

# PMRC 2022 ZAMBIA NATIONAL BUDGET ANALYSIS

THEME: "Growth, Jobs and Taking Development Closer to the People."

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#### **ABBREVIATIONS**

BPG Bus and Payment Gateway

CDF Constituency Development Fund (CDF)

CFTA Continental Free Trade Agreement

COMESA Common Market for Eastern and Southern Africa

DDP District Development Plans (DDP)

DSSI Debt Service Suspension Initiative

DIS Direct Input Supply

FISP Farmers Input Support Programme

FRA Food Reserve Agency
FSP Food Security Pack
GDP Gross Domestic Product

HS Harmonised System

IAPRI Indaba Agricultural Policy Research Institute

IMF International Monetary FundIPPs Independent Power ProducersMFEZ Multi-facility Economic Zones

PAYE Pay As You Earn

PDP Provincial Development Plan (PDP)

PPPs Public Private Partnerships
PSPF Public Service Pension Fund
PTA Parent Teachers Association

R-NDP Revised National Decentralisation Policy
SADC Southern African Development Community

SCT Social Cash Transfer

SMEs Small and Medium Enterprises

SOEs State Owned Enterprises

STEM Science, Technology, Engineering and Mathematics

UNICEF United Nations Children's Emergency Fund

VAT Value Added Tax

WDCs Ward Development Committees

ZAEDP Zambia Aquaculture Enterprise Development

ZICTA Zambia Information and Communications Technology Authority



#### INTRODUCTION

The Minister of Finance and National Planning unveiled a K172.9 billion 2022 budget on Friday, 29<sup>th</sup> October 2021. The theme of the budget is "*Growth, Jobs and Taking Development Closer to the People.*" The 2022 budget was delivered in an environment characterised with anxieties, high expectations as it was a budget that would set in motion the plans and aspiration of the new dawn Government to lift the economy from the pandemic induced slump, fiscal deficit and the debt burden.

The economy, in 2021, has grown at 3.3% against its contraction of 2.8% in 2020, whilst the country continued to experience double-digit inflation of 22.9% as of 31st September 2021. In addition, higher interest rates of 25.9% have been recorded in 2021 compared to 25.1% in 2020 coupled with the continued records of non-performing loans as non-bank financial institutions continue to face challenges with the increase in the ratio of non-performing loans to total loans of 23.1% in August 2021 from the 20.4% recorded in December 2020. This is above the benchmark of 10.0% set in the budget, thus making it difficult for the survival and growth of non-financial banking institutions.

Secondly, the unsustainable external debt servicing obligations of 45.5% of the total budget and about 70% of total domestic revenue constrains the fiscal space to support investment and social spending. The COVID-19 pandemic threatened to collapse the health system and almost paralysed the entire economy due to supply chain disruptions, loss of lives and incomes as well as escalated the disease burden as most of the resources in the health sector and emergency budgets were invested in containing the pandemic.

It is against this background that the 2022 PMRC budget analysis will concentrate on monetary and the fiscal side as well as other policy options suggested in the budget to revamp the economy through economic transformation, job creation and reduced vulnerability. The analysis centres on the 2022 budget expectations meant to promote; sustainable revival of the economy and employment creation through well targeted tax incentives coupled with higher spending on productive sectors; Increased social sector spending that meets international protocols and towards achieving the Vision 2030 as well as the Sustainable Development Goals (SDGs) whilst maintaining an eye on fiscal consolidation; and promotion of private sector participation in economic recovery.

#### GLOBAL AND DOMESTIC ECONOMIC OVERVIEW

#### A) Global Economic Overview

■ The global economy is expected to **rebound in 2021 and grow by 5.9 percent**. In 2020, the global economy contracted by 3.1 percent.



Global economy expected to rebound in 2021 by

■ Prices have maintained an upward trend as the global economy is recovering. The average price of copper from January to September 2021 stood at US \$9,194 per tonne compared to US \$5,834 over the same period in 2020.



Copper prices from January to September 2021 stood at

**US\$9,194** 

 Similarly, average crude oil prices rose to US \$68 per barrel from US \$43 over the same period.

Crude Oil prices from January to September 2021 stood at US\$68

Currently, copper prices stand at US \$9,850 per tonne. More recently, crude oil prices have shot up to US \$84 per barrel due to constrained supply.

#### **B) Domestic Economic Overview**

- The economy is steadily recovering from the adverse effects of the COVID- 19 pandemic.
- Preliminary estimates indicate that **real GDP for the first quarter of 2021 grew by 0.5 percent and improved to 8.1 percent in the second quarter**.



In 1st quarter, real Gross Domestic Product grew by 0.5% in 2nd Quarter improved to

C) Overall, the economy is projected to grow at 3.3 percent in 2021 against a contraction of 2.8 percent in 2020.



Against a contraction of 2.8% in 2020, the economy is projected to grow at

3.3%



#### **2020 BUDGET PERFORMANCE**

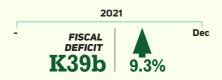
- The overall budget performance was unfavourable. This was on account of higher-thanplanned expenditure despite revenue exceeding the target.
- Over the first nine months of 2021, revenues and grants amounted to K77.0 billion against the target of K51.1 billion, giving a positive variance of 50.7 percent.



- Total revenues and grants for the fiscal year 2021 are projected at **K96.8 billion** against the target of **K68.0 billion**.
- Total expenditure for the period January to September 2021 amounted to K112.9 billion and was 25.7 percent above the target of K89.8 billion.



- Expenditure to year-end is projected at K139.0 billion, 16.2 percent above the target of K119.6 billion.
- Government spends more than what is generated in revenues and grants, creating a fiscal deficit which requires borrowing either from domestic or external sources to meet the gap.
- The fiscal deficit, on a cash basis, is projected at K39.0 billion or 10.4 percent of GDP by the end of 2021, which is above the target of 9.3 percent.



#### **2022 BUDGET OVERVIEW**

Figure 1: Resource Envelope for the 2022 Budget

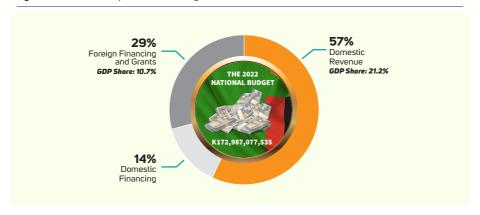


Table 1: Expenditure Estimates by Function

All Currency is In Zambian Kwacha

Functions	2022 Budget		2021 Budget		2020 Budget	
	Amount ZMW	% of Budget	Amount ZMW	% of Budget	Amount ZMW	% of Budget
General Public Service	86.4 Billion	49.9%	57.8 Billion	48.35%	44 Billion	41.6%
Defence	7.6 Billion	4.4%	5.6 Billion	4.7%	6.5 Billion	6.2%
Public Order and Safety	3.5 Billion	2%	3.1 Billion	2.6%	3.4 Billion	3.8%
Economic Affairs	33.7 Billion	19.5%	21.5 Billion	18%	21.8 Billion	20.6%
Environmental Protection	971.9 Million	0.6%	955.5 Million	0.8%	611.7 Million	0.6%
Housing and Community Amenities	2.4 Billion	1.4%	2.2 Billion	1.9%	3.4 Billion	3.3%
Health	13.9 Billion	8%	9.7 Billion	8.1%	9.4 Billion	8.8%
Recreation, Culture and Religion	156.4 Million	0.1%	151.4 Million	0.1%	383 Million	0.4%
Education	18.1 Billion	10.4%	13.8 Billion	11.5%	13.1 Billion	12.4%
Social Protection	6.3 Billion	3.6%	4.8 Billion	4%	2.6 Billion	2.4%
Total	172.9 Billion	100.00%	119.6 Billion	100.00%	106 Billion	100%

Source: Compiled by PMRC

There has been an increase in budget allocation towards all expenditure functions, However PMRC does note with concern the reduction in percentage allocation in key human and social development sectors such as Health, Education and Social Protection. As we endeavour to achieve the Vision 2030, it is cardinal that we ensure percentage allocation towards key sectors meet international standards.

Table 2: 2022 Budgetary allocations against International Protocols

Sector	International Budget Allocation	2022 National Budget Allocation	Score
Education	20%	10.4%	X
Health	15%	8%	X
Agriculture	10%	3.7%	X
Social Protection	3.5%	3.6%	V

Source: 2022 National Budget

Zambia is signatory to various international standards such as the **Maputo and Abuja Declarations which state that member countries allocate 10% and 15% of the National budgets towards Agriculture and Health respectively**. The 2022 budget allocation falls short of both protocols, which stand at 3.7% and 8% of the national budget for agriculture and health respectively. According to the United Nations Children's Emergency Fund (UNICEF) recommendations, 20% of the national budget is to be allocated towards education. The 2022 budget falls short of this recommendation as only 10.4% of the national budget has been allocated towards education. Failure for the national budget to meet international protocols is mainly attributed to the fact that a large share of the budget (45.5%) is allocated towards debt servicing which has put a strain on Government's expenditure towards key economic and social sectors.





#### TAX MEASURES

#### Pay As You Earn (PAYE)

Government has proposed to increase the exempt threshold for Pay-As-You-Earn (PAYE) to K4,500 from K4,000 per month and to adjust the income tax bands accordingly. Government expects this measure to result in an additional K600 million in the pockets of Zambian workers. PMRC is of the view that the adjustment in PAYE will result in increased disposable income, particularly for low wage earners. This is especially timely in view of the rise in cost of living. The proposed tax bands are as follows:

Table 3: Comparison of the Current and Proposed Tax bands for PAYE

Current regime		Proposed regime		
Income band (ZMW)	Tax rate (%)	Income band (ZMW)	Tax rate (%)	
0 - 4000	0	0 – 4,500	0	
4,001 – 4,800	25	4,501 – 4,800	25	
4,801 – 6,900	30	4,801 – 6,900	30	
Above 6,900	37.5	Above 6,900	37.5	

Source: 2022 National Budget

#### Proposed Tax changes in the Mining Sector

Government through the 2022 budget has proposed the **re-introduction of deductibility of mineral royalty for corporate income tax assessment purposes which is in line with international best practice.** This measure has been introduced in order to attract investments and boost production in the sector as the country works **towards increasing copper production from the current 800,000 tonnes to 3 million tonnes in the next 10 years**.

PMRC is of the view that the introduced tax measures will **lower mining companies effective** tax rate and allow for the further investment in the sector key for employment creation and FOREX.

Government will in the medium-term, amend the law so that mineral royalty determination reflects a measure of both incremental and aggregate norm values. **Amending this law will result in a more predictable and stable mining tax regime**.

The Government proposed extending Property Transfer Tax on transfers of mineral processing and other mine related licenses at the applicable rate of 10%. This measure aims to broaden the tax base and increase Government revenue.

#### **Corporate Income Tax**

- Proposed reduction in the standard corporate income tax rate to 30% from 35%. PMRC commends Government for the reduction in corporate income tax by 5% because it will help companies retain funds for reinvestment and serve to attract foreign direct investment.
- Proposal to maintain the 15% corporate income tax rate on income earned by hotels and lodges on accommodation and food services to 31st December 2022. PMRC welcomes the move to extend the 15% corporate income tax rate as it will help combat the challenges the tourism sector has faced in view of the COVID-19 pandemic.

#### Rental Income Tax

Government proposes to reform the rental income tax regime by charging turnover tax at 4% for income below K800,000 per annum. For rental income above K800,000, the income tax regime for individual or corporate will apply. The proposal is commendable because there will now be better uniformity between rental income tax and the regular tax regime for individuals and companies.

#### Miscellaneous

- The Government proposes to extend the tax exemption relating to payments of interest to all interest earning bank accounts held by individuals with the aim of encouraging saving and promoting financial inclusion.
- Government proposes to introduce a 20% withholding tax on reinsurance placed with reinsurers not licensed in Zambia in order to support the growth of local reinsurance and broaden the tax base.
- Government also proposes to introduce a mandatory requirement for tickets to display the withholding tax payable on potential winnings in order to enhance tax compliance on betting, casino, lottery and gaming activities.
- Government proposes to upwardly revise the bands for presumptive taxes. These tax bands were last reviewed in 2018.

Table 4: Tax bands for proposed Presumptive Tax versus the Current Tax per Annum

Vehicle Sitting Capacity	Current Tax Per Annum (ZMW)	Proposed Tax Per Annum (ZMW)
64 seater and above	10,800	12,960
50 – 63 seater	9,000	10,800
36 – 49 seater	7,200	8,640
22 – 35 seater	5,400	6,480
18 – 21 seater	3,600	4,320
12 – 17 seater	1,800	2,160
Below 12 seater	900	1,080

Source: 2022 National Budget

#### Value Added Tax

Government proposes to zero-rate Value Added Tax on the following agricultural equipment and accessories: manure spreaders; balers; combine harvesters; commercial sprinkler irrigation systems; animal feed grinder-mixer; pelleting machines; sprayer; trailers of a specific HS code; and dryers for agricultural products of a specific HS code. This measure seeks to improve productivity in agriculture through mechanization through the following proposals:

- To zero-rate the Value Added Tax on Solar Charge Control Units and Solar Street Lights in order to promote the use of alternative sources of energy, particularly those that are renewable.
- To standard rate the supply of the following in order to increase the taxable-base for VAT:
  - Property and non-life insurance (previously 3%)
  - Booklets and newspapers
- To change the tax collection point for Value Added Tax on mobile phones from importation and point of sale to point of registration by the Zambia Information and Communications Technology Authority (ZICTA). This measure seeks to encourage compliance and enhance proper identification of mobile phones and security.

#### **Customs and Excise Duties**

Government proposes the following:

- To reduce Customs Duty to zero percent from 15% and 25% on solar streetlights and solar charge control units, respectively in order to promote alternative energy sources. Such a move will also contribute to a reduction of pressure on Zambia's national grid.
- To remove the 5% customs duty on importation of cattle breeding stock in order to support the livestock subsector.
- To suspend the 5% customs duty on grandparent and/or parent stock of day-old chicks when imported by a breeding company for a period of twelve months effective 1st November 2021 in order to address the shortage of day-old chicks.
- To remove the 5% customs duty on filler masterbatch to improve competitiveness and efficiency of the local manufacturers of plastic products.
- To harmonize the rates at 15% from 40% or K5 per kilogram, whichever is greater to harmonize customs duty rates applicable on tyres for lorries and buses as well as construction and agriculture machinery.
- To extend the waiver of customs duty on safari game viewing vehicles, tourist buses and coaches to 31<sup>st</sup> December 2023 in order to cushion the tourism sector amidst the COVID-19 pandemic. This will only apply to accommodation establishments, convention centres and tourism enterprises.
- To support agro- processing by:
  - Extending to 31st December 2022 suspension of customs duty on importation of refrigerated trucks.
  - Extending the relief to processors of milk and manufacturers of medicaments.
- For a single petty consignment to increase the exemption value of goods on which duty is not paid to US \$500 from US \$50 inclusive of freight and insurance. This excludes goods consigned through parcel post or air freight.



To promote the growth of domestic industry and to generate employment, the following have been proposed:

■ Increase customs duty to 25% from 5% and 15% on yarn made from acrylic fibre of

#### specific HS codes imported from outside the COMESA and SADC regions.

- Introduce surtax on the following:
  - 5% on imports of yarn made from acrylic fibre of specific HS codes.
  - 5% on knitted or jerseys, crocheted pullovers, cardigans, waistcoats and similar articles.
  - 10% on imported cement bags.
  - 5% on imported floor and wall tiles.
  - 20% on imported glass on selected HS codes.
  - Increase surtax on flexible intermediate bulk (FIB) containers to 20% from 5%.
  - Remove the 5% surtax on importation of Bovine Semen.

In order to further generate Government revenue, the following measures have been proposed:

- 5% excise duty on coal.
- Increase the specific excise duty on opaque beer to 50 ngwee per litre (packaged) and to K1 for (unpackaged) from 15 ngwee.
- Increase the specific excise duty on cigarettes from the current K302 per ml to K355
- Increase the specific excise duty on unmanufactured tobacco, tobacco refuse, smoking tobacco whether or not containing tobacco substitutes, water pipe tobacco and cutrag to K355 from K240.





10% Surtax on imported Cement bags



5%
Surtax
on imported Floor and
Wall Tiles











Remove 5% Surtax on importation of Bovine Semen.

Government further proposes to remove the 10% export duty on maize effective 1st November 2021. It has long been suggested that Zambia is well positioned to become a bread basket for the region. PMRC commends this move as it will stimulate private sector involvement in the sector, enhance trade in agricultural commodities and offer an alternative market for farmers and traders. In order to complement the proposal, agro-processing should be aggressively pursued (through the development of milling plants) both by Government and the private sector. This will lead to growth in the manufacturing sector as well as job creation.

#### THEMATIC AREAS

Government plans to achieve the following macroeconomic objectives for 2022:



- a) Attain a real GDP growth rate of at least 3.5 percent;
- Reduce inflation to single digits by end of 2022 and within the target band of 6-8 percent by mid-2023;
- c) Limit international reserves to at least 3 months of import cover;
- d) Increase domestic revenue to not less than 21.0 percent of GDP:
- Reduce the fiscal deficit to no more than 6.7 percent of GDP; and
- f) Limit domestic borrowing to no more than 5.2 percent of GDP.

The strategy to achieve these objectives will be founded on four thematic areas as outlined in the Presidential Address delivered on the official opening of the First Session of the Thirteenth National Assembly. The Address provided the policy direction for the development of the Eighth National Development Plan and the 2022 Budget. The four thematic areas are:



Economic
Transformation and
Job Creation



Human and Social Development



Environmental Sustainabilitu



Good Governance Environment

### AGRICULTURE, LIVESTOCK AND FISHERIES SECTOR







Zambia has **immense potential for agricultural development given the favourable agroclimatic conditions**, which are suitable for production of a diverse variety of crops and livestock in nearly all parts of the country.

However the sector's contribution to GDP has been unstable and declining in the recent past to around 2-3% with relative decline in the last few years (15.60% in 2010 to 2.73% in 2019 (Source: World Bank, 2020)

According to Mulenga et al., 2020 in the Agricultural Status Report, the decline and contraction in agricultural output could be attributed to high precipitation variability which affected rainfed production systems especially smallholder farmers.

However recently the sector has shown positive improvements due to the good rainfall distribution and bumper harvests.

The agriculture share of the budget has for many years failed to meet the Maputo declaration where African states are to allocate a minimum of 10% of the national budget to help achieve the 6% annual growth rate. This year, the allocation to the Farmers Input Support Programme (FISP) and strategic food reserves in the 2022 budget are **K5.4 billion** and **K960 million** compared to **K5.7 billion** and **K517 million** allocated in the 2021 budget respectively. The allocation to FISP is down by **K3 million** in 2022 compared to the 2021 budget while there is a notable increase in the allocation to strategic food reserves (FRA) by **K443 million**.

These changes in allocation especially on FISP has negative consequences in terms of increasing production and productivity unless prudence in the implementation of the programme is followed. Government announced a new comprehensive support program for the Agriculture sector, which commences in the 2022 - 2023 farming season. As PMRC we note that for this programme to be successful, an all encompassing and comprehensive review of E-voucher (E-FISP) and Direct Input Supply (DIS) will be required for FISP by key stakeholders to arrive at the most best mode programme delivery.

Previous studies have shown that if well implemented E-FISP has the ability to enable Government reduce the stress on the treasury as this **removes corruption**, **racketeering**, **administrative costs and transportation costs** (*Baltzer & Hansen*, *2012*). Operating the Direct Input Supply (DIS) system will require improving monitoring systems and enhancing transparency to ensure quality inputs with improved targeting of eligible beneficiaries.

The 2022 budget focuses on addressing the problems of low production and productivity, limited agricultural market, under developed value chains and the reliance on rain-fed agriculture taking into account the effects of climate change and variability. **The budget commits to increasing production and productivity by the development of farm blocks, irrigation infrastructure and agricultural mechanization**.

These measures are capable of supporting crop diversification and increase the output in the sector if implemented as planned.

Notably the 2022 budget has seen great increase in the funding of research and development under the Ministry of Agriculture from K5, 957,500 in 2021 to K25, 146,955, although timely disbursement of allocated funds will be critical in realising research impacts on productivity.

Another notable feature of the budget is Government's commitment to recruit more livestock extension officers to enhance the provision of services to livestock farmers as well as empower youths and female-headed households through livestock stocking and re-stocking as well as support for livestock infrastructure, however there is no indication on the number of personnel to be recruited. In addition, the budget presents a significant increase in allocation to livestock disease control from K2, 825,000 in 2021 budget to K96, 398,266 in the 2022 budget, and this will effectively combat major livestock diseases across the country to enhance productivity in the livestock sub-sector.

The fisheries sub-sector, produced 94,943 and 45,670 metric tonnes from our natural water bodies and under aquaculture in 2020 respectively. During the same period, the country imported an estimated 80,000 metric tonnes of fish. The sub-sector has potential to meet domestic demand, penetrate regional export markets and contribute significantly towards job creation. It is therefore critical that the subsector be adequately supported to increase its output. Enforcement measures such as fishing ban ought to be strengthened in the water bodies to allow for fish breeding. Additionally, there is still room to increase the activity in aquaculture hence the need for more support to supplement the efforts and strides scored by Zambia Aquaculture Enterprise Development (ZAEDP) especially that funding to the fisheries production and productivity improvement programmes allocation has reduced drastically from K397, 170, 248 to K139, 605,511.







PMRC notes that in order to increase the output in the Agriculture sector, we need to urgently address challenges of climate change and variability in order to improve production and productivity in the sector. PMRC commends Government on the proposed measures and proposes the following:

#### RECOMMENDATIONS

- In the face of climate change, Government is urged to reduce dependence on rainfed agriculture by ensuring the expansion of irrigational infrastructure and facilitate concessional finance to propel crop diversification.
- Government is encouraged to re-consider the position taken on e-Voucher and improve the system at all levels of implementation to enhance efficiency in the delivery of inputs as it has proved to be a better option in comparison to Direct Input Supply (DIS) if well implemented, it will allow Government save the resources in the treasury. These measures must be considered as Government embarks on the development of a New Comprehensive Support Programme to be implemented in the 2022-2023 agricultural farming season.
- In the aquaculture subsector, there is need to provide additional funding for the establishment of additional aquaculture parks as well as research and development to increase in fish production in order to meet the country's fish local demand and export market.
- In order grow and boost the country's export potential, Government is urged to focus on diversifying away from maize, towards more value addition centered agricultural output especially that the country is well positioned regionally to maximise benefits from the export of diverse value added agricultural goods.

#### **TOURISM SECTOR**







Zambia's tourism sector boasts of a wealth of natural assets such as waterfalls, lakes, rivers and diverse wildlife species. The sector is an important contributor to the country's economic development through; job creation, foreign exchange earnings, contributions to Gross Domestic Product (GDP) and other economic facets.

Some of the challenges that have continued to impact the sector include the **lack of a comprehensive national tourism plan and Zambia being perceived as a high-cost destination and recently the negative impacts of the COVID-19 pandemic.** The 2022 budget has placed a strong focus on this sector as necessary to aid with the revamping the economy and creating employment opportunities, especially for the youth.

Growth in this sector **slowed down in the second quarter of 2021 to 3.4% from 4.8% recorded in the first quarter of 2021.** Government has thus extended current relief measures (15% Corporate Income Tax Rate) from December 2021 up to December of 2022. Furthermore, there has been an abatement on all VISA fees by 50%. These measures, despite costing the treasury money in the short term, are aimed at boosting the sector in the medium to long term. This is a positive step that will ensure Zambia is a more attractive destination for international tourists.

Other measures that Government will take include:

- Extending the waiver of customs duty on safari game viewing vehicles, tourist buses and coaches to 31st December, 2023 for selected tourism enterprises.
- Maintaining a stable economic landscape to reduce the cost of doing business, including streamlining license acquisition, easing tax compliance, visa processing and exemptions ,and improving connectivity.
- Putting in place a robust tourism marketing to incorporate all tourism products including traditional ceremonies, visual arts, culture, heritage sites and others.
- Promoting tourism diversification to other places and products in the country.

These measures are commendable and are likely to promote a lengthier duration of stay for international tourists which has seen a reduction from an average of 6 days in 2013 to approximately 4.7 days in 2018. Government also needs to demonstrate political will to put in place a single licensing system which, despite being mentioned in successive budgets but yet to be implemented.

Lastly, packages that promote domestic tourism could also prove an important source of revenue for the sector, especially in the midst of the COVID-19 pandemic.

#### MINING SECTOR







The budget emphasises on the need to increase output through the increase in production capacity and entry of new mining companies in the sector. Mining has been the main driver of the Zambian economy contributing about 12% towards the Gross Domestic Product (GDP), and generating most of the foreign earnings, foreign direct investments as well as considerable amount of the Government revenue through mining royalties and VAT. Notably, the mining sector remains critical to the Zambian economy as it is the main contributor to foreign exchange earnings and is poised to grow even further due to industry demand for electric cars. Increasing copper outputs from the current 800,000 to 3million metric tonnes in a decade is paramount and entails producing more by existing mining companies and establishment of new mining corporations. To attract more investments Government will promote diversification and value addition not limited to copper but gemstones, manganese and high value minerals like gold.

Government will promote the growth of small- scale mining to address illegal mining, by **formalizing operations of artisanal miners through formation of cooperatives** especially for the youth and women. The cooperatives will be equipped with skills and knowledge to enhance their productivity, as well as training in safe mining practices.

These interventions will not only address illegal mining practices but also create employment. In addition, Government will undertake comprehensive audits of the mining licences issued that will help develop and implement reforms to enable Zambians participate in their own right or in partnership with foreign investors.



Mining has been the main

Zambian economy driver and

contributes about

12% to **GDP** 

#### RECOMMENDATIONS

To enhance the mining contribution, economic growth and job creation, PMRC notes that there is need for mineral diversification to develop, capture and formalise activities in the manganese, gold, silver and gemstones (amethyst, aquamarine, emerald and tourmaline) industry in order to broaden the tax base and help contribute effectively to the growth of the economy.

#### MANUFACTURING AND INDUSTRIALISATION







The manufacturing sector has played a key role in the realization of Zambia's economic growth and development as well as the country's industrialization agenda. The contribution of Zambia's manufacturing sector to GDP remained stable over the period 2015-2019 with an average of about 7.9%. The high cost of doing business, an unstable macroeconomic environment and the COVID-19 pandemic resulted in the shrinking of the manufacturing sector by 4.6% in the second quarter of 2020. The sector requires urgent attention and stimulation.

Government recognizes that the manufacturing sector will play a key role in job creation and economic growth. In the 2022 budget, Government will support value addition of products from the agriculture, forestry and mining sectors. Further growth in the sector will be promoted by facilitating trade and investment as well as increasing the competitiveness of Zambian products.

Related to the manufacturing sector, Government proposes to suspend corporate income tax for persons carrying on the business of manufacturing ceramic products for the charge years 2022 and 2023 in order to facilitate the entry of new players into the industry.

To promote manufacturing through Multi-Facility Economic Zones and Industrial Parks, Government proposes the following:





Zambia's manufacturing sector contributes an average of 7.9% to GDP

In the 2<sup>nd</sup> quarter of 2020, Zambia's manufacturing sector shrunk by 4.6% due to high cost of doing business, an unstable macroeconomic environment and the COVID-19 pandemic.



In 2022 budget, Government will support value addition to products from the Agriculture, Forestry and Mining Sectors.



Zambia currently has 8 Multi-Facility Economic Zones (MFEZs) across the country.

In 2022 budget, Government proposes to reduce the investment threshold in order that Zambian citizens can qualify for tax incentives under the ZDA Act No. 11 of 2006 from \$500,000 to \$50,000.

- Reduction in the investment threshold for a Zambian citizen to qualify for tax incentives under the Zambia Development Agency Act No.11 of 2006 to US\$50,000 from US\$500,000 for those intending to operate in a multi facility economic zone or industrial park.
- Introduce zero percent tax for a period of 10 years from first year of commencement of works in a Multi Facility Economic Zone or Industrial Park, on dividends declared on profits made on exports by companies operating in these economic zones.
- Introduce zero percent tax for a period of 10 years from first year of commencement of works in a Multi Facility Economic Zone or Industrial Park, on profits made on exports by companies operating in these economic zones. For years 11 to 13 only 50% of profits should be taxed and 75% of profits for years 14 and 15.

PMRC welcomes these policy decisions as they could attract more local investors to move their operations to any of the MFEZs across the country. Ultimately, they will encourage further participation in the manufacturing sector and contribute to Zambia's economic growth.







#### SMALL AND MEDIUM ENTERPRISE DEVELOPMENT

Government recognises the importance Small and Medium Enterprises (SMEs) play in boosting growth and job creation. In that vein, Government established a Ministry of Small and Medium Enterprise Development. The Ministry is responsible for policy as well as the development, mentorship and incubation of SMEs.

In its 2022 budget, Government intends to provide support to SMEs and cooperatives ranging from infrastructure development as well as access to markets and credit. It is important to note that there is already on-going work in the construction of industrial yards and with regards to access to credit, various international institutions such as the UKAid and European Investment Bank have come on board to support and provide capital to SMEs. This is in addition to the local institutions which have products tailored for SMEs. Government has also made provisions to guarantee the borrowing of SMEs through the Zambia Credit Guarantee Scheme. In its 2022 budget, Government has specifically allocated K350, 000.00 as empowerment funds for SMEs. This represents 1.04% of the total 19.1% budget allocation to economic affairs. This is quite a milestone for SMEs.

#### **ENERGY SECTOR**







Government seeks to shift resources to higher productivity lines. The energy sector is key to the economic transformation agenda. Challenges have been identified in the sector, particularly in relation to electricity and petroleum. Electricity tariffs are not cost reflective and this has contributed to low private sector involvement. In relation to petroleum, procurement of petroleum products is fraught with inefficiency and uneconomical prices.

Government has proposed implementation of a **Renewable Energy Investment Plan** through which it expects to improve the current energy mix. Zambia has been struggling to generate enough electricity to meet the growing demand as the country develops. Diversification of power sources is now unavoidable as electricity supply is still vulnerable to seasonal rain patterns that are largely influenced by climate change. Further, Government's fiscal position is shaky in view of the high debt levels and by implication this means that there can be no immediate investment in improving capacity.

PMRC has previously made the case for independent power producers in the energy sector in a research report on **Independent Power Producers (IPP) and Power Sector Reform (2018)**, wherein the following proposals were made:

- A nuanced approach to power sector reform, following re-assessment of proposed reforms.
- A hybrid model should be adopted with public and private actors co-existing in generation.
- Attention should be paid to the technical characteristics of the system, institutional capacity and transaction costs of the reforms.
- Reform in the sector is a political process where public acceptance is extremely important along with the need to create new benefits that can be used to compensate groups or institutions that will lose from the proposed reforms.
- We need to focus on the conditions needed for increased investment in the power sector.
- Zambia is facing two challenges: structural capacity deficit and high electricity tariffs. Because electricity prices have been increasing with tariff reforms, to maintain tariff reform a benefit in terms of greater reliability is needed.
- For both these reasons, an increase in capacity, especially non-hydro capacity is the next obvious step for reform. With limited access to resources for investment by the State, this means greater involvement of IPPs.
- Reforms will need to address the complex procurement processes and an underperforming regulator – In its publication 'Energy Roadmap: Delivering Zambia's Energy Needs' PMRC recommended institutional changes to the planning and procurement capacities in the energy sector.

#### TRANSPORT SECTOR







A well-functioning transport system has the potential to reduce the overall cost of doing business in the country and to increase efficiency in the movement of goods and people within Zambia. Furthermore, the Country's central location places it in a key position to become a transportation hub.

The 2022 budget recognizes road, rail, air and maritime infrastructure as key drivers of economic activity as well as trade and investment within Zambia, across the region and beyond. As a way of improving the transport sector the following will be addressed in the 2022 budget:

- Maintenance and rehabilitation a total of 4,300km of rural feeder roads. Special emphasis will be placed on rehabilitating roads with economic significance such as the Lusaka-Ndola, Chinsali-Nakonde and Kazungula-Sesheke roads.
- In terms of air transport, focus will be on the completion of Kasama and Mbala airports. The maintenance and rehabilitation of provincial airports are expected to facilitate transport for cargo and passengers and therefore contribute to the growth of Zambia's tourism sector.
- In view of its current fiscal constraints, Government will aggressively pursue Public Private Partnerships (PPPs) in order to maintain, rehabilitate and construct infrastructure related to the transport sector. The Public Private Partnership Act No. 14 of 2009 will be repealed and replaced by a new act.



The construction of Simon Mwansa Kapwepwe and upgrading of Kenneth Kaunda International Airports was completed.



The Kazungula Bridge linking Zambia and Botswana, was commisioned on 10<sup>th</sup> May 2021.



Government has commenced the Improved Rural Connectivity Project to maintain and rehabilitate a total of 4.300km of rural feeder roads.

#### **EDUCATION AND SKILLS DEVELOPMENT**







The education sector is a **critical pillar in achieving human and social development** as it directly contributes to a skilled labour force and is essential for growing the economy as well as reducing poverty. As global trends evolve, the need to link skills with labour market demands cannot be over-emphasised. However, **Zambia's education sector is characterised** by a myriad of challenges that include; inadequate financial and human resources, poor education quality and low progression rates, among others. These challenges tend to be higher in rural areas due to developmental inequalities, where access to quality education has continued to be affected by distance, poor infrastructure, lack of teachers and inability to pay user fees. Consequently, this impacts development as high levels of unskilled personnel may not be able to significantly contribute to the growth of the economy.

In line with Government's aspirations to make quality education accessible to all, the 2022 budget has allocated K18.1 Billion representing 10.4% of the National Budget to the sector. This is an increase by 32% in comparison to the subsequent allocation of K13.8 Billion in 2021. Government has also set aside K2,188,592,645 to support school operations and K694,331,744 for school infrastructure as well as K199,787,477 for skills development.



K18.1
Billion
allocated to the Education
Sector in the 2022 National
Budget.

This represents an increase of 32% compared to K13.8 Billion of 2021.

Several measures have been put in place to improve access to quality education. For instance, Government seeks to recruit 30,000 teachers in 2022 at a cost of K1.7 billion in a bid to guarantee quality education by reducing the teacher-pupil ratio. Another measure set to improve access to education will be through the construction of an additional 120 secondary schools to be financed through a loan obtained from the World Bank. Like primary school education, access to secondary schools is limited in rural areas, hence there is need for Government to target rural areas in order to address challenges such as low progression

rates and distance to schools. Moreover, the continued investment in the development of school infrastructure should be targeted towards increasing the number of STEM schools across the country in order to nurture innovation through science and technology which is an essential tool for development and will help advance the country's technological skills base.

As a means of ensuring equitable opportunities for the girl child, Government will continue to address gender specific challenges that the girl child faces such as walking long distances to school, early marriages, menstrual hygiene and unwanted pregnancies. In this regard, Government will increase beneficiaries on the Keeping Girls in School Programme from the current 28,964 in 2021 to 43,520 girls in 2022.

To realise Government's aspiration for free education from primary to secondary level, user fees such as Parent Teachers Association (PTA), examination fees and tuition fees will be abolished. Furthermore, to cover boarding facilities, bursary schemes will be introduced for vulnerable learners through the K792,226,102 reserved under the Constituency Development Fund (CDF). To ensure this is realised, the provision of teaching and learning materials, grants to primary schools will be increased three-fold in 2022. Further, grants from the Government to public schools will be increased to meet the operational costs that were previously financed by the fees. The removal of school fees is a significant relief for many households as this money can contribute towards other basic needs for the family such as nutrition.

PMRC commends Government for the proposed recruitment of teachers and urges them to decentralize the recruitment process in order to reduce incidences of teachers requesting for transfers. Equally, there is need to look into issues that will act as incentives for more teachers to take up places in rural areas. This is critical for achieving the provision of equitable quality education and bridging the gap between urban and rural learners. Similarly, the removal of user fees in the education sector will allow for greater retention rates among learners from vulnerable households.

#### **RECOMMENDATIONS**

- PMRC urges Government to conduct curriculum assessments in order to adequately equip learners with the necessary skills such as those in Entrepreneurship, Science and Technology so as to effectively respond to societal needs.
- Government is urged to continuously conduct skills audits among teachers in order to build capacity to improve the quality of education imparted on learners.
- PMRC urges Government to apply the bursaries to be accessed under CDF on an equitable basis for learners in rural areas in order to improve progression rates.

#### **HEALTH SECTOR**







Access to health care is a basic human right and a critical pillar towards achieving the Sustainable Development Goals. Therefore, securing qualified health personnel and providing adequate funding to the sector will enhance the quality of care accessed and the provision of services.

Government has allocated **K13.9 Billion representing 8% of the total 2022 budget**. This is an increase by 44% in comparison to K9.7 Billion in 2021. Other allocations are towards drugs and medical supplies at K3.4 Billion which represents more than double the allocation in the 2021 budget towards drugs and medical supplies, COVID-19 vaccines at K704,275,000, operations for hospitals at K883,249,509 and health infrastructure at K1.6 Billion.

Furthermore, Government seeks to recruit 11,200 health care personnel as well as place health workers that have been working without a salary on payroll. This measure will not only help address the high unemployment rate but will also help Government achieve its goal of enhancing the quality of health care across the country. In light of the critical need for improved health care in the face of COVID-19, the recruitment of health personnel and securing funding towards acquiring more doses of the COVID-19 vaccine will help Government reach its vaccination rollout targets.



In the 2022 National Budget, K13.9 Billion has been allocated to Health Sector, representing 8% of total budget.



K3.4 Billion has been allocated towards drugs and other medical supplies.



Government seeks to recruit 11,200 health care personnel.

Government will also continue to invest in health infrastructure development through the construction and completion of health facilities. This is a critical area of focus especially in rural areas where barriers in the access to health services continue to undermine the quality of life of citizens. Another key area that needs investment is in the provision of drugs, medical supplies in health facilities and specialised medical care and skills in order to respond to the health needs of the people. This will help Zambia become an attractive healthcare hub in the region. Facilities such as Maina Soko Military Hospital, Cancer Disease Hospital and Lusaka Specialist Hospital are key examples that can put Zambia on the map for health tourism. This will also help the Government save on medical evacuations to India and South Africa for specialized health services. Therefore, we urge Government to prioritise modernising and equipping of health facilities.

PMRC commends Government for setting up measures to improve supply management systems that will ensure availability of essential medicines and medical supplies through the Zambia Medicines and Medical Supplies Agency in accordance with the Zambia Medicines and Medical Supplies Agency Act No.9 of 2019. Further, PMRC commends Government for its commitment to attaining universal health coverage by reforming the National Health Insurance Scheme as this will make quality health services affordable and accessible to all.

#### RECOMMENDATIONS

- PMRC commends Government for an increased budgetary allocation towards the provision of health services, however, we urge Government to continue to strive towards attaining the 15% target as set in the Abuja Declaration.
- Further, PMRC urges Government to urgently strengthen procurement systems in the health sector to resolve the various challenges highlighted in the Auditor General's report. This can be done through strict adherence to the Zambia Public Procurement Act and enforcement of measures to curb wastage of resources.
- Finally, there is need for Government to exploit public-private partnerships in order to advance Zambia's health sector to become a hub for medical tourism. Equally, innovative ways of financing the health sector will improve the quality of services accessible to citizens.

#### WATER AND SANITATION SECTOR







Government has been making significant strides in the water and sanitation sector as evidenced by the various projects it has embarked on such as the **National Urban and Rural Water Supply Programme**. These projects have been implemented in **Kafue**, **Nakonde**, **Chinsali and Chongwe**. Furthermore, projects such as the Lusaka Water Supply Sanitation and Drainage Projects are targeted to benefit about **90,000 residents once completed while similar projects are also being implemented in Kafulafuta, Serenje and Mufumbwe districts.** 

Government with the help of its cooperating partners will continue to undertake a number of water and sanitation projects to improve access to clean and safe drinking water as well as to provide sanitation services. The 2022 budget has increased the allocation in this by 9% from K2.2 Billion in 2021 to K2.4 Billion with additional financing of K145,323,866 under the Millenium Challenge Account.

PMRC commends Government for its continued efforts to improve access to clean water and sanitation, particularly in rural areas in order to address challenges of long distance to points of safe drinking water for communities.

Moreover, the removal of application and registration fees to drill domestic boreholes will help increase access to water across the country. However, more efforts need to be made to safeguard the quality of underground water and reduce contamination. Similarly, there is need to improve drainage systems and solid waste management systems across the country to address issues such as flooding and the indiscriminate disposal of waste as this impacts sanitation particularly in urban and peri-urban areas. There is also an urgent need to scale-up efforts to reach vulnerable sections of society, as basic sanitation has continued to be a challenge in many communities.

#### RECOMMENDATIONS

- Government is encouraged to expedite the implementation and completion of various water and sanitation projects across the country in order to achieve equitable access to clean water and decent sanitation for all.
- Government is urged to improve the drainage systems and solid waste management systems in order address the challenges faced from flooding during the rainy season and the indiscriminate disposal of waste as this impacts on sanitation.

#### SOCIAL PROTECTION







Social protection is key in reducing vulnerability among poorer sections of society and is a critical policy measure to promote access to basic social amenities that impact on the quality of life. Social protection programming supports development through building human capital, thus breaking the intergenerational transmission of poverty and promoting the reduction of both social and economic inequalities. **Programmes such as the Social Cash Transfer, Food Security Pack are essential social safety nets that safeguard livelihoods**.

In the 2022 budget, social protection has received an allocation of K6.3 Billion representing 3.6% of the National Budget. This allocation is an increase by 31% from the K4.8 Billion allocated in 2021. The Social Cash Transfer (SCT) has been allocated K3.1 Billion, while the Public Service Pension Fund (PSPF) stands at K2.1 Billion and Food Security Pack (FSP) at K1.1 Billion.

The budgetary increment on various programmes will facilitate the upscaling of beneficiaries. Under the SCT, beneficiaries will be adjusted upwards from 880,539 to over one million in 2022. Equally, the transfer amounts will be increased from K150 to K200 per month and from K300 to K400 per month for households with persons with disabilities. In order to support the most needy in society, PMRC notes that there is need for strengthening human resources in the department of social welfare at ward level to improve the targeting of beneficiaries with the help of community members. While scaling up beneficiaries is commendable especially given the socioeconomic impacts of COVID-19 on many households which further exacerbated their vulnerability through loss of income, PMRC suggests the need to link vulnerable households on various social protection programmes to empowerment programmes in order to progressively uplift them from poverty and enable them to effectively participate in development. In addition, PMRC has been advocating for Government to shift from the traditional cash pay-outs to beneficiaries to a more cost effective and efficient electronic



Social Protection has received K6.3 Billion, which is 3.6% of the National Budget.

The Social Cash Transfer has been allocated K3.1 Billion.

Public Service Pension Fund has been allocated K2.1 Billion.

Food Security Pack has been allocated K1.1 Billion.



Under Social Cash Transfer, beneficiaries have been adjusted upwards from 880,539 to over 1 million.

Transfer amount have been adjusted from K150 to

**K200** 

K400

to households with persons with disabilities

**pay-out of SCT benefits as a cost saving measure**. Furthermore, there is need to strengthen measures aimed at providing timely and predictable disbursement of funds in order to cushion further vulnerability on beneficiary households.

The Food Security Pack Programme has also been earmarked for upscaling from 263,700 to 290,000 households in 2022. This Programme is targeted at the vulnerable but viable farmer households. Similarly, other social protection interventions that will be scaled up include the Girls Education and Women's Empowerment and Livelihood Programme, the Home-Grown School Feeding Programme, Public Welfare Assistance Scheme, and Child Welfare Programmes.

In order to safeguard the livelihoods of pensioners, the 2022 budget has committed funds towards the settlement of pension benefit arrears for retired public service workers that stood at K1.2 Billion. The allocation towards this settlement is K2.1 Billion which is in excess of the arrears in order to curtail further accumulation of arrears. This also indicates that Government has prepared for the next cohort set to retire. Therefore, PMRC commends Government for its efforts to dismantle the arrears owed to pensioners as this will enable them to live dignified lives after work and improve their quality of life. Further, Government is set to review and amend legislation such as the Public Service Pensions Act Cap 260 of the Laws of Zambia, Local Authorities Superannuation Fund Act Cap 284 of the Laws of Zambia and the Pension Scheme Regulation Act No. 27 of 2005 in order to restructure the current pension system to allow workers to access accrued benefits before retirement. This is a commendable measure that will empower citizens to access their pension contributions for personal investment and development. In addition, the funds accessed under this programme will act as a source of capital for personal ventures that will contribute to uplifting their livelihoods and enable them to continue contributing to the growth of the economy.





#### RECOMMENDATIONS

- PMRC recommends that Government expedites the shift to electronic platforms for the administration of the social cash transfer in order to improve the security of funds as well as cut down on administrative costs.
- PMRC urges Government to link beneficiaries of various social protection programmes to empowerment programmes in order to sustainably uplift beneficiaries out of poverty.
- PMRC recommends that Government expedites legislative reforms governing pension benefits in order to further empower citizens to access pension contributions for personal investment and development.







Climate change adaptation and mitigation is among the key areas of focus for the 2022 budget to improve environmental sustainability. This is in line with Government's emphasis on 'greening' the economy, and entails that all environmental activities that are scheduled for 2022 should be executed in a manner that is climate-friendly.

The budget allocates just under K972 million to this sector, an increase of approximately 1.7% from the 2021 budget. The 2022 budget proposes reviewing the fee structure of environmental impact assessments in a manner that gives Government proper control of the process but also does not discourage investors from pursuing various development projects.

Government seeks to improve climate change financing in order to manage Zambia's climate risks. This will be done through Green Bonds, Carbon Trading and Legislation for a Climate Change Fund.

Furthermore, the private sector needs to be encouraged to participate in climate change financing ventures. Some of the primary strategies that can be used to achieve this include; increasing the awareness on the negative impacts of climate change and the need for a response to it, utilising of public-private partnerships in national climate change efforts and, lastly, engage the private sector to develop products and services that will reduce the costs and impacts of climate change.



#### **PUBLIC FINANCIAL MANAGEMENT**







Government has identified public financial management as key to meeting its development agenda. In the 2022 budget focus, will be on strengthening national planning, internal controls and audit, resource mobilization, procurement as well as transparency in debt contraction and management, among other areas.

In the 2022 budget, Government has outlined its desire to expand the coverage of the Financial Management System to the district level and develop a standardized Local Authorities Financial Management Information System framework. PMRC commends this action because it will strengthen the financial governance of the Constituency Development Fund (CDF). This will serve to allay fears about abuse of the CDF.

Regarding public procurement, Government is committed to procuring goods and services at "the right price, of the right quality and delivered on time". To this end, Government will endeavor to strictly adhere to the provisions of the Public Procurement Act No.8 of 2020 and ensure that all public investment projects are appraised. PMRC is of the view that gaps still remain in Zambia's procurement legal frameworks, procedures and practices, which have previously resulted in abuses and significant losses in Government finances. Therefore, there is need for reforms to be undertaken in the procurement process in order to match Government's commitment to undertake better procurement.

#### **DEBT MANAGEMENT**

**Zambia's total debt** as at September 2021 stood at **US\$26.96 billion**, up 32% from December 2020 which is unsustainable. Government will spend **K51.3 billion** on servicing external debt and K27.3 billion on domestic debt, or K78.7 billion altogether. This represents 45.5% of the 2022 budget. Given the high debt servicing obligations, Government has had very limited resources to spend on programmes that contribute to economic growth and poverty reduction.

In November 2020, Zambia became the first nation in Africa to default on its debt during the COVID-19 pandemic. This happened when the country failed to make a US\$42.5 million Eurobond repayment. The depreciation of the Kwacha against other currencies has contributed to higher debt service than planned.

Currently there are two important short-term measures of achieving debt sustainability which include a support programme from the International Monetary Fund (IMF) and the signing of the Debt Service Suspension Initiative (DSSI) with the Paris Club and G20 creditor countries and Intesa Sanpaolo. The IMF deal would allow Government to renegotiate its repayment terms with creditors under the Common Framework for debt treatment beyond the Debt Service Suspension Initiative, freeing up resources for development.

Going forward, Government will also endeavour not to contract further external non-concessional loans except for refinancing existing debt, while domestic borrowing will be restricted to scheduled auctions in preference to private placements. Concessional debt with a longer repayment period and lower interest will also be explored. With regards to strengthening the legal framework governing debt management and contraction, Government intends to repeal and replace the current Loans and Guarantees Act with a new Loans, Grants and Guarantees (Authorisation) Bill. PMRC commends Government on this move as the enactment and effective implementation of this Bill will enhance transparency in public debt management and loan contraction.

#### **FISCAL POLICY**

Government's fiscal policy agenda for the year 2022 is to progressively reduce fiscal deficits to sustainable levels while supporting growth that generates jobs and poverty reduction. To achieve this, the Government intends to employ a combination of revenue mobilization, administrative reforms and expenditure rationalization measures.

#### Revenue Mobilization

In the medium- term, the target is to increase domestic revenue to at least 21.0 percent of GDP. And to achieve this, Government will streamline the tax system and place a high priority on fair and equitable taxation as well as establish a stable and predictable tax policy environment.

Further, the Government will rationalise the mining tax system to attract investment which will in turn increase production and also address base erosion and profit shifting to boost domestic revenues.

# **Administrative Reforms**

Government intends to take advantage of the Information and Communications Technology (ICT) for revenue collection and intends to connect an additional 100 public services to the Government Service Bus and Payment Gateway (BPG). This will bring the total number of services to 330 by the end of 2022. Further, the Zambia Revenue Authority systems will be interfaced with the Government Service Bus and other systems to improve on regulatory compliance and seal revenue leakages.

# **Expenditure Rationalization**

To rationalize expenditure, Government plans to reduce areas of wastage of resources in the budget and channel them to other needy areas that will improve the livelihoods of the people. The migration of beneficiaries under the Farmer Input Support Programme to the cheaper comprehensive agriculture support programme is an example of such a measure.

To further reduce expenditure on goods and services, the Government will strictly enforce the provisions of Public Procurement Act No.8 of 2020. This is to ensure that the procurement of public goods, works and services are done at the right price in accordance with the quarterly market price index published by the Zambia Public Procurement Authority.

To meet the proposed expenditure, Government expects to raise a total of K173.0 billion. Of this amount, K77.9 billion will come from taxes, K20.7 billion from non-tax revenue and K343.8 million from other revenues. The Government, further, intends to mobilise K24.5 billion from domestic borrowing while externally sourced financing is projected at K49.7 billion. Of these external sources, K39.3 billion will be in form of budget support, K8.5 billion from existing project disbursements while grants from Cooperating Partners will be K1.8 billion.

#### STRATEGIES ON DISMANTLING OF DOMESTIC ARREARS

Government has accumulated significant domestic arrears over the past years. This has been attributed to revenue shortfalls, financing challenges and weaknesses in commitment control systems (Economic Recovery Programme 2020-2023). The result of this is that domestic arrears have risen from about K641.2 million at the end of 2014 to K46.9 billion as at end- June 2021. The bulk of the arrears are to road contractors, suppliers of goods and services, Value Added Tax refunds and personnel related emoluments to public service workers.

Domestic arrears have led to a tightening of financial conditions, constrained the growth of private sector credit and contributed to a rise in non-performing loans which pose a threat to the stability of the financial system. The 2019 IMF Regional Economic Outlook for Sub-Saharan Africa suggests that as a result of payment delays, Government suppliers or State Owned Enterprises (SOEs) may withhold their tax payments until arrears are settled. If suppliers withhold tax payments, this lowers Government's revenue which can result in inadequate public service provision and ultimately poor social outcomes. Additionally, SOEs may respond to the accumulation arrears by charging higher prices to compensate for delayed payments, thus delaying the supply of inputs for Government projects if they are financially constrained. This could further lead to the reduction in the size of their workforce, resulting in higher unemployment levels.

To curtail the accumulation of arrears and dismantle the stock, Government developed an arrears dismantling strategy. The key measures in the strategy include increased budgetary provisions, debt and/or cheque swaps, as well as debt refinancing and restructuring.

Government plans to liquidate a substantial amount of domestic arrears over a period of five years. However, there is a need to give a more comprehensive explanation of the principles and prioritization criteria that will be used to determine how arrears are liquidated. This may prove especially beneficial to suppliers who lack understanding about prioritization criteria on payments of suppliers. In terms of halting the accumulation of new arrears, it will be especially important to restrict the commencement of new capital projects and major equipment procurements. This action will have the dual benefit of ensuring that all on-going projects are completed and that domestic arrears are either accumulated at a slower pace or not at all.

#### MONETARY SECTOR

Government through the Bank of Zambia intends to maintain a flexible exchange rate regime. To this effect, measures that support the stability of the exchange rate will be promoted. The measures include:

- Stepping up the accumulation of international reserves to create a buffer to cushion the economy against external shocks, limiting it to at least 3 months of import cover.
- Fast-tracking the diversification of exports through an export-led industrialization and promote a viable foreign direct investment.
- Attain a real GDP growth rate of at least 3.5 percent.
- Reduce inflation to single digits by end 2022 and within the target band of 6-8 percent by mid-2023. This will result in the lowering the cost of living for the Zambians by reducing the current high level of inflation.
- Increase domestic revenue to not less than 21.0 percent of GDP.
- Reduce the fiscal deficit to no more than 6.7 percent of GDP; and limit domestic borrowing to no more than 5.2 percent of GDP.
- Further, implementation of monetary policy will continue to rely on the forward-looking framework anchored on the Monetary Policy Rate. This will take into account subdued economic activity and existing vulnerabilities in the financial system.

#### DECENTRALISATION

The concept of decentralization in Zambia is not a new phenomenon, it dates back to the 1960's with development and implementation of various pieces of legislation but the actual take-off for decentralization in Zambia was in 2013 when the country launched the 2013 Decentralization Policy. The main aim of the Decentralization Policy is to promote people's participation in democratic governance at the local level. It is important to note that not all functions would be transferred to the lower levels and councils, but that Central Government shall retain some core functions over essential national matters.

Focusing on Decentralisation Policy Implementation progress, it was noted that: The transfer of functions from Central Government to councils commenced in January 2015 and, apart from devolving functions, the Cabinet Circular also mandated councils to create "Ward Development Committees (WDCs)" as the fourth tier of Government as required in the Revised National Decentralisation Policy (R-NDP) then. In view of this, the National Planning and Budgetary Policy states that districts will be required to submit District Development Plans (DDP), which will be forwarded to the province and feed into the Provincial Development Plan (PDP). The province will then send the PDP to the Ministry of Finance and this was actualised in 2017, Central Government devolved functions to the local Authorities, recruited more human resource to build capacity and created more districts to ensure development is within the reach for people countrywide.

The final process of decentralization in Zambia over the last few years and what many proponents of decentralization have been advocating for the devolution of resources/fiscal decentralization to the local authorities. This form of decentralisation relates to power sharing for decisions relating to fiscal resources and revenue generating powers (Wunsch & Olowu, 1995). In many cases, fiscal decentralisation is the key to attaining the full benefits of overall decentralisation objectives. Despite the various prerequisites for success, (capacity of human resource and others) it has been argued to be a very effective form of decentralisation, as evidently seen in the case of Bolivia, where fiscal decentralisation led to Government being more responsive to the needs of the poor to promote more spending on social services, education and training, (Fauget .2003).

Fiscal devolution is applied through financial mechanisms such as Constituency Development Funds (CDF). **CDF refers to a policy tool and development initiative whereby public money is dedicated to benefit specific political subdivision (Center for International Development 2009)**. Central Government delegates and allocates funds through Local Government, which has influence over various stakeholders represented by area Members of Parliament (MP's) and Ward Councillors.

Therefore, the 2022 budget has actualised the final process of decentralization by ensuring resources through CDF are increased from K1.6 million per constituency to K25.6 million to enable communities identify their development priorities, make budgets and undertake development programs according to their development needs. The budget has devolved functions to the local authorities that used to be performed by Central Government these

include among other functions, construction of primary school classrooms, desks, clinics, local courts, small bridges and canals, community boreholes, dip tanks and small dams. Further the increased CDF will include empowerment programs for local communities that were previously done through respective ministries as well as bursaries and skills development programmes.

While the decentralization of resources to local authorities is commendable, there are a number of measures that need to be put in place for the country to attain development in all parts of the country other than those suggested in the budget and these include:

- Strengthening accountability mechanisms to prevent corruption and misappropriation of funds as fiscal decentralisation is being implemented.
- Further, steps to enhance service delivery by sub-national authorities need to focus more sharply on coherent policies targeted towards outcomes hence the need for introduction of key performance indicators for all constituencies arising from their individual development plans.
- There is need for full participation of the private sector in the development committees to ensure that the choice of development projects meet value-for-money criterion.
- Continuous capacity building for local authorities in financial management and M&E for local communities to track development and demand for accountability and transparency in the use of CDF.
- Ensure adherence to financial management systems by the local authorities such as the Procurement Act 2020 and the Financial Management Act, 2018.

#### **PUBLIC PRIVATE PARTNERSHIP**

Infrastructure development remains a very important component and bedrock for sustainable national development. Over the last 10 years, Government undertook various infrastructure projects which has contributed to the current debt stock.

With more demand for quality infrastructure critical for the survival and growth of the manufacturing sector, it is important that the country is land linked in its quest to become a sustainable transport hub within the implementation of the Continental Free Trade Agreement (CFTA) in order to increase the volume of manufactured goods and services for Zambia. Several infrastructure projects ought to be undertaken at a huge cost and the ingredient to this requirement is the key to ensure that alternative financing is sourced, so as to provide some relief for the national treasury.

PMRC has therefore been advocating for Public Private Partnerships (PPPs) as a viable avenue through which Government can continue to engage with the private sector in delivering various infrastructural needs in all sectors. Going forward, the proposal by the budget to repeal and replace the Public Private Partnership Act no.14 of 2009 is commendable as this will enable Government address all challenges and bottlenecks that exist in the implementation of this Act.

#### RECOMMENDATIONS

- Increased CDF should be supported by strengthened systems on procurement and planning for district committees. Review of the systems should be expedited before funds are released, to minimize the possibility of misappropriation.
- Expedite public service reforms to address unwarranted political interference in oversight institutions so that they can efficiently and effectively perform their mandates.

#### **MEDIA REFORMS**

Government's commitment to ensuring communication and free expression through the media is commended, as a means of providing checks and balances. The importance of universal access to information cannot, therefore, be over-emphasised; particularly so with the endeavour to ensure that development is taken to the people at constituency level. Information sharing and dissemination will be vital for the success of the development agenda. The intention to install communications towers and promote ICT for business is thus commended. To cure the ills that have plagued the media, Government will need to expedite consultations for an inclusive piece of legislation to provide for freedom of information, in furtherance of civil liberties on freedom of expression.

#### CONCLUSION

The 2022 budget has been presented at a time when the economy is facing numerous challenges, among them huge debt stock, reduced growth induced by internal and external factors coupled with high unemployment and high inflation. The 2022 budget has significantly expanded and Government will have to finance certain components using borrowed resources. The 2022 budget therefore sets in motion the Government's economic direction for the next 5 years.

The 2022 budget presents a great opportunity for growth and development through a people-centered strategy. The Government's Economic Transformation Programme will focus on job creation, value addition in key sectors such as mining, agriculture and manufacturing. The budget has also demonstrated amplified efforts towards reducing developmental inequalities by increasing the Constituency Development Fund (CDF) from 1.6 million to 25.7 million per constituency, which entails taking resources to the grassroots, which must be commended.

In order for Government to meet the 2022 budget aspirations, the IMF programme is critical whilst we envision the continued copper price boom, well managed COVID-19 pandemic situation and a favourable weather pattern to support increased production and productivity in the agricultural sector will be key. This hypothesis is critical, as failure will lead to serious economic consequences and the success will entail an enormous shift in the Zambian economy that will consequently improve the livelihoods of Zambians.

The successful implementation will require consistency in the demonstrated goodwill towards budget execution and will need Government to expedite domestic resource mobilization, engage cooperating and development partners for supplementary funding to key economic sectors such as Agriculture and Tourism. The 2022 budget presents an opportunity for economic transformation, while restoring growth and development in the economy. However, for this to be achieved it will require a paradigm shift in the mindset of all stakeholders to deliver development through economic growth, job creation and good governance.

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# **2022 NATIONAL BUDGET**

THEME: 'GROWTH, JOBS AND TAKING DEVELOPI

#### **EXPENDITURE ESTIMATES 2022 BUDGET** (Interest and Principal) Social Protection K51.315.495.958 K6.294.259.007 3.6% Social Cash Transfer K3.106.584.278 Public Service Pension Fund Food Security Pack eneral Public Service estic Debt K1 100 000 000 K86,370,423,381 K27.364.645.716 Health Public Affairs and Dismantling of Arr K13,911,599,575 **Summit Meetings** K3.105,998,428 K120,000,000 8.0% Local Government Equalization Fund Compensation Fund **Drugs and Medical Supplies** K300.000.000 K1,339,252,754 K3.378.620.182 K704.275.000 Health Infrastructure Education K1,615,563,414 Operations for Hospitals 10.4% K883,249,509 Operations for Schools Secondary School & Skills Development Bursaries (CDF) **Public Order** NATIONAL BUDGET and Safety School Infrastructure K3,492,630,548 K694,331,744 Skills Development Fund K199.787.477 armer Input Support Program K5,372,670,459 Housing and Community ad Infrastructure Amenities K4,929,279,060 K2,376,330,844 Constituencu Deve 1.4% K3,223,200,000 Water Supplu and Sanitation K2,420,114,780 K2,352,235,641 Youth and Women En K803.085.220 Millennium Challenge Acco K145,323,866 Airport Infrastructure K1,036,500,000 **Environmental** Protection Kenneth Kaunda In K886,500,000 K971,923,264 Recreation, Culture and Religion Kasaba Bay K150.000.000 Strategic Food Reserves K960.000.000 K156,424,195 **Economic Affairs** 0.1% K33,705,802,765

#### RESOURCE EN

#### **Domestic Revenues**

K98,859,157,828



Income Tax 42.275.421.724

Value Added Tax 22,903,634,804

Customs and Excise

12,539,583,569 Non-Tax Revenues

20 883 129 824 Other Revenues

343.758.145

#### Total Domestic Revenues, Grants a

#### **Total Domestic Revenues and Dom** Financing

I. Domestic Revenues

#### Tax Revenue

Income Tax

Company Tax Pay As You Earn (PAYE) Withholding Tax and Other

#### Value Added Tax

### **Customs and Excise Duties**

Customs (Import Tariffs) **Excise Duties** 

#### **Export Duties**

Total User Fees, Fines and Cha Mineral Royalty

#### **Other Revenues**

Motor Vehicle Fees Tourism Levy Skills Development Levy Insurance Premium Levy

#### II. Domestic Financing

Rural Electrification Fund

owerment Funds for SMEs

K362.208.689

K350,000,000

K110,000,000

#### III. Total Foreign Financing and G Programme Loans

Project Loans Foreign Grants

K7,634,315,965

# Γ INFOGRAPHIC

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# **VELOPE FOR THE 2022 BUDGET**

#### Total Foreign Financing & Grants

K49,668,978,774



Programme Loans 39,347,310,774 Project Loans 8,499,699,876 Foreign Grants 1,821,968,124

Domestic Financing K24,458,940,933



	Amount (K)				Share of Budget		
nd Financing		172,987,077,535	100%	37.1%			
estic		123,318,098,761	71%	26.5%			
		98,859,157,828	57%	21.2%			
		77,852,269,858	45%	16.7%			
		42,275,421,724	24%	9.1%			
	16,393,900,240						
	17,258,896,671						
	8,622,624,813						
	22,903,634,804						
	12,539,583,569						
	6,355,099,165						
	6,184,484,405						
	133,629,762						
		20,663,129,824	12%	4.4%			
rges	7,824,119,390						
	12,839,010,434						
		343,758,145	0%	0.1%			
	77,669,476						
	17,670,050						
	199,787,477						
	48,631,143						
		24,458,940,933					
rants		49,668,978,774	29%	10.7%			
	39,347,310,774						
	8,499,699,876						
	1,821,968,124						

# MACROECONOMIC OBJECTIVES, POLICIES AND STRATEGIES FOR 2022

The following are the macroeconomic objectives for 2022:

- a) Attain a real GDP growth-rate of at least 3.5 percent;
- b) Reduce inflation to single digits by end 2022 and within the target band of 6-8 percent by mid-2023;
- c) Limit international reserves to at least 3 months of import cover;
- 4. Increase domestic revenue to not less than 21.0 percent of GDP;
- 5. Reduce the fiscal deficit to no more than 6.7 percent of GDP; and
- 6. Limit domestic borrowing to no more than 5.2 percent of GDP.

## THEMATIC AREAS



#### **Economic Transformation and Job Creation**

- In the initial stage, the focus will be to increase output in agriculture, tourism, mining, manufacturing, energy and transport sectors to grow the economy and create employment opportunities, especially for the youth.
- Economic transformation will entail shifting resources to activities of higher productivity both within and across sectors of the economu.



#### **Human and Social Development**

- Government has made significant allocations to education, skills development and health.
- Government has also scaled up allocations to water and sanitation as well as provision of social safety nets.



#### Environmental Sustainabilitu

- Government's focus will be to strengthen climate change adaptation and mitigation, promote sustainable natural resources management and enhance the coverage of early warning systems.
- Government will ensure that the country's social and economic activities are sustainable and efficient.
- To promote innovative financing for climate change interventions.



#### Good Governance Environment

- Priorities in this area will be the fight against corruption, strengthen the rule of law and ensure sound public financial management.
- Resources will be taken closer to the people through decentralization.

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# **2022 ZAMBIA NATIONAL BUDGET ANALYSIS**

THEME: "GROWTH JOBS AND TAKING DEVELOPMENT CLOSER TO THE PEOPLE."



## **Unlocking Zambia's Potential**

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

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