

# OP-ED: PMRC EXPECTATIONS OF THE 2021 NATIONAL BUDGET

## INTRODUCTION

The 2020 National Budget of K106 billion (representing 32.4% of GDP) was aimed at achieving real GDP growth rate of at least 3%. With the theme; “**Focusing National Priorities Towards Stimulating the Domestic Economy**”, the budget was premised to achieve positive fundamentals for the country but alas, the onset COVID-19 pandemic destabilized its implementation. We observe that the 1st quarter performance of the budget was favorable but the second and third quarters respectively have been negatively affected especially due to adjustments that have had to be embarked on in order to cushion the economy from the negative effects of the COVID-19 pandemic. In April 2020, The Ministry of Finance indicated that; “Zambia’s budgeted revenue was estimated to fall short of target by close to 20% as a result of economic adjustments due to COVID-19.” Planned expenditure was adjusted in line with revised revenue projections, but social spending remained a priority.

## How did the 2020 National Budget perform at the mid-term (January to June 2020)?

### a) Revenue performance (January to June 2020)

During the first half of 2020, total revenue collections and grants amounted to **K32.2 billion**, 5.1 percent below the **K34 billion** projection. Tax revenue accounted for K24 billion, non-tax revenue K7.5 billion, and project grants K729.6 million. In addition, the Treasury accessed K8.9 billion domestic financing.

### b) Expenditure performance (January to June 2020)

Expenditure in the first half of the year amounted to **K46.8 billion**, including amortization. This was **7 percent** below the projection for January to June, due to lower than projected disbursements for the foreign financed component. Of the total expenditure, K33.7 billion was financed from domestic resources, and K7.9 billion was foreign financed. Notable items under this category included K500 million for some outstanding pension payments, K1.1 billion for grain purchases under the Food Reserve Agency, and K1.4 billion for dismantling arrears.

## HIGHLIGHTS OF THE PMRC 2021 BUDGET EXPECTATIONS

### Below are the PMRC expectations for the 2021 National Budget as categorized by specific themes.

Currently, it is still uncertain on how the COVID-19 pandemic will evolve. Therefore, it is imperative that as we plan for the 2021 National Budget, we must also factor in counter and cushion measures that will continue to shield the economy in an event that the negative effects of COVID-19 are still prevalent by next year. As a nation, we must make a strong resolve to continue working towards the path to recovery and growth. Key sectors that have been negatively affected by the COVID-19 pandemic must be prioritized in the 2021 National Budget. Further, key components / programmes in the 2020 National Budget that may have not been implemented due to the COVID-19 pandemic, may be considered under the 2021 National Budget.

Below are some of the highlights of the PMRC’s expectations in the 2021 National Budget;

**Road Transport Infrastructure:** In the 2021 National Budget, we propose that there is urgent need to seek alternative financing for infrastructure projects especially the roads and airports that are currently being constructed. There is also need to increase the use of local contractors in the implementation of these projects.

**Regional and International Trade:** The African Continental Free Trade Agreement (AFCFTA) remains key for Zambia especially focusing on our central position in the region. The CFTA was supposed to be launched this year but has been postponed to 2021 in view of the COVID-19 pandemic. To this effect, Zambia can begin to position itself by developing a **National CFTA Implementation Plan** that prepares the country, its industries and businesses to participate effectively in the CFTA. The 2021 National Budget should support this initiative, as it presents a positive outlook for the growth of commerce and trade in the medium term.

**Industrialization:** Industrialization remains very critical and Zambia must review the performance of Industrial Yards and Multi Facility Economic Zones to establish lessons that can be learnt and then set out a next phase of strategically developing industrial yards across the nations. PMRC also submits that the National Local Content Strategy should also be emphasized across all manufacturing lines.

**The Debt Situation:** PMRC proposes that the public external debt should be restructured, especially the high interest Eurobonds and external commercial bank loans. This restructuring should be aimed at reducing interest payments and principal payments so that Zambia is not assessed to be at greater debt risk than ‘moderate – with space to absorb economic shocks’. Government is encouraged to speedily reform the procurement process and introduce “benchmark pricing” to ensure value for money.

**Domestic Resource Mobilization:** PMRC calls for Government to accelerate the implementation of the Land Titling Programme, which will significantly contribute to the generation of Government revenues. PMRC further encourages Government to provide an update on the operations of the development funds such as the Fisheries Development Fund, Youth Development Fund, Skills Development Fund and the Tourism Development Fund and on the progress made towards achieving their intended goals as special purpose vehicles in implementation of Government programmes.

**Mining Sector:** We submit that the 2021 budget should focus on supporting the industry’s cash flow. Measures should include extensions of deadlines, offsets and deferrals of tax payments and review of the tax measures introduced as part of the 2020 Budget. The introduction of these relief measures would help with sustaining operations and advance buying to forestall supply chain interruptions. We propose that Government puts in place a fiscal regime that will attract the

necessary investment, so that the mining sector can make a quick recovery, as it did in 2009 after the last global crisis. It is recommended that this should be put in place in 2021.

**Energy Sector:** To meet rural electrification target of 51% by 2030 the Government is encouraged in the 2021 budget to focus on off-grid solutions to minimize costs of rural electrification. Access in rural areas has been slow paced. As part of the planning process, the 2021 budget must consider efforts of scaling up access through a comprehensive Expansion Plan that would provide a planning framework, remove possible regulatory impediments, provide a policy framework for sustainable financial support, and improve institutional coordination, covering electrification of both urban and rural areas. Alternative financing should also be sought for the completion of several power plants being constructed. This would help to stabilize power production and stimulate economic development.

**Agriculture Sector:** PMRC proposes that Government prioritizes upfront funding to the Farmer Input Support Programme (FISP) focusing on the Electronic-FISP as opposed to Direct Input Supply (DIS). Electronic-FISP will help the treasury to save on logistical costs (such transportation and distribution) associated with DIS given constrained fiscal space amidst the COVID pandemic. PMRC further proposes for increased funding to the Zambia Meteorological Department (ZMD) to assist Ministry of Agriculture (MOA) to adequately package early warning information on climate change and distribute it to farmers that would be the most affected by crop failure.

**Social Protection:** PMRC expects Government to increase budgetary allocation towards the Social Cash Transfer Program to reflect inflationary adjusted amounts. We recommend that Government migrates the Social Cash Transfer (SCT) programme from the traditional cash transfers to an electronic platform which has the potential to cut costs, reduce leakage, improve accessibility and provide better security compared to physically delivering cash to fixed pay points. Commitments on the Food Security Pack must reflect an increase in the number of household beneficiaries in line of the targeted number of 120,000 beneficiaries as stated in the Seventh National Development Plan. Government should further outline measures to improve allocation and disbursement of funds towards the pension funds.

**Education and Skills Development:** The Education sector is one that has been negatively affected by the COVID-19 Pandemic, which resulted in the closure of all learning institutions. Measures have been put in place by some learning institutions such as the provision of E-learning platforms for students. PMRC therefore, proposes that Government increases funding towards the Education Sector with the aim of improving the procurement and access to ICTs in all Government learning institutions in both rural and urban areas.

**Tourism Sector:** PMRC recommends for Government to

invest in infrastructure around various tourism sites in the country, particularly, the Northern Circuit, in order to broaden the tourism scope and increase revenue generation and distribution. We encourage Government to consider engaging in private-public partnerships to invest more in infrastructure. There is need to promote local tourism among citizens to fill in for off season travel and tourism within the country. This can be done through a “travel-local” campaign similar to the “buy-Zambian” campaign. Similarly, the Tourism Development Fund can be used to support tour operators to rebrand their businesses and develop cheaper product packages for locals, considering the effects COVID-19 has had on the sector.

## CONCLUSION:

It is recommended that key legislation be reviewed to align procedure with fiscal policy; in particular the Public Procurement Act No.15 of 2011 and the Loans and Guarantees (Authorisation) Act, Chapter 386 of the Laws of Zambia. We further call on Government to expedite the process to enact the Planning and Budgeting Bill No.22 of 2019. We further recommend that the 2021 National Budget must be planned with a focus of cushioning sectors from the negative effects of COVID-19 pandemic. Government is further encouraged to pursue and actively seek an IMF programme as it would certainly contribute towards our stride to economic recovery and growth. Overall, as an institution, PMRC remains very optimistic with the 2021 Budget, as we have worked to contribute to the formulation through our submissions and continued engagements with the Ministry of Finance. We finally submit that the 2021 National budget should be aligned to the Cluster Advisory Groups (CAGs) budget prioritization scope, as this would also contribute towards priority setting especially in relation to implementing the 7NDP.



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