



**POLICY MONITORING AND RESEARCH CENTRE
BUDGET PERFORMANCE SUBMISSION**

JULY 2022

INTRODUCTION

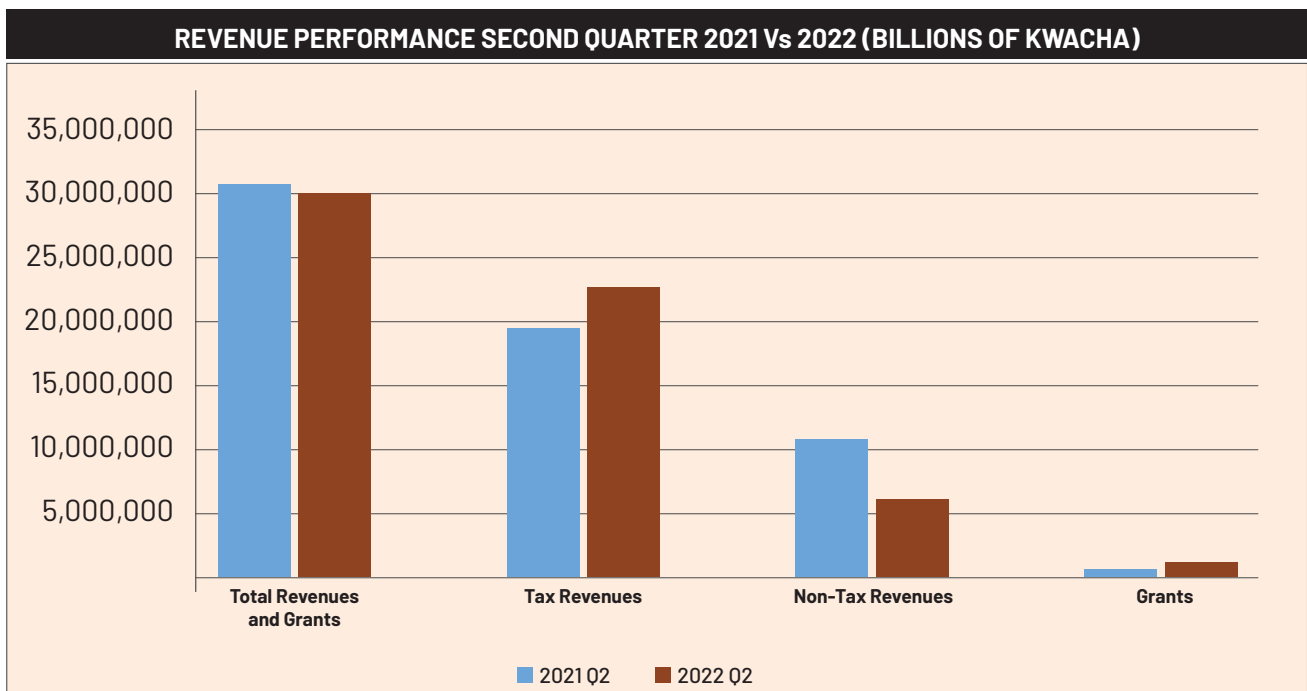
PMRC was requested to submit a written memorandum providing details about the performance of the 2022 budget in the second quarter. Furthermore, PMRC was requested to provide any information that may assist the Committee in effectively reviewing the second quarter of the 2022 budget and to provide recommendations to improve budget performance.

This memorandum will therefore detail the revenue and expenditure for the second quarter of 2022 in comparison to the 2021 performance during the same period. Information and recommendations will also be provided to help the committee effectively review the budget and improve its performance in the future.

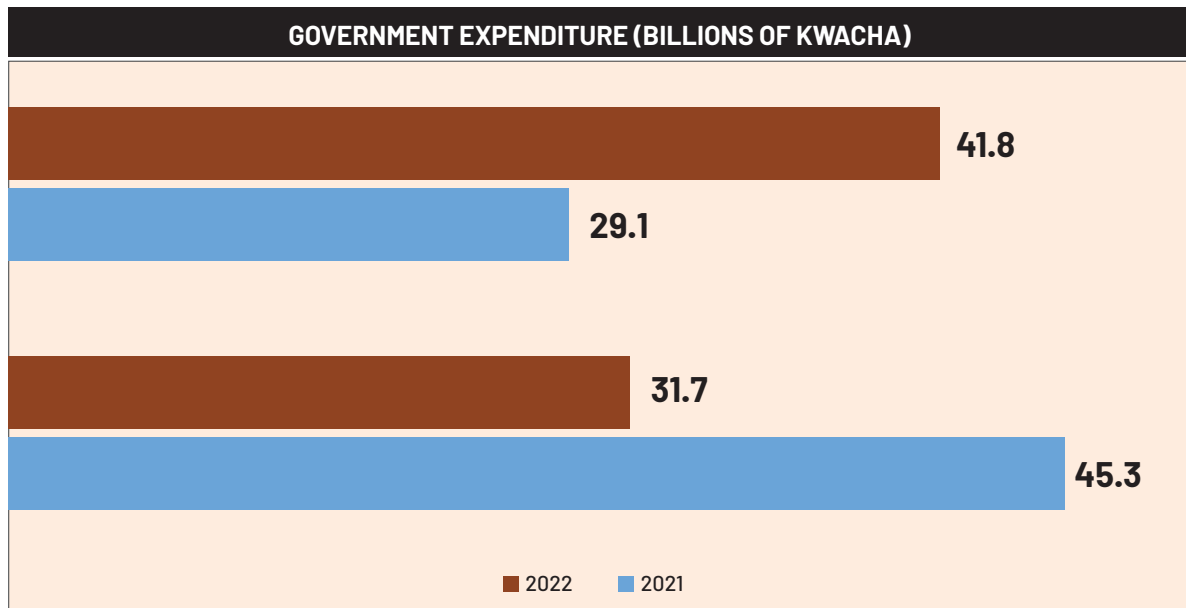
REVENUE AND EXPENDITURE BUDGET PERFORMANCE FOR THE SECOND QUARTER OF THE 2022 FISCAL YEAR

Overview

For the second quarter of 2022, total revenue and grants amounted to K30 billion. The breakdown is a collection from Tax Revenue accounted for K22.8 billion, Non-Tax K6.1 billion and K1.1 billion from grants. For the corresponding period in 2021, collections for Tax Revenue accounted for K19.4 billion, Non-Tax K11.0 billion and K762.6 million from grants.

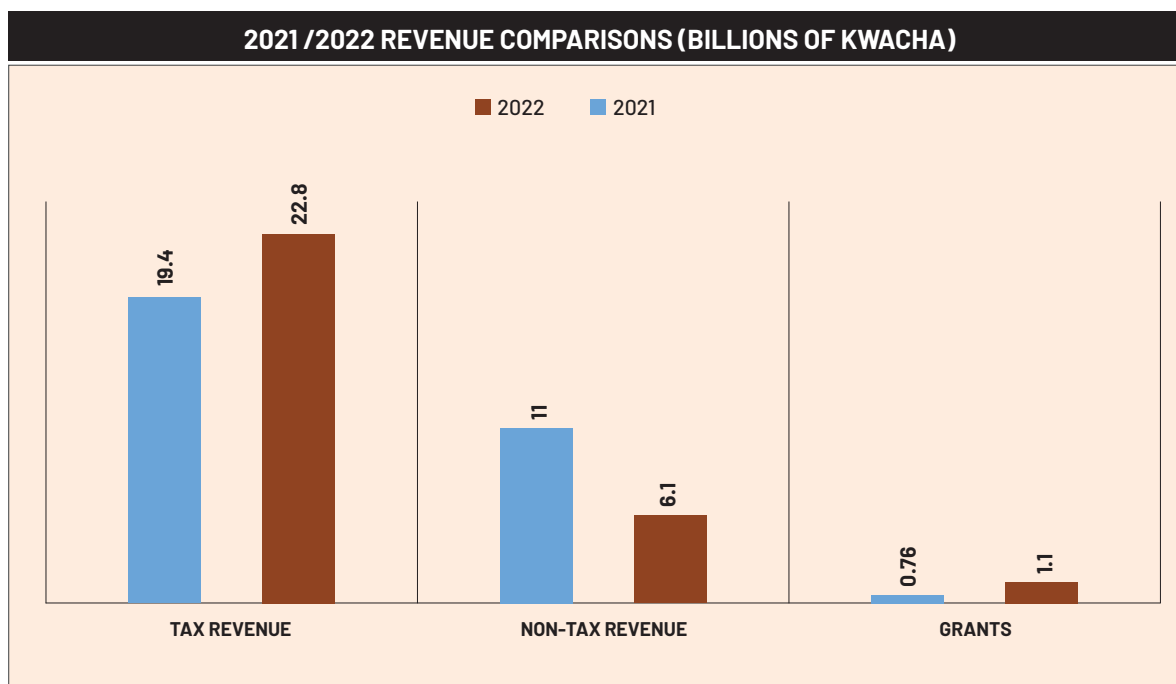


For the second quarter of 2022, preliminary figures indicate that the Government released a total of K31.7 billion to finance public service delivery against the projected expenditure of K41.8 billion. For the corresponding period of 2021, the Government released K45.3 billion to finance public service delivery against a projected amount of K29.1 billion.



REVENUE PERFORMANCE

- Total collections of Revenues and Grants amounted to K30.0 billion and were 5% above the budget target of K28.4 billion. Tax Revenue for the period under review amounted to K22.8 billion, Non-Tax K6.1 billion and K1.1 billion from grants.
- Most tax revenues were below target, except for income tax and insurance premium levy. Non-Tax revenues were also below target, mostly on account of underperformance in mineral royalty, road tolls and RTSA collection. By contrast, in the second quarter of 2021, except for Excise duty and Export duties, all tax types performed above the target. Non-tax revenues were also above target, mostly boosted by over-collection in Dividends and on-lending and Mineral royalty tax.
- The excellent revenue performance has also been enhanced by sustained implementation of key strategies as enshrined in ZRA's Corporate Plan. Some of the strategies include extensive use of data and intelligence to unearth unpaid taxes, use of technology to simplify tax processes, taxpayer engagements and education, customer support programmes; which have led to improved voluntary compliance and tax base expansion an objective towards bringing on board taxpayers previously not paying taxes.
- Other strategies by ZRA include enhanced active surveillance and enforcement operations which have been reinforced by collaboration with other government agencies in the fight against economic crimes such as smuggling and other forms of tax evasion.



TAX REVENUES FOR THE SECOND QUARTERS OF 2021 AND 2022

	2021 Q2	2022 Q2
Tax Revenues	19,358,882,533	22,770,790,451
Income Taxes	11,484,679,694	15,213,640,777
VAT	5,406,800,642	4,934,877,615
Customs and Excise Duty	2,396,342,890	2,551,917,577
Insurance Premium	33,890,114	52,651,441
Export Duty	37,169,193	17,703,042

1. INCOME TAX

Income tax collections amounted to K15.2 billion against the target of K12.5 billion and were above the target by 22%. The boost in revenue collection has primarily been attributed to strong performance in the mining sector as companies took advantage of the increasing copper prices on the metal exchange markets.

The Non-Mining increase in revenue collections with the financial sector and telecommunication sector was a result of an increase in demand for the services as the Covid19 pandemic resulted in high demand for online services.

- **Company Tax** - collections amounted to K8.8 billion against the target of K6 billion representing a positive collection variance of K2.8 billion or 47%.
 - **Mining Tax** - Mining tax amounted to K 5.9 billion against the target of K4.2 billion representing a positive collection variance of 43%. The positive outturn is mainly attributed to higher declarations by major mining companies amidst high copper prices
 - **Non-Mining Tax** - Collections amounted to K2.9 billion against the target of K1.8 billion representing a positive collection variance of 56%. The recorded surplus was due to upward adjustments of annual provisional declarations made during the period under review.
- **PAYE** - Total collection amounted to K4.15 billion against the target of K4.21 representing a negative collection variance of 2%. The performance is attributed to non-payment of obligations by taxpayers due to cash flow challenges and most of which are mining firms.
- **Other Income Tax-Withholding Tax** - Collection under this tax type amounted to K2.24 million against the target of K2.27 million representing a negative collection variance of 1%. The performance is attributed to non-payment by some taxpayers.

2. VALUE ADDED TAX (VAT)

VAT collection amounted to K4.9 billion against a target of K5.9 billion and was below the target by 17%.

- **Domestic VAT** - The underperformance is attributed to the low payment compliance by Withholding VAT agents with most of them requesting for offsets against liabilities owed to them.
- **Import VAT** - The underperformance is mostly attributed to reduced imports volumes, especially copper concentrates and cane sugar.

3. INSURANCE PREMIUM LEVY

Insurance Premium Levy collection for the quarter amounted to K52.6 million against a target of K10.9 million and was 380% per cent above the target. This was on account of the increase in renewals of insurance policies during the period under review.

4. CUSTOMS AND EXCISE DUTY

- **Customs Duty** - Total collection under this tax type amounted to K1.4 billion against a target of K1.5 billion representing an under-collection of 10%. The underperformance in the second quarter of 2022 was mainly attributed to increased revenue foregone due to tax concessions on imports of fuel and ex-bonding of fuel from TAZAMA bonded warehouse on account of Statutory Instrument number 2 and 3 of 2022.
- **Excise Duty** - Total collection in Excise Duty amounted to K1.1 billion against a target of K1.5 billion representing an under-collection of 25%. Excise duty underperformed due to removal of fuel levy on diesel and reduction of the duty rate on petrol following the implementation of Statutory Instrument number 2 of 2022.

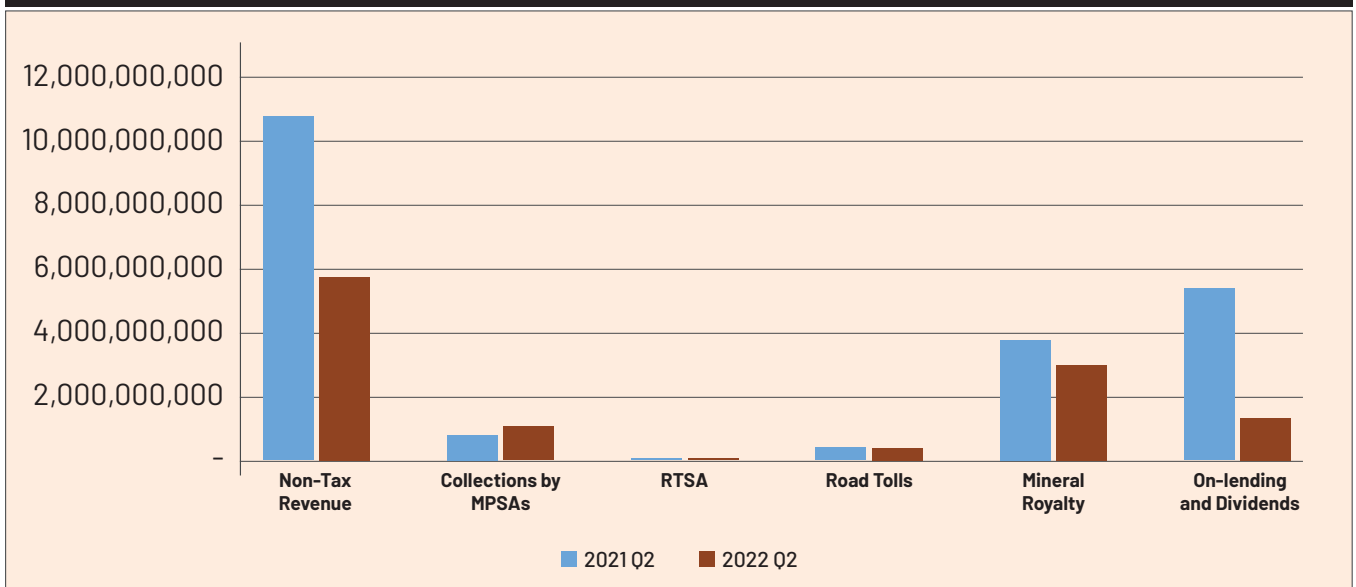
5. EXPORT DUTIES

Export Duties collection was K17.7 million against a target of K40 million. This was below target by 56% percent. This under performance in collection in the second quarter of 2022 was mainly due to removal of export duty on precious minerals.

NON-TAX REVENUE

- Collections under this category amounted to K6.1 billion against a target of K6.3 billion and was below target by 4%. The underperformance is mainly attributed to lower than projected collection in mineral royalty due to the slowdown of operations of the smelters at KCM and Mopani copper mines which have affected production.
- Road tolls collection also underperformed, arising from reduced vehicle traffic during the period under review. For the second quarter of 2021, collections amounted to K11.0 billion and were over 200% above the target. The performance is mainly explained by the receipt of a dividend from the Bank of Zambia and the Mineral royalty collection owing to higher than projected copper prices.

NON-TAX REVENUE SECOND QUARTER 2021 Vs 2022 (BILLIONS OF KWACHA)



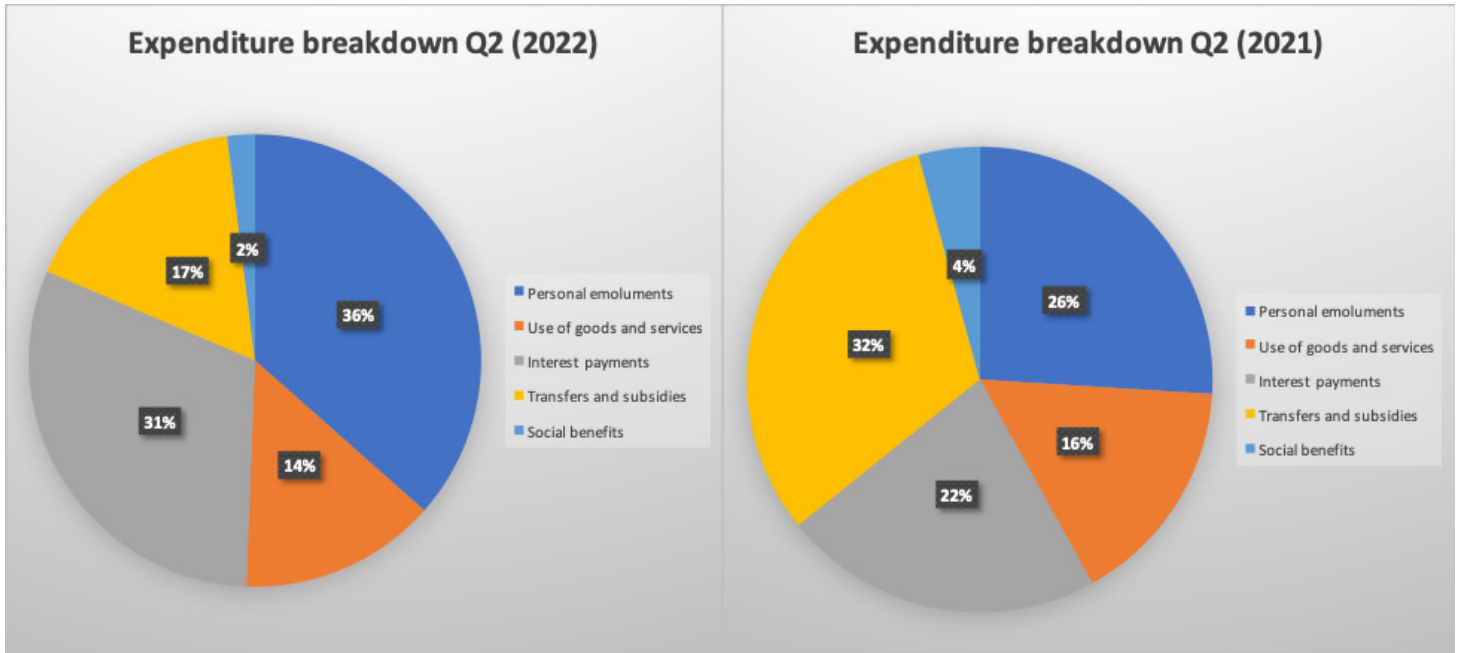
GRANTS

Grants receipts in second quarter of 2022 amounted to K1.1 billion and were 140% above the target. This favorable outturn was mainly due to increased inflows from some cooperating partners.

EXPENDITURE PERFORMANCE

During the period under review, preliminary figures indicate that the Government released a total of K31.7 billion to finance public service delivery. Of the total expenditure, K31.4 billion was financed from domestic resources while K394.0 million was foreign financed.

Breakdown of expenditure second quarter 2021 vs 2022.



PERSONAL EMOLUMENTS

Government released K9.4 billion on costs relating to the Public Service Wage Bill and overseas allowances in order to achieve the timely payment of salaries for various public service workers, including teaching, medical and security personnel.

USE OF GOODS AND SERVICES

- In order to support operations of various public institutions, Government released K3.6 billion for general government operations. This was 34.7% above the projection due to higher releases towards drugs and medical supplies which accounted for K1.3 billion of the total releases under this category.
- Other notable releases included K240 million to the Zambia Statistical Agency to facilitate the undertaking of the 2022 Census of Population, K148.0 million for foreign financed projects in line Ministries and K100.0 million to the Compensation Fund.

DEBT SERVICE

Debt service during the period amounted to K8.7 billion comprising domestic debt service payments of K8.0 billion which included principal repayments on commercial bank facilities of K244.2 million. On the other hand, external debt service, mainly to multilaterals amounted to K697.0 million with principal repayments amounting to K508.6 million.

TRANSFERS AND SUBSIDIES

- Releases to transfers and other payments amounted to K4.3 billion and were 3% above the target due to higher releases on grants to grant-aided institutions and higher receipts of funds from cooperating partners for the implementation of programmes.
- Other notable expenditures included K1.0 billion meant for the Constituency Development Fund, K467.2 million for the Zambia Revenue Authority Grant and K334.8 million for the Local Government Equalization Fund.

SOCIAL BENEFITS

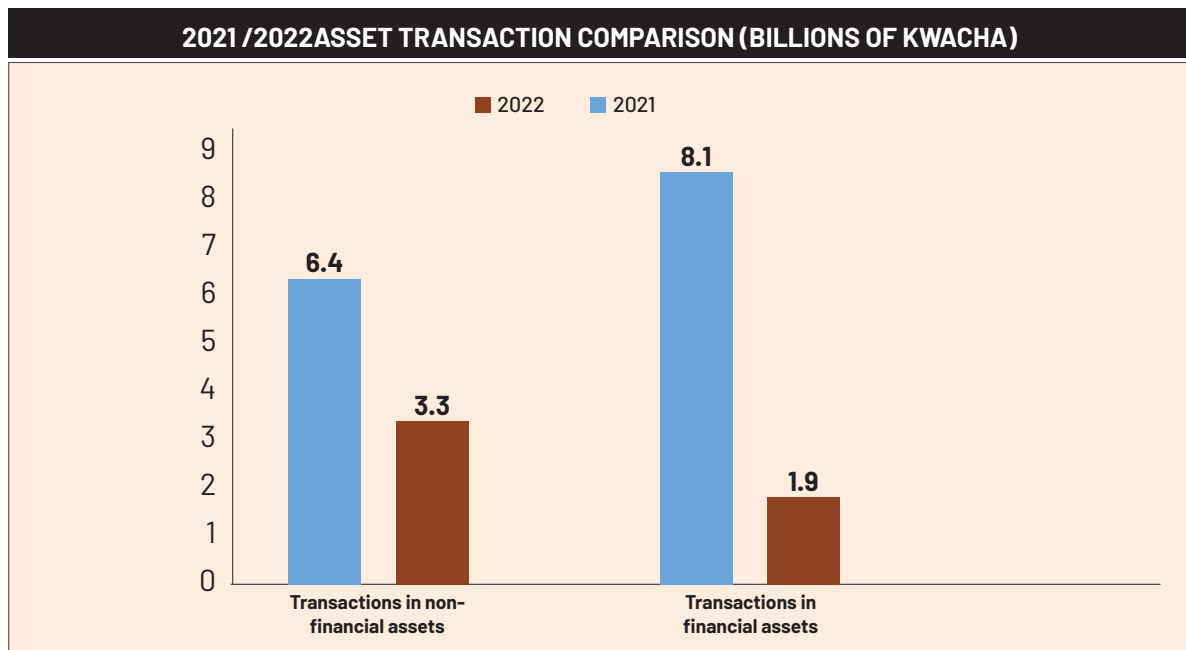
Releases under this category amounted to K508.0 billion and were released towards the Social Cash Transfer Programme.

TRANSACTIONS IN NON-FINANCIAL ASSETS

Government released K3.3 billion for non-financial assets and this performance was 40.7% below the target. Notable releases included K1.8 billion for road projects and K1.3 billion for ordinary capital projects.

TRANSACTIONS IN FINANCIAL ASSETS & LIABILITIES

Releases under this category amounted to K1.9 billion and were below the projection by 14.7%. This amount went towards dismantling fuel arrears and arrears to various suppliers of goods and services as well as the Citizen's Economic Empowerment under the Ministry of Small and Medium Enterprise.



FINANCING

Financing over the period under review comprised K2.6 billion from government securities, K2.6 billion from the Special Drawing Rights allocation and K697.7 million from the World Bank for the implementation of the Fresh Project.

INFORMATION THAT MAY ASSIST THE COMMITTEE TO EFFECTIVELY REVIEW THE 2022 BUDGET

The national budget is a fundamental policy instrument that shows how Government will prioritise and achieve its annual and multi-annual objectives. Parliament is constitutionally mandated to scrutinize and approve the national budget¹, as this is one of the core functions of the National Assembly. Reviewing the performance of the budget is a cardinal activity by parliament because it holds the executive accountable for its actions and policy implementation. This also allows the parliament to effectively ensure that the executive adhered to prudent financial management and fiscal targets while maintaining aggregate fiscal discipline and ensuring that public resources are utilized equitably, efficiently and effectively.

In fulfilling one of its mandates of engaging with the budget process at all key stages of its cycle, the Parliamentary and Budgeting Committee could consider the following reference points which could help in reviewing the budget performance:

- i. In reviewing the budget, it has been established that there are several variances in the budget between planned and actual expenditures. Therefore, it is necessary that the spending and revenue generations agencies need to account for these differences to enable the committee to effectively take action and control the recorded variances based on the reasons established. Modification to the budget could be arrived at by following the laid down guidelines and procedures. Budget leaks could be identified at this point as well and measures put in place to prevent such future occurrences.
- ii. Further, the committee could consider 'outcome' as another important reference point in its review of sector budgets. This will enable the provision of feedback on forecasting capabilities as well as documentation of the outcome's accuracy and shortcomings. This will allow for realistic forecasting in the future.

¹Constitution of Zambia (Amendment), Act No.2 of 2016

RECOMMENDATIONS

- The government is encouraged to continue on a path of fiscal discipline. In the second quarter of 2022, expenditure was K10.1 billion below the target as compared to the second quarter of 2021 when expenditure was K17.2 billion Kwacha above the target.
- Line ministries and institutions should submit monthly reports to support information availability in the quarterly review which will subsequently feed into a more comprehensive mid-term review.
- All supplementary budgets should be backed and supported by a detailed policy analysis concerning how proposed supplementary budget items will affect both the country's revenue and expenditure plans as well as its overall benefits for the economy and society.
- Because quarterly reviews and reports are a key accountability documents, the committee needs to ensure that public funds have been spent on their intended purpose and that anything that raises a query should be dealt with by relevant authorities. Particularly if coupled with sanctions for noncompliance
- Parliament should consider enshrining fiscal discipline rules in a strong legal framework of Fiscal Responsibility Laws (FRL). A legal base that will give clear disciplinary actions to any individual/s found wanting in terms of misapplication of public funds. It has been well documented that countries that have been unsuccessful in the implementation of their FRL have also, in general, failed to implement good practices in fiscal transparency².
- As the government prepares for the launch of the 8NDP, expenditure on dissemination, translation etc must be kept to budgeted amounts. In this regard, Government should call upon its co-operating partners to aid in the dissemination of the 8NDP.
- Tax measures instituted in the 2022 National Budget need to be reviewed in the mid-term to assess their impacts on revenue
- The war in Ukraine continues to cause a food and fuel crisis. This situation calls for Government to quickly align spending in the agriculture sector to support key drivers of growth in the sector that including extension services, crop production, research and development, livestock management and production, disease control and irrigation. These measures have the potential to grow the agriculture sector and reduce inequalities, as well as earn the country FOREX through the existing markets that have been opened up as a result of reduced food imports from Ukraine and Russia.

² Corbacho A., and Schwartz G., <https://www.elibrary.imf.org/view/books/071/05461-9781589066090-en/ch05.xml>