

OP-ED: PMRC 2022 BUDGET EXPECTATIONS

Introduction

Economic growth for Zambia is expected to improve by at least 1.6% in 2021 from its contraction by 3% in 2020. **This improvement is attributed to growth in the agriculture, manufacturing and information and communication technology (ICT) sectors. Additionally, further improvements are expected as a result of the expansion in the COVID-19 vaccination programme.** In terms of revenue and expenditure performance, the Government revenue collection for the period January – June 2021 amounted to K50.7 billion against a target of K34.7 billion and expenditure for the first half of the year stood at K64.3 billion against the targeted K57.7. It is against this background that the Policy Monitoring and Research Centre (PMRC) presents its expectations for the 2022 budget with support for economic stabilization and growth premised on:

1. Sustainable revival of the economy and employment creation through well targeted **tax incentives and higher spending on productive sectors.**
2. Increased social spending that meets **international protocols and moves Zambia towards achieving Vision 2030 and the Sustainable Development Goals while maintaining an eye on fiscal consolidation.**
3. Promotion of **private sector participation** in economic recovery.

1. Revenue and Expenditure Targets for 2022

Tax reforms and administration for 2022- As Government seeks to mobilize for domestic revenue sources, broadening the tax base ought to be considered. Therefore, tax policy will need to be reviewed. **We expect a reduction on individual taxes in order to alleviate pressure at individual and corporate level.** Government is also expected to take advantage of the **current favourable copper prices and seize the opportunity to reintroduce some taxes regarding windfalls.** In addition, Government is urged to implement tax reforms in a win-win situation. Furthermore, PMRC expects **Government to disclose its proposed tax policy reforms in relation to a shift in emphasis away from personal income and company tax** by increasing **consumption taxes and property taxes** as they have previously been **underexploited.**

Expenditure expectations -As talks with external creditors over the country's external debt continue, **PMRC expects Government to soon reach a conclusion for Zambia's debt to be restructured to help unlock and shift resources towards health and education.** **PMRC expects expenditure in infrastructure to be directed towards agro-processing and the whole manufacturing value chain.** The Government is also expected to strive towards achieving **budget credibility through adherence to expenditure plans as outlined in the budget thereby reducing borrowing and accumulating arrears for expenditures outside the budget.**

2. Economic Growth and Diversification

Mining Sector

- The **diversification in the mining sector** through the **local gold**

purchasing programme by Bank of Zambia ought to be continued to strengthen and diversify the country's Reserves.

- PMRC urges the **Government to consider developing a long term, stable and consistent mining tax regime** that encourages **investment in the sector** while ensuring maximum tax returns accrue to the nation. This is especially required in view of new copper prices on the international market. Promotion of mineral diversification should be considered to broaden the tax base in the sector.
- The 2022 National Budget must consider **investing more in the copper value chains to ensure the country exports value added copper products.**

Tourism Sector

- In the 2022 National Budget, PMRC urges Government to **consider introducing stimulus packages tailor made for the players in the tourism sector to help them revamp their businesses in view of the impact of the COVID-19 pandemic.**

Manufacturing

- There is need for the **review of the Public Private Procurement Act** to ensure it favours investment in the manufacturing sector.
- The Government ought to consider continuing with dismantling of arrears for local manufacturers and suppliers, which will provide **liquidity for re-investment.** This is needed for the growth of the manufacturing sector.
- PMRC expects the Government to continue introducing **tax incentives in the energy and agriculture sectors such as the zero rating of import duty for solar equipment and farming equipment in order to attract more local investment within the sector**

Agricultural Sector

PMRC expects the **Government to provide an update on the tractor assembly plant** as mechanization is key to **increased agricultural productivity.** In order to promote **increased private sector participation in the agricultural sector,** the Government is urged to consider the **promotion of tax incentives for the local companies in the seed, fertilizer and chemical industries.** This will in turn have a multiplier effect on reduced Government spending on their importation and in turn lower the cost of seed, fertilizer and agro chemicals which has been putting pressure on the treasury and foreign reserves. PMRC also expects a **100% migration of the Famers Input Support Programme from the traditional Direct Input Support (DIS) to E-voucher system in order to reduce Government's administrative costs** in the transport and distribution of agricultural inputs. PMRC urges Government to consider increasing support to research and development as well as extension services.

3. Human Development

Education and skills development

The Education sector is one that has been **negatively affected by the COVID-19 Pandemic and consequently resulted in the closure of all**

learning institutions. Measures have been put in place by some learning institutions such as provision of E-learning platforms for students. PMRC therefore expects the **Government to increase budgetary funding towards the education sector with the aim of improving and stabilizing the learning environment through increased access to ICTs in all the Government learning institutions.**

Health

In view of the current fiscal constraints, the Government is encouraged to invest in rehabilitation and expansion of existing health facilities as opposed to the construction of new facilities. Additionally, **Government is expected to adequately fund human resource development through recruitment and deployment to improve access and provision of quality healthcare services, especially in rural areas.** The past National Budgets have fallen short of the Abuja Declaration (to which Zambia is signatory) which require that 15% of the National Budget be allocated to the health sector hence the need to **increase budgetary allocation to the sector.**

Water and Sanitation

An estimated **4.8 million Zambians lack regular access to clean water, and 6.6 million lack access to adequate sanitation facilities.** Budget allocation towards water and sanitation reduced from **K2.6 billion in the 2020 budget to K2.1 billion in the 2021 budget.** For Zambia to achieve one of its objectives of **the Vision 2030, which is to provide secure access to safe water sources and improved sanitation facilities, there is need for an increase in the 2022 budget allocation towards water and sanitation.**

In the midst of changing climatic conditions, which have an adverse effect on water supply and accessibility, **the 2022 budget should focus on investing in modern water technology. This will have the dual benefit of providing increased access to water and sanitation services while also building climate change resilience.**

Social Protection

PMRC commends Government for spending within the required threshold defined by the International Labour Organization (ILO) Recommendation 202 on Global Social Protection Floors. This recommendation set the initial annual cost of a basic social protection package at about 3.7% to 10.6% of GDP and Zambia achieved this by spending 4% of GDP on social protection and this trend ought to continue. Given the increase in beneficiaries and allocations towards the Social Cash Transfer and Food Security Pack in the 2021 National Budget, **PMRC recommends an increase in allocation towards the Public Service Pension Fund in the 2022 budget** in order to guarantee a decent life for pensioners and dismantle debt owed to them.

We urge the Government to consider developing empowerment programmes targeting differently abled persons in order reduce their vulnerability in society. Further, we recommend that **Government provides a budget line specifically targeted at child social protection programming as part of the social protection allocation that goes towards the social cash transfer.** PMRC expects the Government to **expedite the administration of**

the **social cash transfer to an automated platform** in order to reduce costs and improve security of the funds.

Environmental Protection

Adaptation and mitigation support in the 2022 National Budget should **enable Zambia to prepare its long-term adaptation plan, covering both immediate and long term adaptation actions and mainstreaming climate change issues into national, sub-national and sectoral plans and budget processes.** Specifically, this support should help establish systems for **mainstreaming climate change adaptation into the Eighth National Development Plan (8NDP),** to ensure that adaptation is part of development efforts towards achieving the country's Vision 2030. The current 7NDP covers the period 2017-2021 and also contributes to Zambia's Vision 2030. Zambia aims to become a prosperous middle-income country by 2030 and building resilience to climate change is essential in safeguarding socio-economic investments for this vision to be realized.

Debt Management Reforms

The debt situation continues to be a source of concern, with **public external debt** conservatively standing at **US\$12.9bn.** The Government is encouraged to expedite reforms in the loan contraction and provide oversight on legal and policy framework to ensure that the porous areas are addressed through key legislation. **PMRC is elated by the Government's commitment to reforming the Loans and Guarantees Act as a way of ensuring debt management, as this will promote transparency and accountability.** This includes the Planning and Budgeting Act, the Public Procurement Act and the Public Finance Management Act. **All must be looked at in addition to allied legislation. In order to curb public expenditure and borrowing, strengthening oversight functions of institutions also needs to be a part of these reforms.** Therefore it is expected that reforms will be budgeted for adequately.



MRS. BERNADETTE DEKA-ZULU - PMRC Executive Director

