamba	Thermal	2021	270
Chipata Thermal	Thermal	2023	180
Muchinga	Hydropower	2025	162
Kalungwishi	Hydropower	2026	235
Ngonye Falls	Hydropower	2026	117
Kafue Gorge	Hydropower	2020	750
Batoka	Hydropower	Preparatory Studies	2,400

- The ability of ZESCO to undertake new investments has also been constrained to a degree by its ability to raise capital, which in turn is linked to its financial situation.
- A major potential factor affecting ZESCO finances are how cost reflective tariffs for electricity have been.
- Development of a draft multi-year tariff framework by the ERB in 2016 and an application by ZESCO to raise its tariffs.

PMRC Recommendations for Securing More Private Sector Investment in Zambia's Power Sector

1. Establish a central planning function, most obviously in the Ministry of Energy, to develop a strategic vision and delivery plan for increasing and diversifying power capacity in the country through investment in IPPs.
2. Establish a central procurement function to sit alongside the planning function and secure investment in line with the Government's strategic vision. The procurement process is lengthy and opaque, which has discouraged investment across the board and created an environment in which deals are made through unsolicited direct negotiations.
3. Improve the credit-worthiness of ZESCO: as the sole off-taker, it is essential that investors have confidence that the organization can purchase the energy generated, which can be improved through increased financial transparency and providing more secure guarantees.
4. Develop the governance of the Energy Regulation Board(ERB) to improve its independence and, therefore, its effectiveness in serving investor and consumer interests. The government should consider having the board rather than minister agree its terms of service and establishing an appeals tribunal, as well as updating legislation to secure its independence.

INFORMATION AND COMMUNICATION TECHNOLOGY



In order to promote efficiency and enhance information sharing within Government, PMRC calls for Government to step up on rolling out electronic platforms as these will not only reduce the cost of doing business for both the private and public sectors, but also enhance information sharing. ***PMRC further commends Government for the ongoing process of actualizing the Government Service Bus that will connect 28 Government services on an online platform.*** This is expected to limit human-to-human interaction, thereby, reducing revenue leakages. Another notable development under this sector is ***the Smart Zambia that has so far connected 122 Government departments to the Government Wide Area Network with a commitment of a further 50 to be connected in 2020.*** This connectivity will ensure that Government transactions are paperless and reduce operational costs.

ROAD TRANSPORT INFRASTRUCTURE



The **2020 Budget allocates K10,552,606,147 billion towards road infrastructure**. This is an **increase from the K 6.5 billion in the 2019 National Budget**. In view of the current austerity measures, **PMRC notes that half of the K 10 billion allocated to roads, should have instead been allocated to social sectors, especially Education, Health and water development among others**. This is in view of the need to enhance human development as enshrined in pillar 4 of the Seventh National Development Plan. Further, there is urgent need for Government to seek alternative financing for infrastructure needs. Public Private Partnerships (PPPs) must be utilised in this sector.



K 6.5 billion
2019 Budget Allocation



K 10,553,606,147 billion
2020 Budget Allocation

AIR TRANSPORT

In the Budget, updates were provided under the expansion and modernization programmes specifically with the Kenneth Kaunda International Airport which has reached over 85 % completion and is scheduled to open in 2020. Further, the construction of the Copperbelt International Airport, which commenced in 2019, is on 50 % completion. The relaunch of Zambia Airways is up on the cards and below are some of our recommendations on this matter:



RECOMMENDATIONS

- Private sector should be engaged to pioneer the Business operations of the Airlines, as is the case with Ethiopia.
- Financing of the airline may be a challenge in view of the Budget deficit and this would call for external sourcing of financing to fund the airlines operations.
- There should be very clear terms of reference between Zambia and Ethiopia Airlines so as to ensure that profits are shared equally and that Zambians benefit.
- There needs to be a clear sustainability framework if the airline is to be a success, considering how other Airlines on the Continent are currently having operational challenges.
- There is need to conduct a thorough study of the African air industry and develop counter strategies that will be able to respond to the new trends of what it takes to run a successful airline in Africa.
- Lessons must be learnt from South African, Kenyan, Rwanda and Ethiopian Airlines on private sector involvement and airline management.

PILLAR TWO: REDUCING POVERTY AND VULNERABILITY

Poverty, inequality and vulnerability have continued to persist over the years. According to the 2015 Zambia Living Conditions Monitoring Survey, the percentage distribution of the population by poverty status highlights that there are 54.4% total poor, 40.8% extremely poor, 13.6% moderately poor and 45.6% none poor people out of the total national population. The overall observation is that Government has continued to reduce the total percentage of social protection funding of the total National Budget over the years from 3.2% in the 2018 to 2.5% in 2019 and finally 2.4% in the 2020. Although this may be relative considering the total amount of the National Budget has continued to increase, social protection remains a key intervention to poverty reduction and vulnerability and therefore must be continually prioritized.

Below are the highlights of the key poverty reduction programs under Pillar Two of the 2020 National Budget.

THE SOCIAL CASH TRANSFER

In the 2020 National Budget, Government has allocated **K1 billion for the Social Cash Transfer programme, to cater for a total of 700,000 households**. The allocation was increased to K721 million in **2018**, and reduced to K699 million in the **2019** budget, and has since been increased to K1 billion in the **2020** National Budget, representing a nominal **increase of K279 million**.



The budget does not highlight an increase in the beneficiary amount and the number of beneficiaries and this ambiguity may lead to speculation as to whether the additional funds will be allocated towards administrative costs or system changes to facilitate for the electronic migration of the programme. Although Government has increased the amount allocated to the programme. Government has committed to migrating the programme to an electronic based implementation system but this commitment has continued to reappear in past budget speeches without any update or information of how far Government has gone and when the implementation of the Electronic Social Cash Transfer (E-SCT) will be in effect. Similar to the Farmer Input Support Programme, the migration to electronic distribution of benefits will facilitate for a system clean up, ensuring that the people benefiting from this programme are the actual targeted beneficiaries. With this background and information, there is need to ensure lessons are drawn from the challenges of the implementation of the e-Voucher system to ensure for effective implementation of the prospective E-SCT. Some of the current challenges faced by the SCT programme can be overcome by the use of an electronic system, in addition to ring fencing funds for social protection purposes to prevent delays in disbursements.

FARMER INPUT SUPPORT PROGRAMME/ FOOD SECURITY PACK AND PUBLIC WELFARE ASSISTANCE SCHEME

80,000 beneficiaries have been targeted for the K122.2 million allocated to the Food Security Pack including the Public Welfare Assistance Scheme. This is an increase from the K110.9 million received for the two programmes in the 2019 National Budget. This allocation is insufficient, considering Government's pronouncements to improve livelihoods and reduce inequalities through the provision of various economic incentives to vulnerable yet viable citizens/farmers. The agriculture sector has been affected by the adverse effects of climate change and going forward, there must be deliberate efforts to promote climate smart agriculture. Farmers must also be encouraged to venture into other drought resistant crops that also tend to have a higher return value than maize. This will improve nutrition and also facilitate for improved livelihoods and wealth creation through agriculture.

Regarding the payment of retirement benefits, there has not been an increase in the allocation towards this since 2018. Government has continued to allocate K1 billion towards paying retirement benefits in the past two years, and the 2020 National Budget states the same amount for this purpose. There is a need to further revise this as the plight of the retirees is evident in research carried out by various Civil Society Organisations CSO's. Many of these individuals do not have a source of livelihoods and continue to scuffle through challenges such as increased commodity prices and others.

PILLAR THREE: REDUCING DEVELOPMENTAL INEQUALITIES

The 2015 living conditions monitoring survey indicates that Zambia is one of the most unequal countries in Sub-Saharan Africa together with Botswana, Lesotho, Namibia, South Africa, and Swaziland. At 2015 the Gini coefficient which is the measure of inequality shows that national inequality in the country stands at 0.60 while as for rural and urban stands at 0.60 and 0.61 respectively.

Zambia's high inequality index of over 50%, as measured by the Gini coefficient, poses one of the major challenges for poverty reduction in Zambia, because it erodes the gains associated with economic growth

Development inequality has been identified in the 7NDP as one important pillar that Government should prioritize towards the theme ***"leaving no one behind"***. Inequality currently manifests its self in the following forms :

- **Widening rural -urban poverty divide:** according to the 2015 Living Conditions Survey urban poverty fell from 25.7% in 2010 to 23.4% in 2015 while during the same period rural poverty rose from 73.6% in 2010 to 76.7% in 2015 way above the national poverty line of 54.4%.
- **Limited financial inclusion:** the 2015 Fin Scope Survey shows that formal financial inclusion is at 38% and more than 60% of the adult population do not have bank accounts and only 5% are able to borrow from banks.
- **Low opportunities for gainful employment:** the 2017 Labour Force Survey shows that only 37.9% of those employed are in formal employment while 63.1% are in informal employment. The situation is the basis for income inequality as formal employment pays more than informal employment. For example, the agricultural sector which employs almost half of the Zambian population pays less than those employed for example in the public service .

Reducing inequality requires implementation of efforts in a coordinated manner and simultaneous manner which can include cash transfers, indirect taxes and direct investment into social sectors. The Government in the 2020 has acknowledged the high levels of development inequality in the country especially between rural and urban area and has pledged to pursue a unified and integrated national development agenda for all through the following efforts:

- In 2020, Government has prioritized the completion of ongoing education, health and water and sanitation infrastructure in rural areas in order to increase access to basic social services.
- With the 3.3% rural electrification rate, the 2020 budget will continue with the improved rural electrification project.
- In order to enhance the connectivity of rural areas to urban areas and improve road infrastructure, Government in the 2020 budget will continue with the rural connectivity project targeting to rehabilitate 3.375 kilometres of selected rural gravel roads over the next five years.
- Government will also continue with the construction of communication towers.

General comments

- The education sector being one of the important sectors that can be used to address inequality through affordable school fees, proper infrastructure and increased teacher recruitment. While the budget over the 2018-2020 period has been increasing and the Medium Term Expenditure Framework (MTEF) proposing to allocate between 16.5% -18.1% of the total budget to the education sector, these plans have not been realized. In actual sense there has been a continued reduction from 16.1% in 2018 to 12.4% in 2020. With the reduction in school fees for primary, secondary and colleges the revenue for these institutions has been drastically reduced which in the long run will affect the well-being of pupils in boarding schools and compromise the overall quality of education. Therefore, the 2020 budget allocation to the education sector is insufficient to cushion the foreseen challenges that the reduction presents.
- Access to safe and quality water & sanitation has posed to be one form of inequality in the country both in rural and urban areas. The devastating effects of climate change has exacerbated the water challenges in urban areas. The pledge by Government in the 2020 budget as enshrined in the 2019-2021 Green Book on the continued rehabilitation and construction of dams for the current water needs not only is it a positive stride towards climate change adaptation but also towards a climate change resilient water sector essential for the well-being of the population thereby reducing vulnerability for all. Therefore, the increased in budgetary allocation for the sector from 1.99 billion in 2019 to 2.62 billion in 2020 is highly commendable.
- Government has continued to implement Social Protection programs as a way to reduce poverty and vulnerability and can also be used as an inequality reduction measure for unconditional cash transfers such Social Cash Transfer and Food Security Pack. The commitment by Government is commendable as these cash transfers have a multiplier effect on inequality reduction.

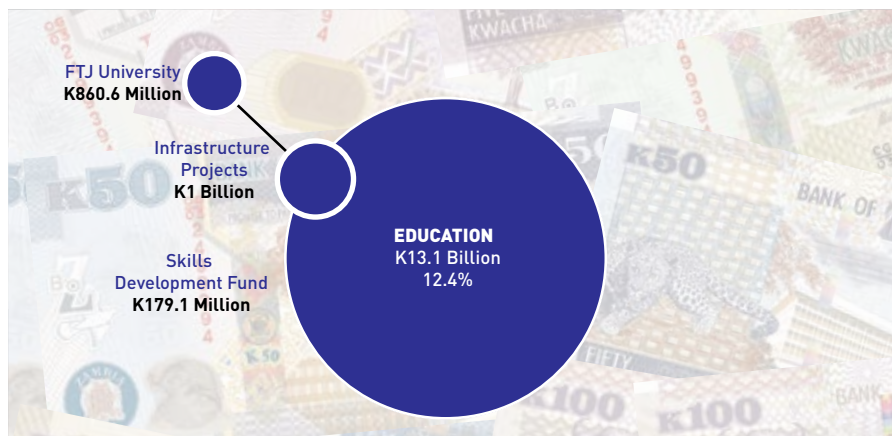
PILLAR FOUR: ENHANCING HUMAN DEVELOPMENT

The infographic features a large orange circle on the right side, containing the text 'HEALTH K9.4 Billion allocated 8.8%'. To the left of this circle, three smaller orange circles are arranged vertically, each corresponding to a category of expenditure. The background is a collage of various Kenyan banknotes, including 50, 100, and 200 Shilling notes, with the text 'BANK OF KENYA' visible on several of them.

Category	Amount
Health Infrastructure Projects	K1.5 Billion
Drugs and Medical Supplies	K900.6 Million
Hospital Operations	K686.3 Million
HEALTH	K9.4 Billion allocated 8.8%

EDUCATION

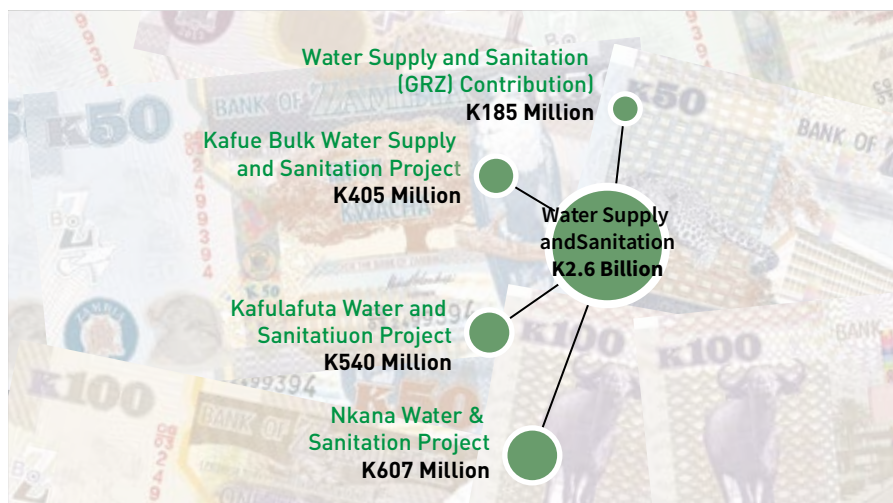
Education accounts for K13.1 Billion, which is 12.4% of the total National Budget, 7.6 below the global threshold of 20% of a nation's Budget. This allocation is a reduction from the K13.3 billion allocated to education in 2019. Selected allocations under 2020 education budget allocation include; K1 billion for Infrastructure projects in comparison to K258.8 million in 2019. This increase must be further explained, considering the progress already made in infrastructure in the education sector. The focus must be on improving ICTs as, there is a need for ICT implements such as computers in schools across the country, reducing pupil teacher ratios at all levels and enhancing learning implements. Of the total allocation, K179.1 million is earmarked for Skills Development Fund. There is need for the fund to be assessed in terms of the impact it has had on the state of skills development. **Additionally, there is a need to carry out a skills audit to improve the targeting, planning and allocation of skills development funds.** Although government has employed a considerable number of teachers in the recent past, the education sector is still grappling with challenges such as a high pupil teacher ratio. Early pregnancies and high school dropout levels, with as much as **68 out of 115 pupils** not progressing from primary to secondary school are also major challenges hampering the success in the sector, despite the harmonised efforts from various stakeholders such as traditional leaders, civil society organisations, non governmental organisations and international cooperating partners.



WATER AND SANITATION

In the 2020 National Budget, Government has allocated a total of K2.6 billion towards water supply and sanitation. This is an increase in comparison to the K1.9 billion allocated to the same in the 2019 budget. Nkana Water and Sanitation Project has received an increase in allocation from K304 million in 2019 to K607 million, Kafulafuta Water Supply and Sanitation Project has also received an amount higher than it did from K418 million in 2019 to K540 million in the 2020 budget. Additionally, the Kafue Bulk Water Supply and Sanitation Project has been

allocated K405 million, an increase from the K267 million allocation in the 2019 budget. Lastly, Governments contribution towards the Lusaka Sanitation Project in the 2020 National Budget is K185 million, a marginal increase from the K175 million allocated towards it in the 2019 National Budget. The increase shows Government's commitment to improving universal access to water and sanitation and must be commended. It is interesting to note that government has not neglected rural water and sanitation and to this effect, will continue to set up piped water schemes and facilitate for the rehabilitation and drilling of boreholes in an effort to transform livelihoods, and improve health through the supply of clean and safe water for all. One of the challenges that need to be looked into is the management of ground water resources and this needs to be preceded by a countrywide ground water assessment.

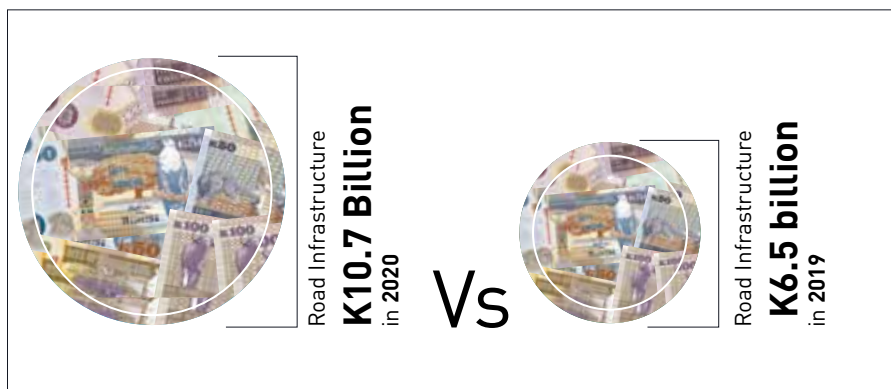


RECOMMENDATIONS

- Skills audit and assessment of the skills development fund.
- Systematic and evidence based transitional move of the Social Cash Transfer (SCT) programme to the electronic system and ring fencing funds for social protection purposes to prevent delays in disbursements.
- Commissioning of a ground water assessment to improve ground water resource management.
- Education financing must focus on improving ICTs, reducing pupil teacher ratios at all levels and enhancing learning implements, as infrastructure is being refurbished and maintained consistently.
- There must be more information on the details of the implementation of the National Health Insurance Act (NHI) and how it will contribute to improving health financing for better health facilities.

Policy, Regulatory and Structural Reforms

Government continues to place strong emphasis on the importance of a conducive governance environment and the **need to create the conditions necessary to trigger and sustain economic diversification, job creation and inclusive growth**. Government has exhibited this commitment through the continued implementation of policy, regulatory and structural reforms in 2019 as part of the Economic Stabilization and Growth Programme aimed at enhancing domestic resource mobilization, refocusing expenditure, narrowing the fiscal deficit, reducing the pace of domestic accumulation and dismantling of domestic arrears and continued austerity measures. PMRC recommends that the Government evaluates and closely monitors the effectiveness of austerity to ensure that progress is being made. Specific focus must be placed on ensuring significant reductions in expenditure on administrative parts of the public service is achieved in order to give priority to allocations on key service delivery expenditures, giving progress growth of wage bill which currently stands at 50.1% while prioritizing the recruitment of front-line personnel, rationalizing infrastructure spending by sticking to commitments to complete projects whose progress is 80% and above. **Government has proposed to spend K10.6 billion on road infrastructure in the 2020 National Budget up from K6.5 billion in 2019**. National Budget performance in the first half of 2019 indicates a deviation of 53% above planned spending on road infrastructure and there is need for Government to identify project cost escalations so as to develop strategies, methods and tools for better cost estimation and cost management. The key success factors require understanding of the challenges early in the planning process, development of strategies to address them by establishing accurate and achievable expectations.



Domestic Resource Mobilization

In an effort to enhance domestic resource mobilization, Government has proposed to;

- Continue with the modernization and automation of revenue collection processes and provision of Government services, proposes to implement a service platform and payment gateway to create efficiencies in service delivery and enhance tracking of revenues;
- Continue rolling out implementation of the Electronic fiscal devices, to curb tax evasion and further improve revenue collection by making it mandatory to use them for all consumption tax related transactions;
- Develop a National Policy on Avoidance of Double Taxation Agreements to protect the revenue base;
- Enhance the implementation of the Rating Act No. 21 of 2018 to ensure that all property developers and traders are included in the tax;
- Accelerate the implementation of land titling and revaluation of properties following the enactment of Rating Act so as to increase revenue collection and use third party information to identify non-compliant developers;
- Continue to review legislation for non-tax collecting institutions and adjusting fees and fines to cost reflective levels; and
- Invest in human capacity development and technology to support revenue collection.

Government proposes to raise K18.2 billion from non-tax revenue which is double the amount in the 2019 National Budget of K9.1 billion. Government needs to give more detail on which fees and fines will be adjusted to cost reflective levels while bearing in mind the need to reduce the cost of doing business which is a crucial ingredient for the manufacturing sector.

Expenditure measures include;

- Effective management of the public service wage bill and other expenditure such as subsidies;
- Minimizing the cost of running Government;
- Halting accumulation of domestic arrears and dismantling of the current stock in order to unlock and stimulate economic activity in the country;
- Use off balance sheet financing models such as Public-Private Partnerships;
- Re-scope some works from bituminous to gravel in order to reduce costs; and
- Revise the Public Procurement Act to provide for reference pricing and strengthen oversight for high value procurements.

PMRC notes the increase in allocation to dismantling domestic arrears from K439 million in 2019 to K2.3 billion in line with the National Budget theme and proposes increased allocation in an effort to provide much needed liquidity to stimulate private sector business activity. ***The first half of 2019 indicated domestic arrears stood at K20.2 billion up from k15.6 billion in 2018.*** Measures to revise the Public Procurement Act have been slow and have been appearing since the 2017 National Budget. ***It is important that the Government stipulates timelines for this exercise to be completed. Government needs to invest in proper planning and implementation of projects that are intimately linked to macro development goals of the country through project appraisal to achieve efficient management of investment resources and continuous evaluation of investment outcomes. This is critical for ensuring the optimum use of scarce resources and determining the emerging character of development for good direction and effectiveness.***

Measures on debt policy management are in line with PMRC 2020 National Budget expectations which include; ***slowdown in contraction of external debt, postponement/cancellation of pipeline debt and refinancing of existing loans.*** Government needs to restructure and refinance existing loans to provide greater spending on social services and priorities.

CLIMATE CHANGE; WHY HAVE WE TAKEN SO MUCH TIME TO REACT? ARE WE WINNING THE FIGHT?



Climate change has the potential to disrupt power supply, food production, availability and quality of food among many other impacts.

The **Paris Climate Change Agreement** underscores the ***historic turning point of human existence and the strong will of politics, economies, societies, communities, investors and various stakeholders*** to defeat the threat of climate change.

The decisive global action on climate change has come earlier than anticipated and demonstrates the strong political will and decisiveness of nations on a very critical matter which affects humanity. As an African country Zambia has not been spared from the adverse effects of climate change and remains highly vulnerable. It is also a moment to look forward with open minds and a strong will to overcome the challenges ahead.

It is an opportunity to see significant reductions in greenhouse gas emissions and strong efforts to build societies and communities that are resilient and adaptive to climate change impacts.

For the world to deliver the Paris Agreement's gift of hope for humanity on the planet and secure today's celebration, Zambia and Africa need the assurance that the policies, technology and finance to achieve these goals not only exist on paper but must be delivered to secure implementation of desired goals. The challenges of climate change are reflected in Zambia's Seventh National Development Plan which states that;

“Zambia has been experiencing the effects of climate change resulting in extreme weather conditions, such as droughts, rising temperatures and unpredictable rainfall patterns. The frequency and intensity of climate events is expected to rise in future, with negative impact on the economy and consequently people’s livelihoods. It is estimated that the impact of climate change will cost Zambia approximately 0.4% of annual economic growth. It is further estimated that without action, rainfall variability alone could lead to losses of 0.9% of GDP growth over the next decade, thereby keeping a significant section of Zambia’s population below the poverty line.”

IMPACT OF CLIMATE CHANGE ON ZAMBIA’S POWER SECTOR

The National Policy on Climate Change of 2016 recognizes the challenges posed by Climate Change on the country’s power sector and history shows that droughts and its associated effects have had significant impact on Zambia’s power generation which is dominated by hydrological sources accounting for 82.76%. The risks are highlighted in PMRC’s own 2018 research ‘Energy Roadmap Delivering Zambia’s Energy Needs’ which places greater emphasis on diversification on the country’s energy sources.

The combination of demand growth outpacing capacity and heavy reliance on hydropower makes Zambia vulnerable to periodic crises of power supply, most recently in 2015/16 and 2019. In recent years the system load factor has been remarkably high, reaching nearly 90% in 2013 and 2014. The deficit in output relative to demand hit a high of 1,000 MW in 2015, declining to 526 MW in 2016 (ERB 2016). Despite importing electricity from neighbouring countries at a cost of over US\$350 million (World Bank 2017), ZESCO could not meet the shortfall and had to implement power rationing. The economic impact was severe, with key economic sectors such as mining, manufacturing and agricultural sectors scaling down production and employment as the intensity of the blackouts increased and imported energy became expensive. One estimate of the economy-wide effects is that economic losses were equivalent to around 20% of annual GDP (*Samboko et al 2016*).

The 2020 National Budget proposes zero rating the supply of gas stoves, other gas cooker and gas boilers to mitigate the impact of climate change. A major application of liquefied petroleum gas (LPG) is in cooking, primarily indoor kitchens but also outdoor grills. Studies seem to suggest that electricity’s carbon footprint is lower than LPG in countries that rely heavily on low-carbon hydropower and higher in countries which rely more on high-carbon coal power for electricity generation. The same studies also shows that LPG’s carbon footprint is one-third that of using charcoal. Therefore, the National Budget measure to mitigate the impact of climate change will only be effective if measures are put in place to reduce the impact of charcoal usage on climate change. Biomass fuels, which include charcoal, crop residues and animal dung, are among the most widely used for cooking and heating in Zambia. In addition to efforts to improve access to the national electricity grid, PMRC recommends increasing the sustainability of the charcoal value chain and reduction in Greenhouse Gas Emissions by greening the charcoal sector through; sustainable forest management, improved kilns, alternative sources of biomass and modern cook stoves. Modelling shows that using highly efficient kilns as an alternative to traditional kilns could reduce Green House Gases (GHG) in carbonization processes by 80%. These mitigation impacts of a greener value chain in charcoal can be better optimized with the introduction of multiple interventions in the value chain (*FAO, 2017*).

CLIMATE SMART AGRICULTURE

Agriculture and fisheries dubbed as the holy grail of diversification are highly dependent on the climate. Increases in temperature and carbon dioxide (CO₂) can increase some crop yields in some places. But to realize these benefits, nutrient levels, soil moisture, water availability, and other conditions must also be met. Changes in the frequency and severity of droughts and floods could pose challenges for farmers and livestock and threaten food safety. Overall, climate change could make it more difficult to grow crops, raise animals, and catch fish in the same ways and same places as we have done in the past. The effects of climate change also need to be considered along with other evolving factors that affect agricultural production, such as changes in farming practices and technology. According to Zambia's 2018/19 crop forecast maize production declined from 2,394,907 metric tonnes in 2017/18 season to 2,004,389 metric tonnes in 2018/19 accounting for 16% decline in production due to climate change effects that led to prolonged dry spells. Out of the total production of maize, small and medium scale farmers contributed 94.5% while large scale farmers took up 5.5%. PMRC therefore recommends the deployment of climate smart agriculture practices and the re-alignment of spending in the agriculture sector to focus on key drivers of growth in the sector such as irrigation, livestock and fisheries management, disease control, research and development, and extension services. There is significant Climate Change Research that is being undertaken in Zambia and there is need to coordinate and ensure maximum utilization of the information generated for effective implementation of adaptation and mitigation measures.

Value Added Tax Maintained

Government has decided to maintain the Value Added Tax (VAT), but address associated compliance and administrative challenges.

Since the announcement was made to abolish VAT and replacement with a simpler sales tax, there was a lot of apprehension from stakeholders. The reason being that sales tax implementations in other jurisdictions, depending on how it was done, suffered from inherent problems of cascading and lacking self-reinforcement mechanisms to promote compliance. PMRC together with other stakeholders had urged government to consider retaining the VAT taxation regime if they were not in a position to devise strategies to avert aforementioned disadvantages of sales tax.

The announcement to retain VAT is a welcome move and it is our belief that the contestations against the sales tax have been put to rest and business houses should now focus on growing their businesses.

It is indeed the hope of PMRC that in future, gigantic tax policy shifts should be preceded by thorough consultations and not consultations after policy shift announcements.

Zero rate capital equipment and machinery for the mining sector

By May 2019, the Commissioner General of Zambia Revenue Authority (ZRA) had indicated that VAT refund value had increased to K1.4 billion from K 774 million per month¹, following the announcement of the introduction of the Sales tax. In fact, Zambia Chamber of Mines had even claimed that the country's large-scale mining companies were collectively owed an outstanding amount in excess of US \$600 million in unpaid VAT refunds by 2016.

In this regard, PMRC welcomes the zero rating of capital equipment and machinery for the Mining Sector and other measures announced in the 2020 budget presentation to deal with VAT refunds. Such measures signal Government's commitment and an attempt to solve tax refund problems by reducing them. Other measures aimed at arresting the accumulation of VAT refunds in the 2020 budget include the following;

Dis-allow claims of VAT on consumables such as stationery, lubricants and spare parts with an exception of businesses for which these consumables are stock in trade.

Disallowing claims of VAT on consumables such as stationery and lubricants is also aimed at dealing with the tax refunds problem. This measure will go a long way towards halting the accumulation of VAT refunds but at the same time will increase the cost production for organizations that deal in such consumables.

Limit input VAT claims by mining companies on diesel to 70% from 90% and on electricity to 80% from 100%.

1. Lusaka Times (online publication), 7th May, 2019, [accessed on 30/09/2029], Available at <https://www.lusakatimes.com/2019/05/07/vat-refunds-claims-jumps-from-k700-million-a-month-to-k1-4-billion-chanda/>
2. New Diggers (online publication), 7th May, 2019, [accessed on 30/09/2029], Available at (<https://diggers.news/business/2018/10/29/zra-still-owes-mines-600-million-in-vat-refunds/>)

Limiting input VAT claims to 70% and 80% **on diesel and electricity respectively** for mining companies is aimed at solving the issue of huge VAT refunds that accrue to the mining sector due to the fact that exports are zero rated in Zambia. Because of this, input tax claims by mines exceed the zero-rated output tax declared, and thus the VAT credit is to be refunded by ZRA.

Zero rate copper cathodes sold locally

This measure is intended to improve cash flow for local manufacturers who use the product as an input. In addition, this will reduce the VAT refund claims. Zero rating of copper cathodes sold locally is also in line with the aspirations of the 7NDP which emphasizes value addition to Zambia's vast raw materials through forward linkages in manufacturing and exportation of non-traditional exports to domestic and international markets.

Zero rate the supply of gas stoves, other gas cookers and gas boilers

This measure is intended to promote the use of alternative sources of energy and thereby mitigate the effects of climate change. Our submission is that there is need to further incentivize the energy sector to attract more investment in the sector. The power deficit in Zambia has been exacerbated by the effects of climate change, in particular low rainfall, given the fact that Zambia has been highly dependent on hydro-power.

Standard rate ancillary services that are directly linked to the transit of goods

The standard rating of ancillary services are directly linked to the transit of goods through Zambia. Ancillary transport services include among others the following; stevedoring services, lashing and securing services, cargo inspection services, services relating to preparation and processing of customs documentation, container handling services, and services relating to the storage and safe-keeping of transported goods or goods to be transported and any other similar services related to loading, unloading and handling of transported goods. This measure is intended to broaden the revenue collection.

CUSTOMS AND EXCISE

Introduction of 10% duty on specified capital equipment and machinery imported by mining companies which are currently duty free or attract 5%.

This measure is an attempt to generate more revenue from the mining sector.



Imposition of a surtax at the rate of 5% on Intermediate Bulk Containers (Jumbo bags).

A surtax is a tax levied on another tax. This measure is aimed at promoting local production of Intermediate Bulk Containers.

Increase the specific excise duty rate on cigarettes from K240 per mille to K265 per mille.

*This measure is intended to stimulate local production of **cigarettes and encourage job creation**. The expectation is that Government will still be able to raise the projected revenue given the fact that demand for cigarettes is highly inelastic - meaning that large price changes induce only minimal changes in the quantity demanded.*

Suspension of import duty, for three years, on the importation of machinery for processing of solid waste to generate electricity and produce organic fertilizers.

This measure is aimed at encouraging electricity generation from alternative sources away from hydro power generation. Currently, hydro power accounts for 80% of power generated in Zambia.

In the same vein, suspension of duty on importation of machinery used to produce organic fertilizers will help to promote the production of organic fertilizers that eliminates soil and water contamination from artificial fertilizers. This is a good response to the Paris Climate Change Agreement which President Edgar Lungu signed in 2016, whose objective among several of them, is to promote sustainable agricultural practices that conserve the environment.

Increase of carbon tax on all motor vehicles entering Zambia by 20%.

This measure is intended to mitigate the effects of climate change and air pollution. When hydrocarbon fuels are burnt, carbon is converted to carbon dioxide (CO₂) and other compounds of carbon which are heat-trapping greenhouse gases causing global warming - which damages the environment and human health.

To avert effects of global warming, Government needs to be proactive and ensure that carbon tax is rationalized across all sectors that use fossil fuels as opposed to focusing on motor vehicle emissions only. We believe that Carbon taxes which are within reasonable margins will not push the cost of production up but will compel companies and consumers to pay for the external costs they impose on society.

Carbon tax is a **Pigovian tax** since it returns the cost of global warming to their producers.

Resources realized from the carbon taxes can be channelled to mitigative measures such as investments into climate smart agriculture practices and distribution of relief foods to areas affected by climate change.

Zambia can learn from South Africa who in May 2019 enacted a long-delayed carbon tax into law as one of the continent's worst polluters.

Amend the Duty Draw Back Regulations to limit the duty refunds to import duty paid by a claimant and remove refunds of implied duties on locally sourced inputs.

This measure is intended to streamline the refund scheme.

Suspension of duty for three years on selected aqua culture equipment.

This measure is intended to promote the growth of the aquaculture industry in Zambia. At the same time, this measure is complementing efforts of a Government led programme, the Zambia Aquaculture Enterprise Development (ZAED), aimed at promoting aquaculture across the country by empowering women and youths with skills in fish farming, value addition, trading and business administration.

Reduction of capital allowances claimed by mining companies in respect of capital expenditure from 25% to 20%.

This measure is aimed at rationalizing revenue collection from the mines given the fact that VAT on capital and machinery has now been zero rated.

Non-Tax revenue measures

Revise upwards, to cost reflective levels, various fees and fines charged by Government departments. Cost reflective levels of fines and fees are those that take into consideration allowable costs of service provision. It means consumers of public goods and services pay the full cost of Government goods and services.

MEASURES TO ENSURE SUCCESSFUL BUDGET IMPLEMENTATION

To ensure successful implementation of the 2020 budget, Government should focus spending on key social sectors of the economy. This will guarantee inclusive growth thereby not leaving any one behind as espoused in the 7NDP.

Successful implementation of the budget also requires that revenue collections for the year are on target. This will be supported by;

- The roll-out of electronic fiscal devices by making them mandatory;
- Enhanced use of Tax-online systems interface between domestic and customs taxes to assure prompt VAT refunds validation.
- Enactment of the Planning and Budgeting Bill, Revision of the Loans and Guarantees Act and the Public Procurement Act.

The Planning and Budgeting legislation will help to ensure that there is an increase in transparency, accountability and citizens participation in public finance management. The expectation is that when the Planning and Budgeting legislations is enacted, the poorest in society will be incorporated in decision making especially on matters that hinge on public

service delivery. This means that, the overwhelming powers which lie in Cabinet on budgets and plans will be equally distributed among citizens and their representatives. This assures citizens of an inclusive, participative and realistic debate on budgetary choices. ***This legislation is also expected to help strengthen the oversight function of Parliament by enabling it to effectively analyze and approve revenues and expenditure estimates thereby facilitating successful implementation of the budget.***

The revision to the Loans and Guarantees legislation will empower the Zambian Parliament to monitor debt contraction by the Executive. The Minister of Finance will be compelled to table before Parliament the justification for contracting debt. This will guarantee debt sustainability for continued economic growth and therefore enhanced budget performance. It is our belief that, revision to the Loan and Guarantees Act will make provision for interventions that will strengthen the country's debt management framework and strategies. Existing regulations on debt contraction allows the Minister of Finance to borrow the funds after cabinet approval.

In a like manner, revisions to the Public Procurement Act by incorporating price referencing³ and bench marking for all public procurements will go a long way in trying to seal revenue leakages and wastage. The sealing of revenue leakages and wasteful expenditure is one of the prerequisites to guarantee enhanced budget performance and implementation.

Citizen's participation in the budgetary process is key if the budget is to be considered credible and owned by the citizens. To this effect, the Citizen's Budget should be prepared immediately after the budget presentation to Parliament and should be circulated widely to get timely feedback from the general citizenry. Citizens Budgets are designed to present key public finance information such as the budget to a general audience. They should typically be written in accessible language and incorporate visual elements to help non-specialist readers understand the information. As a matter of fact, this is a constitutional right as enshrined in the Constitution of Zambia (Amendment) No. 2 of 2016 Article 205 which prescribes public participation, at all levels of Government, in the formulation of financing frameworks, development plans and preparation of annual budgets.

DOES THE BUDGET TACKLE DIVERSIFICATION?

Diversification plays a critical role in the development of the nation. The Seventh National Development plan clearly states Government's aspiration with regards to delivering a prosperous middle- income economy that offers decent employment opportunities for all Zambians, by harnessing opportunity for economic diversification and growth. It is for this reason that the 2020 Budget highlighted various efforts that Government has and will be making with regards to diversifying the agriculture, tourism, mining, energy and industrialization sectors.

Agriculture Livestock and Fisheries

Zambia's 2018/2019 farming season underscored due to the continued challenges of climate change which largely affected crop yield in various parts of the country. Risk mitigation and management measures were highlighted as being ways of mitigating climate change, through the adoption of climate smart agriculture technologies and practices. Government further intends to continue building capacity in the Zambia Meteorological Departments to improve

3. Reference price (RP) is a threshold for unitary prices usually set on classes of functionally homogeneous projects to be adopted by public contracting authorities in execution of such projects.

early warning systems. As a way of reducing dependency on rain-fed agriculture, Government will continue its irrigation development projects such as the construction of the dam in Mwomboshi which was completed as well as the continuation of other irrigation projects which range from 50 to 85% completion.

The Government has made strides with regards to the distribution of agriculture inputs through the Farmers Input Support Programme (FISP). Eligible FISP farmers for the 2019/2020 farming season will receive their agriculture inputs through direct input supply which will target 60% of farmers and the e-Voucher which will target 40% of farmers. It is important to note that the direct input supply and the e-Voucher system have their pros and cons. It is for this reason that PMRC recommends that Government must have a criteria of targeting which districts will fall under the Direct Input Supply and e-Voucher, the criteria may be based on network connectivity, rainfall patterns, road network etc. Research has shown that the e-Voucher system brings more agricultural diversification as opposed to Direct Input Supply. Research evidence has equally indicated that a reduction of e-Voucher system by 20% would push the agriculture budget by as high as 62 million kwacha and would lead to loss of over 4600 agro-dealer related jobs. PMRC therefore, urges Government to consider increasing the percentage of farmers targeted under the e-Voucher system.

Tourism

The Government intends to focus on developing the Northern Circuit and will facilitate the pledges made in the tourism sector during the Provincial Investment Expositions. This will be done through the rehabilitation of roads to and within the tourism site so as to promote accessibility, which has been one of the major challenges being faced in the tourism sector. Government further plans to enhance the promotion of the Lumangwe, Kalambo and Kabwelume water falls as a way of revamping tourism activities around the Samfya Beach.

Mining

To diversify the mining sector, Government is currently promoting the exploration of non-traditional minerals such as gold and manganese. The 2020 budget allocates additional resources for the generation of geological information on the extent of these deposits in order to attract investment.

Energy

The energy sector has a role to play in shaping the development discourse of Zambia. Zambia largely depends on hydro energy which has adversely been affected by climate change. Moving forward it is imperative that Government should look into investing in alternative renewable energy. Various initiatives were highlighted within the budget address which aim at diversifying the energy sector which included, the completion of the Ngonye Solar Power Plants as well as Government's intentions of accelerating reforms that will ensure that the energy sector attains cost reflective tariffs that seek to attract investment with the sector.

Industrialization

As a way of supporting locally owned small enterprises undertaking light manufacturing, Government will be establishing Industrial yards across the country. The completion of these industrial yards will result in increased access to processing facilities as well as the creation of more than 4,000 direct jobs.

WHAT MEASURES WILL PROMOTE DOMESTIC RESOURCES MOBILIZATION

Domestic Resource Mobilization (DRM) is potentially the biggest source of long term financing for sustainable development. DRM creates additional space for sustainable budget expenditures, fosters ownership and reduces dependency on external assistance. It can also help strengthen fiscal institutions because stable and predictable revenue facilitates long term fiscal planning which can help ensure that resources are allocated to priority sectors and are translated into outcomes.

As a way of fostering Domestic Resource Mobilization, Government in the medium term will implement the following measures: Use of fiscal devices, automation of revenue measures and implementation of the provisions of the Rating Act among other measures.

In light of the various challenges faced in enhancing DRM such as Tax evasion and Tax avoidance; burdensome tax policy regimes; a large and hard-to-tax informal sector of the economy; insufficient resources for collecting revenue; low tax morale; Revenue losses through excessive tax exemptions and incentives as well as corruption in tax administrations. The measures highlighted in the budget address if fully implemented will curb these challenges and will enhance DRM.



2020 NATIONAL BUDGET

THEME: "FOCUSING NATIONAL PRIORITIES TOWARDS SUSTAINABLE DEVELOPMENT"

Proposed budget for 2020; K106.0 billion representing 32.4 percent of GDP.

Macroeconomic targets for 2020 are to:

- Achieve a real GDP growth rate of at least 3 percent;
- Achieve and maintain inflation within the target range of 6 to 8 percent;
- Increase international reserves to at least 2.5 months of import cover;
- Reduce the fiscal deficit to 5.5 percent of GDP; and
- Increase domestic revenue mobilization to at least 22 percent of GDP.

Type of Revenue	Amount
Total Revenue	K 106 billion
Income Tax	K25.6 billion
Value Added Tax	K18.9 billion
Customs and Exercise Duty	K9.2 billion
Other Revenues	K449 Million
Non-Tax Revenues	K17.7 billion
Total Foreign Grants and Financing	K30.6 billion
Domestic Financing	K3.5 billion

HIGHLIGHTS OF REVENUE MEASURES

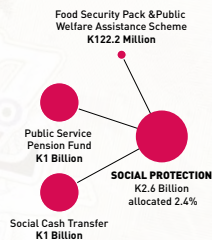
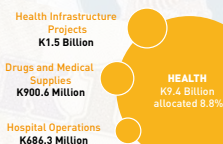
Value Added Tax

- Government has decided to maintain the Value Added Tax (VAT), but address challenges.
- Zero rate, capital equipment and machinery for the mining sector.
- Standard rate ancillary services that are directly linked to the transit of goods.
- Dis-allow claims of VAT on consumables such as stationery, lubricants and other consumables for which these consumables are stock in trade.
- Limit input VAT claims by mining companies on diesel to 70 percent from 90 percent.
- Limit input VAT claims by mining companies on electricity to 80 percent from 90 percent.
- Zero rate copper cathodes sold locally.
- Zero rate the supply of gas stoves, other gas cookers and gas boilers.

EXPENDITURE ESTIMATE



Policy Monitoring and Research Centre
Ministry of National Development Planning
Complex, Corner of Nationalist & John Mbita
Roads, opposite Ridgeway Campus gate, Lusaka
Phone: +260 211 269717, 0979 015660.
www.pmrcczambia.com



Rural Electrification Fund K166.3 Million

Strategic Food Reserves K660 Million

Farmer Input Support Programme K1.1 Billion

International Airports K1.8 Billion

ENVIRONMENTAL PROTECTION
K611.8 Million allocated 0.6%

Water Supply and Sanitation (GR2) Contribution K105 Million

Kafue Bulk Water Supply and Sanitation Project K405 Million

Kafuafuta Water and Sanitation Project K540 Million

Nkana Water & Sanitation Project K607.5 Million

Markets, Bus Stations and Solid Waste Management K24.4 Million

Water Supply and Sanitation K2.6 Billion

HOUSING AND COMMUNITY AMENITIES 3.5 billion allocated 3.3%

Water Supply and Sanitation K2.6 Billion

Energy Power Infrastructure K11.2 Billion

Road Infrastructure K10.6 Billion

FTJ University K860.6 Million

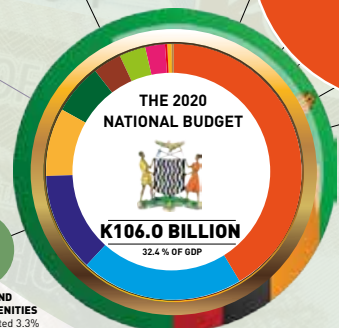
Infrastructure Projects K1.1 Billion

Skills Development Fund K179.2 Million

EDUCATION
K13.1 Billion allocated 12.4%

External Debt K21.1 Billion

Domestic Debt K12.6 Billion



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S STIMULATING THE DOMESTIC ECONOMY."



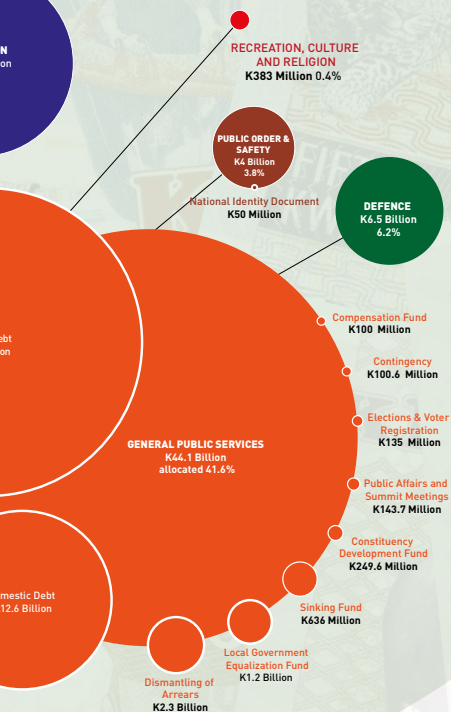
Customs and Excise

1. Introduction of 10 percent duty on specified capital equipment and machinery imported by mining companies which are currently duty free or attract 5 percent.
2. Imposition of a surtax at the rate of 5 percent on Intermediate Bulk Containers.
3. Increase the specific Excise Duty rate on cigarettes from K240 per mille to K265 per mille.
4. Suspension of import duty, for three years, on the importation of machinery for processing of solid waste to generate electricity and produce organic fertilizers.
5. Increase of carbon tax on all motor vehicles entering Zambia by 20 percent.
6. Suspension of duty for three years on selected Aqua Culture Equipment.
7. Reduction of capital allowances claimed by mining companies in respect of capital expenditure from 25 percent to 20 percent.

Non-Tax revenue measures

Revise upwards, to cost reflective levels, various fees and fines charged by Government departments.

MATES 2020 BUDGET



Pillar One: Economic Diversification and Job Creation

- Government has continued to build capacity in the Zambia Meteorological Department to improve early warning systems.
- Government has already commenced the distribution of Agriculture inputs with 60% and 40% of the one million beneficiaries.
- To improve the quality of the national livestock herd, Government has rehabilitated and stocked 15 livestock breeding centres across the country.
- 270 farmers** have been trained under the Zambia Aquaculture Enterprise Development Project.
- The construction of the **750 megawatts** Kafue Gorge Lower Hydropower Station Project and upgrading of Lusiwasi Upper Hydropower Station to 15 megawatts are expected to be completed in 2020.

Pillar Two: Poverty and Vulnerability Reduction

- Under the Social Cash Transfer programme, 700,000 households will be targeted.
- 80,000 beneficiaries will be supported under the Food Security Pack in 2020.
- Government under the Girls' Education and Women's Empowerment and Livelihood Project will support **75,000 women with training in life and business skills by 2020**.
- 16,000 adolescent girls** will be supported with educational provisions.
- More than 3,500 youths** will be empowered with life skills and start-up kits to venture into business.

Pillar Three: Reducing Developmental Inequalities

- Government will continue with the improved rural connectivity project, **construction of communication towers and the rural electrification programme**.
- Under the improved rural connectivity project, **a total of 3,375 kilometers of selected rural gravel roads will be rehabilitated**.

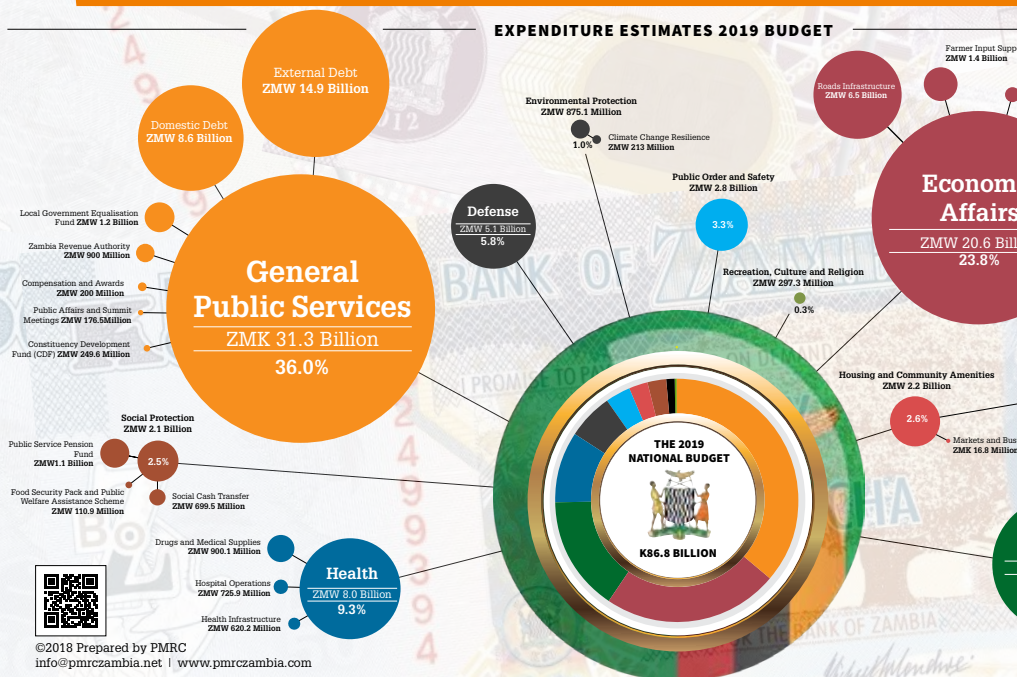
Pillar Four: Enhancing Human Development

- The construction of the **82 secondary schools** under the **Zambia Education Enhancement Project** are scheduled for completion in 2020.
- The project to construct **650 health posts, of which 342 have been completed**, will continue in 2020.
- Government remains committed to implementing the National Health Insurance Act No. 2 of 2018.
- Under the **Transforming Rural Livelihood Project** in Western Province, **863 boreholes have been drilled and 10 piped water schemes** are at various stages of construction.

Pillar Five: Creating a Conducive Governance Environment and Inclusive Economy

- Government will develop a **National Policy on Avoidance of Double Taxation Agreements to protect the revenue base**.
- Government aims to slowdown external debt contraction; postpone or cancel some pipeline loans; cease the issuance of guarantees; and Refinance existing loans.
- Government will increase the allocation of funds to reduce the stock of domestic arrears.
- Government will undertake a Census of Population and Housing in August 2020.

THE 2019 NATIONAL BUDGET IN



KEY INTERGRATED MULTI-SECTORAL POLICIES AND INTERVENTIONS

ECONOMIC DIVERSIFICATION AND JOB CREATION



- Implementation of the National Local Content Strategy to promote local content.
- An out-grower scheme for palm oil trees to be rolled out to 500 households in Muchinga Province under the Industrial Development Corporation.
- Implementation of National Electronic Single Window for trade facilitation.
- Scaling Solar Initiative being implemented in the Lusaka South Multi-Facility Economic Zone, the construction of the two 50 megawatt projects will be completed in 2019.
- Government to table in Parliament the Petroleum Management Bill to facilitate enhanced participation of the private sector in the procurement and financing of petroleum products.
- A further 300 of the 1009 towers will be erected in 2019 in order to achieve universal access to communication services.

REDUCING POVERTY AND VULNERABILITY



- In 2019, Government will maintain the target of 700,000 social cash transfer beneficiaries.
- Target number of 80,000 beneficiaries on Food Security Pack Programme to continue in the 2019/2020 farming season.
- 1,250,000 children targeted under the School feeding programme in 2019
- 19,000 women beneficiaries targeted for 2019 under the Girls Education and Women Empowerment Livelihood Project.
- Government targets to train at least 3,000 youths in 2019 compared to 2,500 in 2018. Further, 4 youth resource centers will be completed.

REDUCING DEVELOPMENT INEQUALITIES



- Construction and rehabilitation of feeder roads under the Rural Connectivity Project.
- Construction of basic infrastructure in newly created districts.
- Electrification of rural areas under the Rural Electrification Programme.
- Provincial Expositions aimed at attracting investment in provinces to continue.
- Government in 2019 to accelerate the implementation of the Decent Work Country Programme aimed to guaranteed social protection.

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OCTOBER 2018



Input Support Programme (e-voucher)
1.4 Billion

Economic fairs

0.6 Billion
3.8%

ities

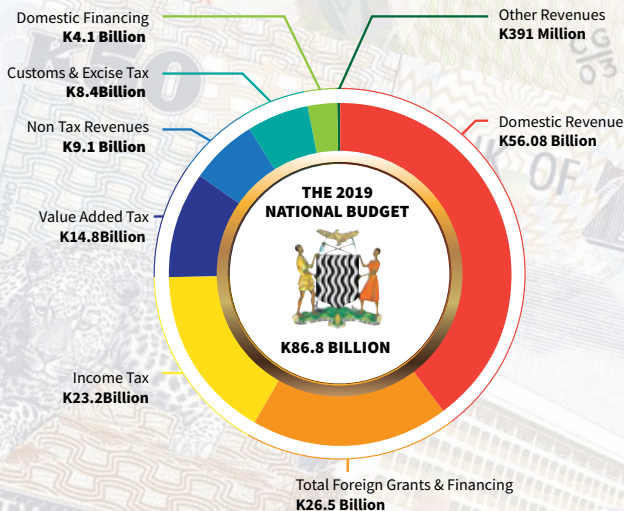
ets and Bus Stations
16.8 Million

Education

ZMW 13.3 Billion
15.3%

VENTIONS

REVENUE ESTIMATES 2019 BUDGET

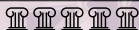


ENHANCING HUMAN DEVELOPMENT



- Upgrading of 500 existing basic schools to secondary schools between 2019 to 2022.
- Through Zambia Education Enhancement Project, construction of 82 high schools across the country.
- Government to continue with a two-tier system education system to offer learners an opportunity to follow either an academic or vocational career path.
- Levy Mwanawasa Teaching Hospital to be upgraded into a regional medical training hub.
- Mongu and Kabompo next districts scheduled to have medical hubs to achieve the last mile distribution of drugs and other essential medical commodities.
- Implementation of the **National Health Insurance Act No 2 of 2018** to commence in 2019.

CREATING A CONDUCIVE ENVIRONMENT FOR A DIVERSIFIED AND INCLUSIVE ECONOMY



- Government to control the growth in the wage bill by restricting recruitment to only 3,500 frontline personnel.
- Ministry of Finance to provide **quarterly updates on the country's debt position**.
- Government to **prioritize the dismantling of arrears remains key to improving liquidity**.
- Government to harmonize various labor laws, by consolidating the **Employment Act, the Employment of Young Persons and Children Act, and the Minimum Wages and Conditions of Service Act into a Single Labor Code**.
- Government to **develop the National Productivity Policy** to improve productivity in the economy.
- In 2019 a multisectoral public investment board will be established to scrutinize investment proposals.
- In 2019 Gross Domestic Product to be rebased in order to provide reliable and updated information on the current size and structure of the economy.

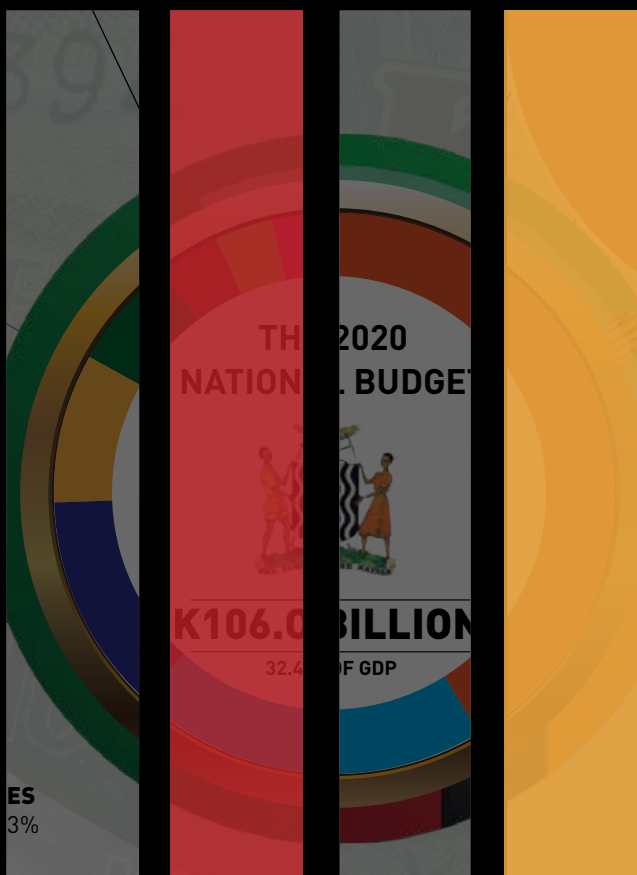
HIGHLIGHTS: REVENUE MEASURES



- **Abolishment of Value Added Tax (VAT)** which is being replaced by a **simpler Sales Tax**.
- **Ban to be lifted on exports of raw hides and skin** and introduction of an export duty of 10 percent on these items.
- **Increase excise duty on plastic carrier bags** to 30 percent from 20 percent.
- **Increase mineral royalty rates** by 1.5 percentage points at all levels of the sliding scale and introduction of a fourth-tier rate at 10 percent when US\$7,500 per metric tonne.
- **Abolish the 20% casino levy and introduce a new tax regime on casino, lottery, betting and gaming** to allow for better regulation of the industry.

PMRC 2020 ZAMBIA NATIONAL BUDGET ANALYSIS

THEME: "FOCUSING NATIONAL PRIORITIES TOWARDS
STIMULATING THE DOMESTIC ECONOMY."



Unlocking Zambia's Potential

Correspondence on this Analysis can be sent to:
info@pmrczambia.net

Policy Monitoring and Research Centre (PMRC)
Ministry of National Development Complex, Corner of John Mbita and Nationalist Roads, Ridgeway,
Private Bag KL 10
Tel: +260 211 269 717 | +260 979 015 660

www.pmrczambia.com

