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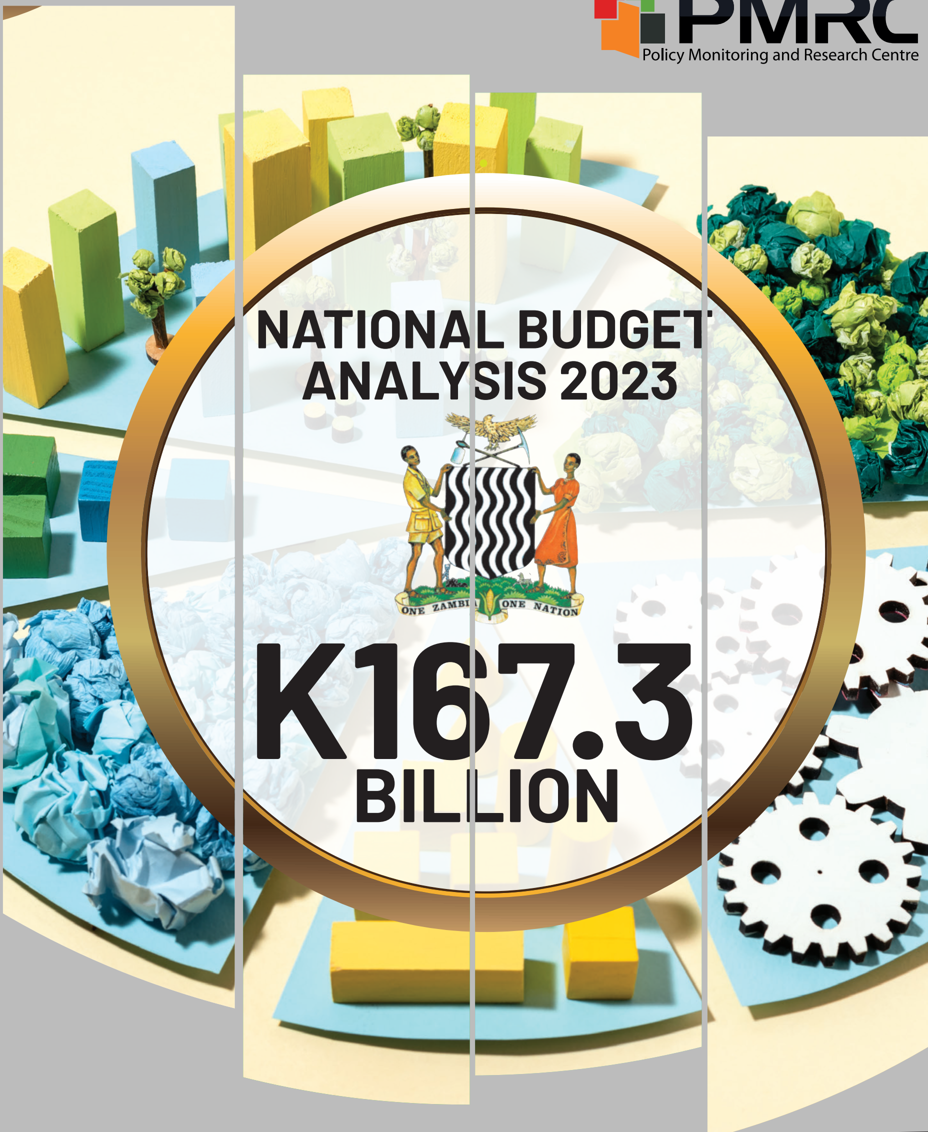

NATIONAL BUDGET ANALYSIS 2023

THEME: STIMULATING ECONOMIC GROWTH FOR IMPROVED LIVELIHOODS

ANALYSIS

October 2022

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ABBREVIATIONS

8NDP	Eighth National Development Plan
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
CDF	Constituency Development Fund
CDFC	Constituency Development Fund Committee
COVID-19	Coronavirus Disease 2019
DIS	Direct Input Support
ECE	Early Childhood Education
GDP	Gross Domestic Product
IMF	International Monetary Fund
MFEZ	Multi-Facility Economic Zone
PAYE	Pay As You Earn
PMRC	Policy Monitoring and Research Centre
PPDF	Public Private Dialogue Forum
PPP	Public Private Partnership
TEVET	Technical Education, Vocational and Entrepreneurship Training
TPIN	Tax Payer Identification Number
VAT	Value Added Tax
WDC	Ward Development Committee

INTRODUCTION

On 30th September 2022, the Minister of Finance and National Planning, Dr Situmbeko Musokotwane, unveiled the 2023 National Budget under the theme **"Stimulating Economic Growth for improved livelihoods".** This was the first budget after Zambia's attainment of an IMF Extended Credit Facility, which was announced in September 2022. **This facility is critical to help resolve the debt crisis through debt restructuring to facilitate economic growth that will translate into improved livelihoods for citizens.** This budget announcement also came shortly after the Eighth National Development Plan (8NDP), the country's blueprint for national development for the period 2022-2026. The importance of aligning the national development plans and budgets is critical to resource allocation.

The 2023 National Budget seeks to provide supportive funding for the operationalisation of socio-economic transformation by implementing measures to stimulate economic growth. Furthermore, the budget provides the **policy framework, resources and incentives to drive growth, unlock local and foreign investments, promote value addition, create jobs and enhance trade through various proposed tax and non-tax measures.** Therefore, this analysis seeks to assess the pronouncements made in the budget against critical economic and social sectors and their responsiveness towards the aspirations of the 8NDP.

To consolidate and build on the achievements on the economic front, the following macroeconomic objectives will be pursued in 2023:

i. Attain a real GDP growth rate of at least **4.0 percent.**
ii. Reduce inflation to within the target band of **6-8 percent** by the end of the year.
iii. Maintain international reserves above **3 months of import cover.**
iv. Mobilise domestic revenue to at least **20.9 percent of GDP.**
v. Achieve a fiscal deficit of not more than **7.7 percent of GDP.**
vi. Limit domestic borrowing to not more than **3.0 percent of GDP.**

GLOBAL ECONOMIC OVERVIEW

Tighter financial conditions in developed countries, a partial lockdown in **China due to the COVID-19, and the Russian invasion of Ukraine have resulted in a contraction of the global economy by 2.9%.** Consequently, this has resulted in the **price decline of commodities, such as copper, from US $9,550 per metric tonne in December 2021 to US $7,422 per metric tonne as of September 2022.** In addition to this, the **Russia-Ukraine conflict has orchestrated supply-side upsets, crucially in the prices of key commodities such as fertilizer and petroleum.**

DOMESTIC ECONOMIC OVERVIEW

The domestic economic overview gives a snapshot of **Zambia's economic growth prospects, debt position, domestic arrears, monetary and fiscal performance and external sector performance.**

Economic Growth

- It is estimated that GDP will increase by 3% in 2022 - a slower rate than in 2021, which saw GDP grow by 4.6%. This has been attributed to the downturn in the performance of the agricultural and construction sectors.
- The average crude oil price increase in the first half of 2022 was $35.97 compared to the same period in 2021 which resulted in **diesel prices peaking at K28.01/ litre in July.**
- As measured by the Fertilizers Price Index, **Fertilizer prices grew by over 60% between August 2021 and August 2022.**

Debt Position

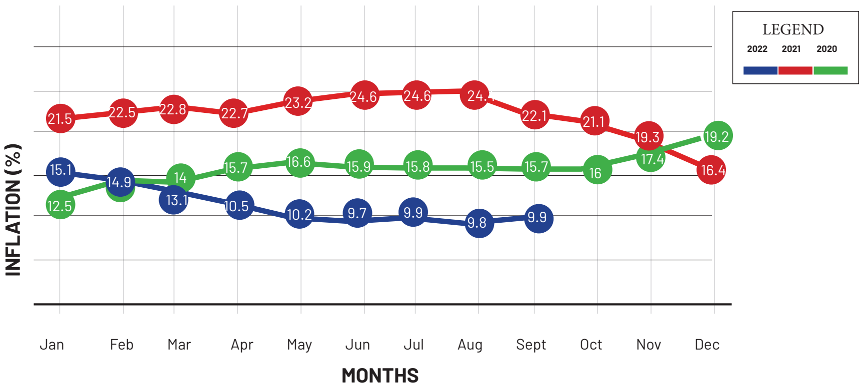
- Public external debt amounted to **US $14.87 billion as of end-June 2022.**
- Of this amount, Central Government external debt was US $13.25 billion, while guaranteed and non-guaranteed external debt for State Owned Enterprises was US $1.50 billion and US $113.69 million, respectively.
- Government external debt increased by 1.6 percent to **US $13.25 billion as of end-June 2022 from US $13.04 billion as of end-December 2021.**
- The stock of Government guarantees was US $1.50 billion as of end-June 2022. **ZESCO and Kafue Gorge Lower Hydropower Project** accounted for 93 percent of these guarantees.
- Stock of domestic debt, for Treasury bills and Government bonds, increased by **5.3 percent to K203.9 billion as at end of August 2022 from K192.9 billion as of end-December 2021.**

Domestic Arrears

- The stock of audited central Government domestic arrears or pending bills, excluding fuel and electricity, decreased by 8.4 percent to K44.0 billion as of end-June 2022 from K48.1 billion as of end-December 2021.
- The stock of domestic arrears decreased by **4.4 percent to K76.4 billion as of end-June 2022 from K79.9 billion as of end of December 2021.**

Monetary and Financial Performance

Figure 1: Inflation 2020 - 2022 Fiscal years



Source: PMRC adapted from Zamstats

- As measured by the inflation rate, growth in consumer prices has slowed to single digits.
- For September 2022, inflation was recorded at **9.9 percent compared to 22.1 percent in September 2021.**
- Key drivers of lower inflation have been the **appreciation of the Kwacha and improved supply of food items.**
- Asset quality improved as the nonperforming loans ratio continued to be below the 10.0 percent prudential benchmark, at 6.4 percent at end-August 2022.
- The ratio of non-performing loans reduced to 13.8 percent at end-August 2022 from 23.1 percent at end-August 2021.

External Sector Performance

- Preliminary data indicates that exports were US $5.964 billion during the first half of 2022 compared to US $5.216 billion during the same period last year, a growth of **14.3 percent.**
- This outturn was largely explained by the **increase in copper export earnings** which rose by 12 percent to US $4.4 billion, **driven by higher copper prices.**
- Imports also increased by 41.5 percent to US $4.3 billion, supported mainly by the **Kwacha appreciation against the US dollar and improved economic activity.**
- Overall, the trade balance remained in surplus, at US $1.6 billion.
- As of end-August 2022, gross international reserves were US$3.0 billion, representing **3.5 months of import cover.**

- The Kwacha has appreciated by 5.2 percent to K15.79 per US dollar, primarily on account of an **improved supply of foreign exchange mainly owing to increased inflows from the mining sector and greater Government confidence, particularly commitment to reforms.**
- The exchange rate of the Kwacha against major currencies has been relatively stable over this period.

2022 BUDGET PERFORMANCE

- The overall budget performance in 2022 was one of the most favourable in many years. Revenues had far exceeded the target while expenditures were contained within the target.

- There had been a high degree of credibility and certainty in the release of funds. Deviations from the Budget were within the **permissible 15 per cent variation.**

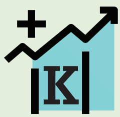
- Unlike in the past, the Government had consistently made monthly **budgetary releases per the requirements of Ministries, Provinces and Agencies.**

- Total revenues and grants for **January to August 2022 amounted to K72.1 billion** and were 3.5 per cent above the budget **target of K69.7 billion.**

- Tax revenue stood at **K54.4 billion, non-tax revenue at K13.5 billion, and grants were at K4.2 billion.** The positive performance was mainly attributed to increased collections in Corporate Tax and Pay As You Earn. By the end of the year, total revenues and grants are expected to be **K101.04 billion against the budget target of K100.7 billion.**

Government

consistently made monthly budgetary releases.



Revenues & Grants

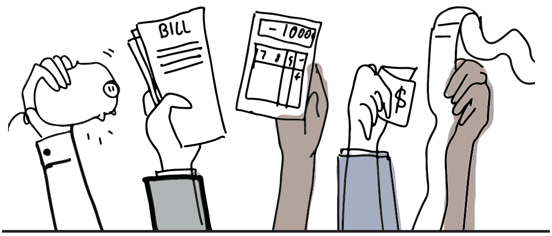
January to August 2022 amounted to **K72.1 billion.**

increased collections in corporate tax and **Pay As You Earn.**

- Total expenditure for January to August 2022 amounted to **K94.3 billion against the target of K110.2 billion**. Of the total spending, K85.1 billion was financed from domestic resources, while K9.2 billion was foreign-financed.

- Notable expenses were the **2022 Census of Population and Housing, Constituency Development Fund, and dismantling of arrears.** Others were payment of retirement benefits and Government contributions under the **Public Service Pensions Fund and the Local Authorities Superannuation Fund.**

- The **budget deficit for 2022 was projected at 6.7 per cent of GDP.** The year-end debt is, however, now projected to be higher at 9.8 percent of GDP.



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2022 Census
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Retirement benefits
and Government contributions under the Public Service Pensions Fund

Debt
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BUDGET OVERVIEW

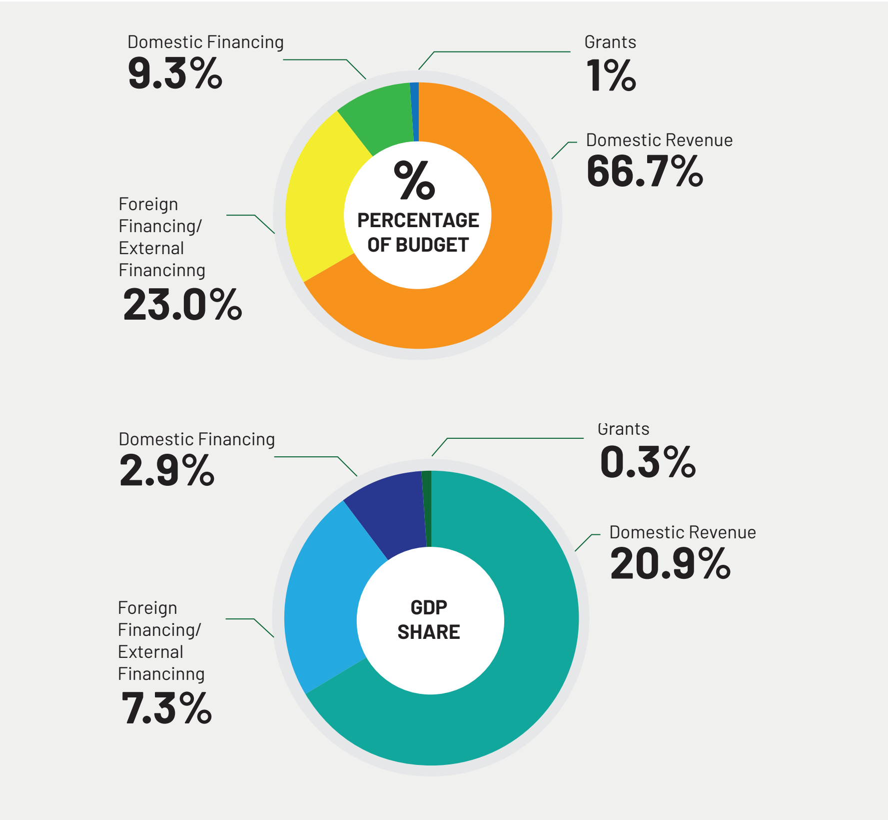
Resource Envelope for the 2023 Budget

The Government has increased budget allocations towards **all expenditure functions except the general public service, which recorded a 10.4% budget reduction.** The Government has also increased the budget allocation towards environmental protection, maintaining a 0.6% allocation.

Table 1: Resource Envelope 2023 Budget

Source	Percentage of budget	GDP share
Domestic Revenue	66.7%	20.9%
Domestic Financing	9.3%	2.9%
Foreign Financing/External financing	23.0%	7.3%
Grants	1%	0.3%
Total Budget	**100.00%**	**31.4%**

Figure 2: Resource Envelope 2023 Budget



The Government intends to increase domestic revenue from 57% in 2022 to 66.7% in 2023, which entails less dependence on foreign financing. There was also a reduction in the percentage of grants and foreign financing from 1.06% in 2022 to 1% in 2023 and 27.94% in 2022 to 23% in 2023, respectively.

EXPENDITURE BY FUNCTIONS

The following table highlights the 2023 budget expenditure estimates by functions of the Government. All currency is in Zambian Kwacha.

Table 2: Expenditure by Function 2021, 2022 and 2023

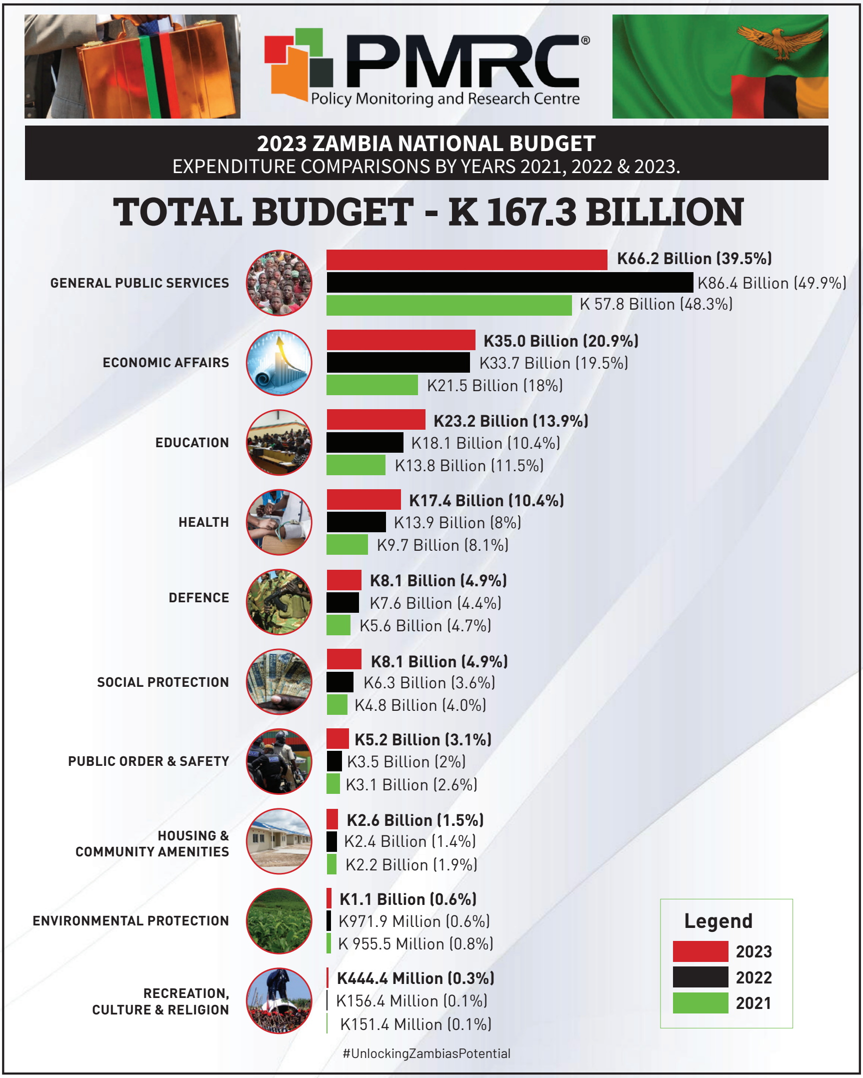
Functions	2023 Budget		2022 Budget		2021 Budget	
	Amount ZMW	% of Budget	Amount ZMW	% of Budget	Amount ZMW	% of Budget
General Public Services	66.17 Billion	39.5%	86.4 Billion	49.9%	57.8 Billion	48.35%
Defence	8.15 Billion	4.9%	7.6 Billion	4.4 %	5.6 Billion	4.7%
Public Order and Safety	5.19 Billion	3.1%	3.5 Billion	2%	3.1 Billion	2.6%
Economic Affairs	35.01 Billion	20.9%	33.7 Billion	19.5%	21.5 Billion	18%
Environmental Protection	1.06 Billion	0.6%	971.9 Million	0.6%	955.5 Million	0.8%
Housing and Community Amenities	2.58 Billion	1.5%	2.4 Billion	1.4 %	2.2 Billion	1.9%
Health	17.40 Billion	10.4%	13.9 Billion	8%	9.7 Billion	8.1%
Recreation, Culture and Religion	444 Million	0.3%	156.4 Million	0.1%	151.4 Million	0.1%
Education	23.19 Billion	13.9%	18.1 Billion	10.4%	13.8 Billion	11.5%
Social Protection	8.13 Billion	4.9%	6.3 billion	3.6%	4.8 Billion	4%
Total	**167.32 Billion**	**100.00%**	**172.9 Billion**	**100.00%**	**119.6 Billion**	**100.00%**

Source: Annual National Budget Speeches

There has been an increase in all expenditure estimates by function except from the General Public Services which has seen a reduction from K84.6 billion in 2022 to K66.17 billion in 2023,this is mainly due to the IMF Extended Credit Facility which has reduced Government 's debt servicing from approximately 40 percent in 2022 to 18 percent in 2023.

TREND ANALYSIS OF EXPENDITURE BY FUNCTIONS

Figure 3: Trend Analysis of Expenditure by Functions (2021, 2022 and 2023)(Billion)



Source: Annual National Budgets Speeches

2023 BUDGET ALLOCATION AGAINST INTERNATIONAL PROTOCOLS

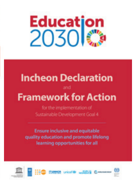
The table below illustrates the **budgetary allocations against international best practice.**

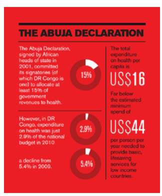
Table 3: Budgetary Allocations against International Best Practice

Sector	International Budget Allocation	2023 National Budget Allocation	2022 National Budget Allocation	Score
Education	20%	13.9%	10.4%	✗
Health	15%	10.4%	8%	✗
Social Protection	3.5%	4.9%	3.6%	✓
Agriculture	10%	6.7%	3.7%	✗
Water and Sanitation	1% to 3%	1.5%	1.4%	✓

Source: Compiled by PMRC

Zambia is a signatory to several international standards, such as **the Maputo Declaration on Agriculture and Food Security which provides for certain important decisions, particularly the commitment to allocating at least 10% of national budgetary resources to agriculture. Similarly, the Abuja Declaration on HIV and AIDS, Tuberculosis and Other Infectious Diseases commit to set a target of allocating at least 15% of national budgets to improvements in the health sector.** With regards to education, the **Incheon Declaration and Framework for Action Towards Inclusive and Equitable Quality Education and Lifelong Learning for All,** states that 20% of the total national budget be allocated towards the education sector. However, the **2023 budget falls short of these aspirations.** On a more positive note, there is a significant improvement in the percentage allocation towards education, health and agriculture as compared to the 2022 budget. **PMRC commends the Government for meeting international best practices in its budget allocation to the water and sanitation and social protection sectors.**

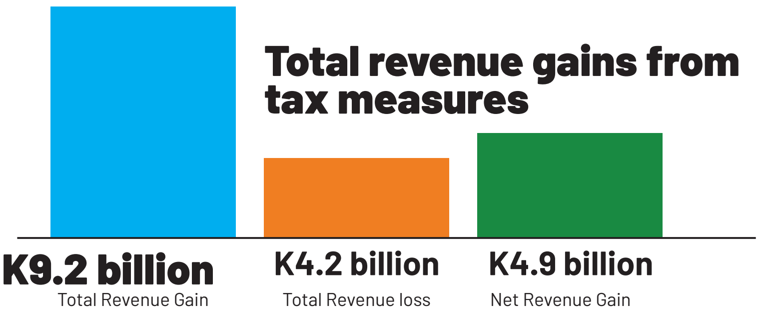




KEY TAX MEASURES

The total revenue gains from the tax measures proposed in the 2023 budget is K9.2 billion, while the total revenue loss is K4.3 billion. This will result in a net revenue gain of K4.9 billion.

Figure 4: Total Revenue Gain From Tax Measures



Value Added Tax (VAT)

A significant contributor to the revenue gains is Value Added Tax (VAT), which is estimated to contribute K6.8 billion (over 70%) of the total revenue gains from the proposed measures. The IMF Extended Credit Facility, seeks to bring about policy changes that will increase revenues from Corporate Income Tax, VAT and Excise Duty. Consequently the Government has proposed to reinstate VAT and excise duty on petrol and diesel. PMRC welcomes this measure because it will result in additional revenue being channeled to critical areas of the economy, such as health, education and CDF.

Pays As You Earn (PAYE)

The Government has proposed to increase the PAYE exempt threshold to K4,800 per month from K4,500 and to adjust the income tax bands accordingly. In addition, a reduction in the second band's tax rate to 20% from 25% has been proposed. These changes will add 21,509 more workers to the PAYE exempt list and increase disposable income for salaried households by K1 billion. Given the overall high cost of living, PMRC commends the Government for these timely adjustments which will translate into families having higher incomes to save or spend. Introducing employees' taxpayer-identification numbers (TPIN) in their monthly returns is also a welcome move that will aid compliance with PAYE and consequently result into increased domestic resource mobilisation.

The proposed regime is as follows:

Table 4: Current Tax Regime

Current Tax Regime			
Income Band (per month)	**Tax Rate**	**Tax on Band (maximum)**	**Cumulative tax on Income (maximum)**
0-K4,500	0%		
K4,501-K4,800	25%	K75	75
K4,801-K6,900	30%	K630	705
Above K6,900	37.5%		

Source: PricewaterhouseCoopers (PwC) Zambia

Table 5: Proposed Tax Regime

Proposed Tax Regime			
Income Band (per month)	**Tax Rate**	**Tax on Band maximum**	**Cumulative Income (maximum)**
0-K4,800	0%		
K4,801-K6,800	20%	400	K400
K6,801-K8,900	30%	630	K1,030
Above K8,900	37.5%		

Source: PricewaterhouseCoopers (PwC) Zambia

Customs and Excise Duty

A notable proposal under Customs and Excise Duty is a reduction in **Customs Duty on electric vehicles to 15% from 30%.** This is a commendable path as the country seeks to green the economy. The availability of fossil fuels is limited and their use is associated to planet degradation. In particular, toxic emissions from petrol and diesel vehicles are linked to long-term adverse effects on public health. The emissions impact of electric vehicles is much lower than that of petrol or diesel vehicles. PMRC's concern surrounding this measure remains the affordability of electric vehicles and the promotion of their use amongst citizens. Equally the availability of charging parts are yet to be decentralized. PMRC would therefore recommend that necessary infrastructure to promote this tax incentive be put in place across the country.

Withholding Tax

The Government has proposed to reduce withholding tax on winnings from gaming and betting to 15% from 20% to improve industry compliance and lower the tax burden on winnings. This measure will be applicable for 2023 and 2024. The gaming industry is still relatively new in Zambia and its considerable growth over the last few years has necessitated stronger oversight and better revenue collection. PMRC, therefore, welcomes the above tax measure and the announcement that a gaming and lotteries policy is in the process of being developed.

ECONOMIC TRANSFORMATION AND JOB CREATION

Agriculture, mining, manufacturing and tourism are vital drivers upon which the country's economic growth agenda is anchored. These sectors also account for a significant proportion of employed persons. Below is a synopsis of critical pronouncements relating to each sector.

AGRICULTURE

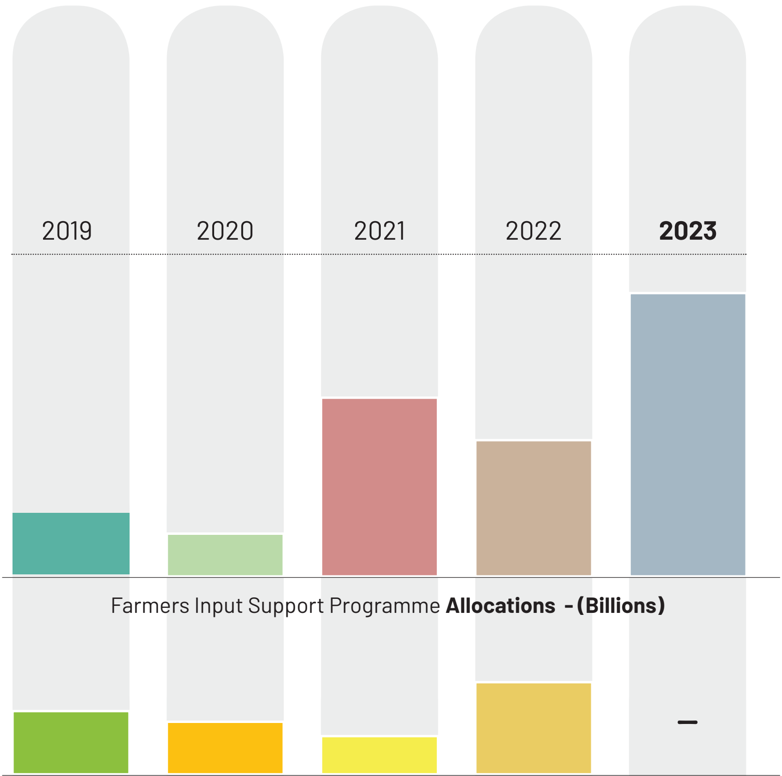
Agriculture contributes about 19 per cent to GDP and employs three-quarters of the population. **Zambia covers 75 million hectares (752,000 km2), of which 58 per cent (42 million hectares) is classified as medium to high potential for agriculture production.** However, only 15 percent of this land is currently under cultivation. (International Trade Administration, 2022). The 2023 budget recognises the agriculture, livestock and fisheries sectors as the primary source of livelihood for the majority of the Zambian people. However, during the 2021/2022 farming seasons, the crop subsector's performance was generally weak as production of crops such as **maize , rice, sorghum, and cassava declined due to the late onset of rains** as well as **drought and flash floods** in some parts of the country.

Table 6: Agriculture FISP and FRA Budget Allocation

YEAR	FARMERS INPUT SUPPORT PROGRAMME (FISP)	FOOD RESERVE AGENCY (FRA)
2019	K1.4 Billion	K672 Million
2020	1.1 Billion	K660.0 Million
2021	K5.7 Billion	K517.5 Million
2022	K5.4 Billion	K960 Million
2023	K9.1 billion	-

Source: Annual National Budget Speeches

Figure 5: Total Agriculture Budget Allocation, FISP, FRA (2019 - 2023)



Source: Annual National Budget Speeches

The agriculture share of the national budget for the last four years **has 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.** Although the 2023 budget is equally short of international standards, the share of the budget towards the agriculture sector has increased from **3.7%** in 2022 to **6.7%** in 2023. There has also been an increase in the amount allocated towards the Farmer's Support Program from **K5.4 Billion** in 2022 to **K9.1 Billion** in 2023. **The past four national budgets mainly focused on the Farmer Input Support Programme and the Food Reserve Agency, leaving out other priority areas such as extension services and Research and Development.**

PMRC is elated by Government's move to spend a total of **K11.2 billion** on various interventions in the agriculture, fisheries and livestock sub-sectors in line with the Comprehensive Agriculture Support Programme. **K9.1 billion** has been allocated towards farming inputs, whereas **K789.5 million** for extension services, including motorbikes, extension kits, electronic tablets and rehabilitation of camp houses across the country. To increase agriculture outputs and reduce dependence on rain-fed agriculture, the Government proposes to spend **K426.6 million on farm block development and irrigation and support agricultural activities all year round. Further, K52.7million has been allocated towards recruiting at least 500 extension officers in the livestock, fisheries and agriculture sub-sectors. Lastly, the Government proposes to spend K274.4 million on animal disease control, which will facilitate the procurement of animal vaccines and the construction of an animal vaccine plant at Balmoral in the Chilanga District.**

In the 2022 budget, the Government highlighted that the Farmer Input Support Programme, delivered through a combination of the Direct Input Support (DIS) and electronic voucher system (e-voucher), had several challenges. The Direct Input Support mode of delivering inputs was unsustainable to the Treasury, with expenditures increasing significantly over the years with little change in the number of beneficiaries and input package. It was also characterised by severe delivery challenges as beneficiaries received fewer inputs than what they paid for. Similarly, in areas where the e-voucher system was being used, some farmers had not been receiving inputs despite contributing. To this effect, the Government proposed to implement a new Comprehensive Agriculture Support Programme commencing in the 2022/2023 season. In the 2023 Budget, more light has been shed on implementing the Comprehensive Agriculture Support Programme, which will provide farming inputs and enhance extension services, improve market access and financing to farmers, and develop irrigation systems. However the Government has not defined the role of research and development in agriculture will play in the Comprehensive Agriculture Support Programme.

For the past four years, dependence on rain-fed agriculture has been highlighted as one of the reasons for poor performance within the crop sub-sector. In the 2023 Budget, Government will construct **forty dams across the country over the medium term, whereas sixteen dams will be built in 2023**. Further, to actualise the Chianti Irrigation Scheme in Kafue District, the Government has secured $10 million from the African Development Bank (AfDB) to cover 600 hectares in- field irrigation by smallholder farmers. The financing will also be used to establish storage facilities and a youth skills development centre, which will benefit over 12,000 people. PMRC commends Government on this pronouncement as it is one of the **climate-innovative agricultural technologies and practices that reduces overdependence on rain-fed agriculture and provides water resources in situations of inadequate rainfall.** Investment in irrigation is vital as we endeavour to boost production in the Agriculture Sector.

To increase crop productivity among small-scale farmers, the Government is improving extension service delivery. The Government has commenced the recruitment of 256 extension officers, and additional officers will be recruited in 2023. The Government will procure 1,623 extension kits, 1,000 tablets, and 621 motorbikes and rehabilitate over 536 camp houses. With all these measures, 1.5 million smallholder farmers will be provided with extension services through physical visits and e-extension platforms. PMRC urges the Government to consider offering market-oriented extension services. This will enable small-scale farmers to view agriculture as a profitable business venture instead of being seen as a source of livelihood. Equally, Government s urged to facilitate timely disbursement of the allocated funds towards extension services to enable the extension workers carry out their mandate effectively.

The Government has embarked on a programme to open up farm blocks throughout the country. **A farming block is envisaged to be a large agricultural area where basic infrastructure for agriculture such as feeder roads, electricity, water for irrigation and communication facilities are provided.** To justify the considerable expense involved in infrastructure development in the farm block, the area affected must be sufficiently large to achieve economies of scale. The Government is working to develop farm blocks in all ten provinces for large and medium commercial farming, fish farming, and livestock production. Private equity and other investors are active in this sector (Ministry of Finance and National Planning, 2005). Farm blocks facilitate agricultural land development and encourage private sector investment. However, the programme falls far short in implementation amidst policy uncertainty and lack of budgetary support. This is evident by the insecurity of land tenure, which negatively affects small- and medium-scale producers' access to financing, lack of infrastructure development of these farm blocks, and constraints in the agricultural sector such as low labour productivity and poor access to service expertise (Middelberg, et al. 2020).

In the 2023 Budget Government intends to revive the development of farm blocks with the primary objective of **promoting diversification, sustainability and jobs in the agri-food sector in the country, especially for exports,** in advancing the revival of farm block development, the Government has secured the US $300 million from the World Bank for the development of farm blocks such as Nansanga in Central province, Luswishi in Copperbelt province and Luena in Luapula province. It is envisioned that the development of farm blocks will put critical infrastructures such as direct access and internal roads, power reticulation, and water development for irrigation which will attract more investors.

The Government has shown **commitment to livestock disease control, which has significantly increased from K96.4 million in the 2022 budget to K274.4 million in the 2023 budget.** The increase in budget allocation will facilitate interventions such as constructing bio-security infrastructure on trunk roads and completing laboratories. Other interventions include establishing an animal vaccine plant, promoting veterinary public health and food safety and enhancing animal health research and diagnostics. The Government will also develop a robust animal identification and traceability system, which will reduce the levels of stock theft. It will also enhance the country's potential to export as it will meet the international standards that require identification and traceability of livestock products from "farm to fork".

In the fisheries subsector, Government will continue to support the aquaculture value chain players through the Aquaculture Seed Fund, as well as promote and enforce sustainable fishing practices in the capture fisheries. In the 2023 budget, the Government intends to recruit extension officers and procure motorbikes and equipment. To improve the policy and regulatory framework, Government will formulate the National Animal Health and National Aquaculture and Fisheries policies. The Government will also review and amend the Animal Health Act No. 27 of 2010 and Animal Identification Act No. 28 of 2010. Further, to provide an enabling environment and promote livestock production and productivity, Government will develop the Livestock Development Bill. The formulation of the two policies and the amendment of the Acts will ensure that the subsector has an adequate legal and policy framework that will govern Government's efforts towards improving productivity within the subsector. The Government will also reduce business costs by automating applications and issuing licenses, permits, certificates and other authorizations through a single electronic window.

Recommendations

- Smallholder farmers often face many challenges among them access to markets; PMRC recommends that extension services should not only be a product but market-oriented. Extension workers must know and share smallholders' requirements to access formal markets. This will help ensure that smallholder farmers perceive agriculture as a money-making venture instead of it being a source of livelihood.
- There is a need for Government to explore Public Private Partnerships to leverage finances, share risk fairly, develop innovations and create market access for the players within the sector.
- The Government is urged to timely disburse budgetary allocation towards extension services to ensure there is timely and practical technical advice on agriculture to farmers to enhance their agricultural production.
- Better crop targeting alongside a well supported value chain will be critical to the successful development of farm blocks.

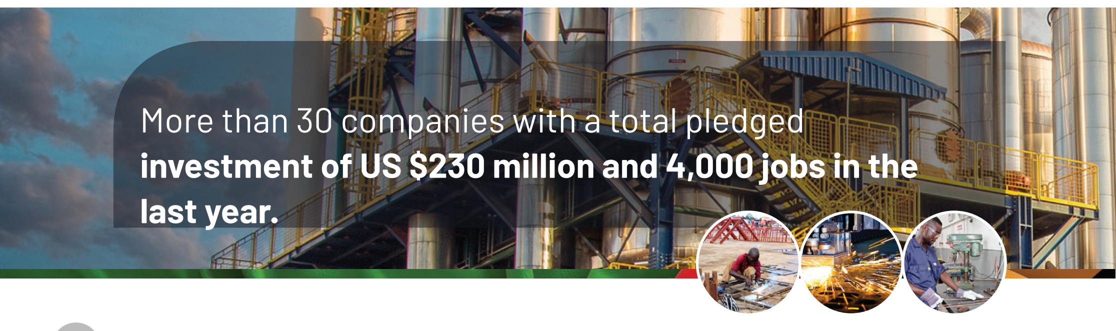
MANUFACTURING

Zambia's manufacturing sector remains a necessary means of promoting strong backward and forward linkages with other sectors, such as agriculture and mining, which are catalysts for sustainable economic growth. Manufacturing can contribute more to economic transformation and job creation with enhanced support.

Perhaps unsurprisingly, Government will continue to promote the multi-facility economic zones as a means of broadening the country's industrial and manufacturing base. To this end, the Lusaka South MFEZ has been held up as something of a success story, having attracted more than 30 companies with a total pledged investment of US $230 million and 4,000 jobs in the last year. However, PMRC holds that the US $50,000 threshold required to operate in an MFEZ or industrial yard remains a barrier to entry for potential Zambian investors. We recommend that Government prescribe a lower threshold for local investors in Kwacha. This would have the dual benefit of attracting more Zambian investors as well as protecting them from exchange rate risk. Further intervention in the MFEZ and industrial yards should take the form of infrastructure support. The minimum infrastructure required in all the zones and not just some includes energy (electricity or power distribution), telecommunications, roads, water and sewage. This will especially be key as Government expands the number of MFEZs.

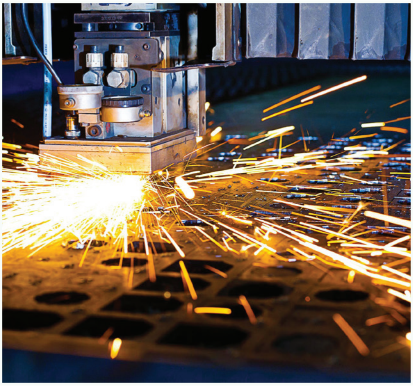
The following revenue concessions were also put forward:

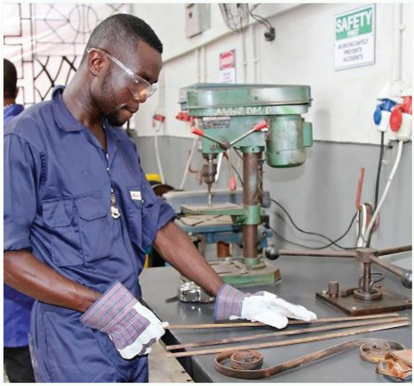
- A proposal to **increase surtax on imported floor and wall tiles to 20% from 5%. This is a welcome move that will serve to support the local production of tiles.**
- A proposal to suspend excise duty on clear beer made from cassava to 5% from 10% and excise duty on clear beer made from malt to 20% from 40% for production levels to be specified and for a period of 3 years. These measures will promote

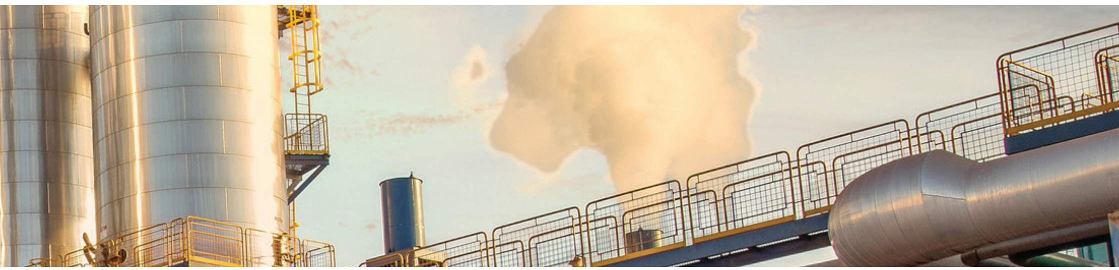


value addition to cassava and malt, support out-grower schemes and enhance job creation.

The promotion of value-addition and manufacturing has been identified as a key strategy that will contribute to an industrialised and diversified economy as per in Zambia's Eighth National Development Plan (8NDP). The above listed measures are notable scores in respect to this particular strategy. **A notable absence from the budget speech was the African Continental Free Trade Area (AfCFTA). PMRC expected the 2023 National Budget to contain an allocation dedicated towards the local implementation of this initiative.** The AfCFTA continues to hold much potential to aid the growth of Zambia's trade in the medium to long term and will provide the kind of market linkages that the 8NDP envisions.







TOURISM

Zambia is one of Africa's most pristine and unspoiled wildlife havens as it shelters extraordinary **natural beauty**. Zambia's economic activity and social sustainability heavily depend on **wildlife tourism,** among other sectors. Nevertheless, the industry continues to underperform and remains underutilized especially ecotourism, thus creating room for improvement.

The low economic contribution of the sector in the last 2 years has been due to the COVID-19 pandemic, which led to global lockdowns. This notwithstanding, the tourism sector remains a significant contributor to the country's economic recovery post-COVID-19 **through exchange earnings by way of tour packages to game parks, waterfalls and traditional ceremonies which imply job creation and ultimately contribute to Gross Domestic Product (GDP**) and other **economic facets**.

The Government has proposed to waive visa requirements for tourists from the **United Kingdom, United States of America, Canada, Norway, Australia, China, Japan, South Korea, the Gulf States and the European Union.** The purpose of this measure is to facilitate an increase in tourist arrivals. While this motive is both understandable and commendable, **The budget does not state the revenue impact of this measure to be implemented? There is a need to quantify the overall revenue benefit by considering how much those tourists will spend and how long they will be in the country against the loss in revenue from visa fees. Lastly, such a measure ought to be bilateral in nature, i.e. Zambian citizens should equally be able to enter the countries mentioned above under the same terms.**

The sector faces several impediments such as **underdeveloped tourism-related infrastructure; limited investment in the tourism sector by both local** and **foreign investors;** little tourism product offering range and scope; inadequate tourism

promotion and marketing; low participation by locals in direct and indirect tourism development; and Zambia being perceived as high cost destination. To provide relief to the tourism sector, given the adverse effects of the COVID-19 pandemic, the Government, in the 2021 national budget, reduced the **Corporate Income Tax (CIT) rate by 20%** on income earned by hotels and lodges on accommodation and food coaches, to 15% from 35%. In the 2022 national budget, the **CIT rate of 15 per cent** on income earned by hotels and lodges on accommodation and food services was extended to 31st December 2022.

To stimulate growth in the sector, the Government will continue to bid to host **meetings, international conferences** and **events**. In this regard, Zambia will host the 45th annual Association meeting of African Central Banks. The Government has commenced works to develop the **Northern Circuit** called **Kasaba Bay Tourism project** and invest in the **Southern Circuit** called **Liuwa National Park**. The Government also has **started** the rehabilitation of infrastructures such as **airports, roads** and **communication facilities**. The Government has also introduced 26 services for the tourism sector on the Government Service Bus, such as bird hunting licence, hotel manager practising certificate, casino licence and professional hunter's licence to enhance the processing of applications.

The country developed the Zambia Tourism Master Plan (2018 – 2038) to strengthen the systematic development of the country's vast tourism resources. It should be viewed as a "master guide" for tourism planning and development across the country. In this regard, PMRC commends the Government for the historic allocation of K366.29 million to the sector, which will expedite the marketing strategy laid out in the plan.

Other measures that Government will take include:

- Piloting the tourism single licence system in Livingstone.
- Promoting tourism development by providing incentives to attract more investment into the sector.
- Working towards increasing direct international flight options from key tourism markets in Europe and the United States.
- Streamline the legal framework by reviewing the Zambia Wildlife Act, Tourism and Hospitality Act and the National Heritage and Conservation Commission Act.

Recommendations

1. The Government is urged to provide more promotional packages to tourists to bolster visitations to eliminate the high-cost tourist destination status. This will not only attract tourists but also promote tourism in general.
2. PMRC urges the Government to expand the quality of tourism training in the sector by diversifying the training offer and encouraging players in the industry to sign international partnership agreements for training in tourism and hospitality.
3. The Government is further urged to adopt new measures to incentivise and support investors in existing and new facilities to stimulate tourist investment.

MINING

The mining sector is one of the critical sectors selected where the country's development agenda is anchored to drive economic growth and job creation. The Eighth National Development Plan (8NDP) proposes to promote the mining of traditional and non-traditional minerals through strategies such as mineral and petroleum exploration and exploitation, mineral tax and mining reforms, mineral beneficiation and value addition, and artisanal and small-scale mining development, among other strategies.

The Government aspires to ramp up copper production to 3 million metric tons in a decade while diversifying the mineral resource subsector through harnessing and developing the non-copper subsector within the mining value chain. The 2022 budget was the first step in aligning Zambia's aspiration to ramp up copper production in the mining sector through the re-introduction of deductibility of Mineral Royalty Tax ("MRT") payable under the Minerals and Mines Development Act of 2015 for income tax purposes.

In the 2023 budget, the Government has proposed additional tax measures and strategies to promote the development of the copper and non-copper subsectors.

These proposals include:

- To restructure the mineral royalty regime concerning copper. Amendment of the mineral royalty tax should be considered in order for it to be calculated on an incremental or sliding scale basis as opposed to aggregated value when the prices of copper cross respective price thresholds. In addition, the 2023 budget has proposed to reduce the lowest marginal rate to 4.0 per cent from 5.5 per cent.

The following diagram depicts the proposed restructuring of mineral royalty to tax only the incremental value**.** Source: 2023 National Budget Speech:

Table 7: Proposed Restructuring of Mineral Royalty to Tax only the incremental Value

Current Regime			**Proposed Regime**		
Price Range	Taxable Amount	Rate %	Price Range	Taxable Amount	Rate %
Less than US$4500 per tonne	Full price amount	5.5	Less than US$ 4000 per tonne	The first US$ 4000	4.0
US$4500 per tonne or more but less than US$6000 per tonne	Full price amount	6.5	US$4001 per tonne or more but less than US$5000	The next US$1000	6.5
US$ 6000 per tonnes or more but less than US$7500 per tonne	Full price amount	7.5	US$ 5001 per tonne or more but less than US$7000	The next US$ 2000	8.5
US$ 7500 per tonne or more but less than US$9000 per tonne	Full price amount	8.5	US$ 7001 per tonne or more	The balance	10
US$9000 per tonne or more	Full price amount	10			

- To reduce the property transfer tax to 7.5 per cent from 10 percent on mining rights held by exploration companies to encourage mining exploration.
- Establish a mining regulatory institution to regulate the oversight of the sector. This proposal is timely as the industry has had some inefficiencies in managing inspections in various mining sites and improper management of the licensing process for mineral rights.

The 8NDP aspires to develop the artisanal and small miners' subsector. To actualise this strategy, the 2023 budget has proposed progressive measures to promote the growth of this important subsector, and these include:

- Facilitate the formalisation of the operations of players in the subsector that will assist the subsector players in accessing affordable financing and potential foreign investment through joint ventures.
- Provide support through the provision of necessary equipment and training to increase the subsector production.

To achieve this measure, the Government has allocated **K50 million** towards the subsector to enable the artisanal and small-scale miners to access equipment and facilitate their training.

Recommendations

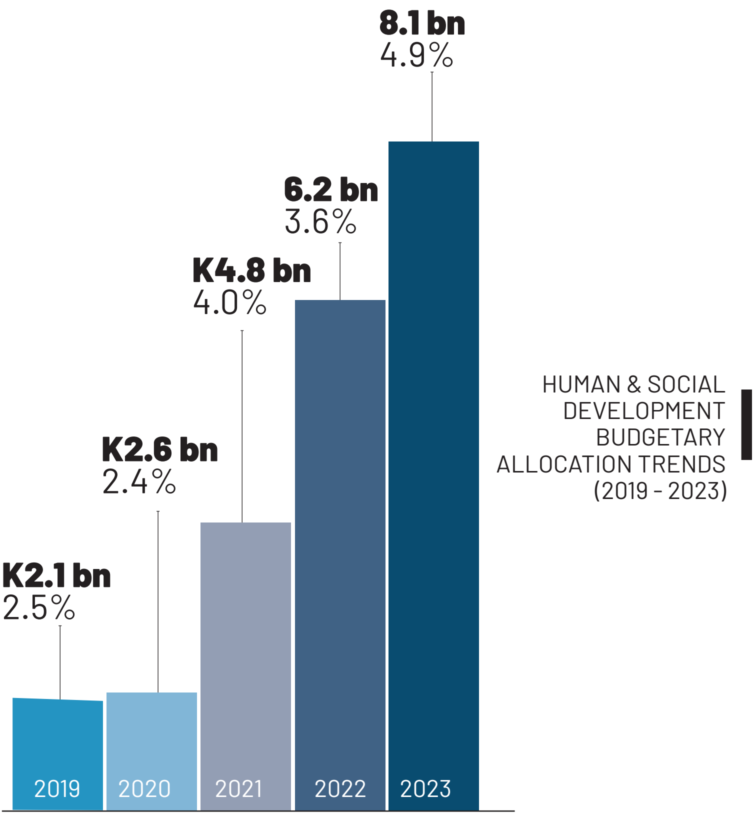
- There is a need for timely and adequate funding for the operations of the mining regulatory institution to enable it to carry out its mandate and bring sanity to the sector in terms of licensing and inspections of various mining activities.
- To promote further explorations, especially in the copper subsector, towards the actualization of the 3 million metric tons, **there is a need for the Ministry of Mines and Mineral Development to formulate and develop an Exploration Strategic plan to guide exploration in the country which can be used to attract funding towards explorations.**
- To actualise the 2022 and 2023 proposed tax changes, the Ministry of Mines and Mineral Development must expedite the review of the Mines and Minerals Development Policy and the review and amendment of the Mines and Minerals Development Act.

HUMAN AND SOCIAL DEVELOPMENT

SOCIAL PROTECTION

In the 2023 National Budget, Government proposes to allocate **K8,127,762,301, translating to 4.9% of the budget, towards social protection programmes, of which K3,720,898,131 has been earmarked for Social Cash Transfer, K2,398,000,031 for Public Service Pension Fund, K300,000,000 for Local Authorities Superannuation Fund and K1,206,855,784 for Food Security Pack**. This is an increment from K6.3 billion in 2022.

Figure 6: Social Protection Budgetary Allocation Trends



Source: Annual National Budget Speeches

The 2015 Living Conditions Monitoring Survey revealed that 54.4% of Zambia's population is relatively poor, 60.5% poor, and 40.8% extremely poor. Comparatively, about 77% of the poor live in rural areas, while 23.3% live in urban areas. These statistics build the case for the scaling up of social protection programmes aimed at improving the livelihoods of the most vulnerable in society. As of July 2022, the number of social cash transfer beneficiaries rose to 973,323 from 880,539 in August 2021. In 2023, Government aims to scale up the number of beneficiaries to 1,374,500 from the targeted 1,021,000 at the end of 2022. Further, Government seeks to improve the targeting and effectiveness of the program in addressing extreme poverty while meeting basic needs. **This will help reduce poverty levels in the country, which is in line with the Eighth National Development Plan (8NDP) and the International Monetary Fund (IMF) to reduce poverty and inequality through increased social spending.**

To this effect, **Government will continue providing education grants for girls in social cash transfer beneficiary households under the Keeping Girls in School Initiative which is a critical feature of the 'Cash Plus' programme aimed at linking beneficiaries of social protection programmes to cater to other basic needs such as education and skills development through bursaries and free education, nutrition through the food security pack and health.** These programmes aim to diminish exposure to risks and enhance household capacity to build resilience against extreme poverty. Social protection programs are critical for the vulnerable because they strengthen their ability to adapt and cushion the adverse impacts of shocks while providing leeway to recover from economic shocks (Wood, 2011).

Several challenges continue to undermine the effective implementation of the social cash transfer, which include; **poor targeting of beneficiaries, especially the extremely poor and vulnerable, and unreasonable selection criteria that assess household assets such as possession of a radio or television as a basis for exclusion even in cases of severe disability, the intermittent release of funds, inadequate monitoring and evaluation of beneficiaries to ensure that the support caters to the targeted beneficiary and the lack of automated mode of disbursement of funds.** Additionally, there is a need for a monitoring system for programmes such as the Keeping Girls in School initiative to ensure that beneficiaries are actually in school and that their performance is monitored.

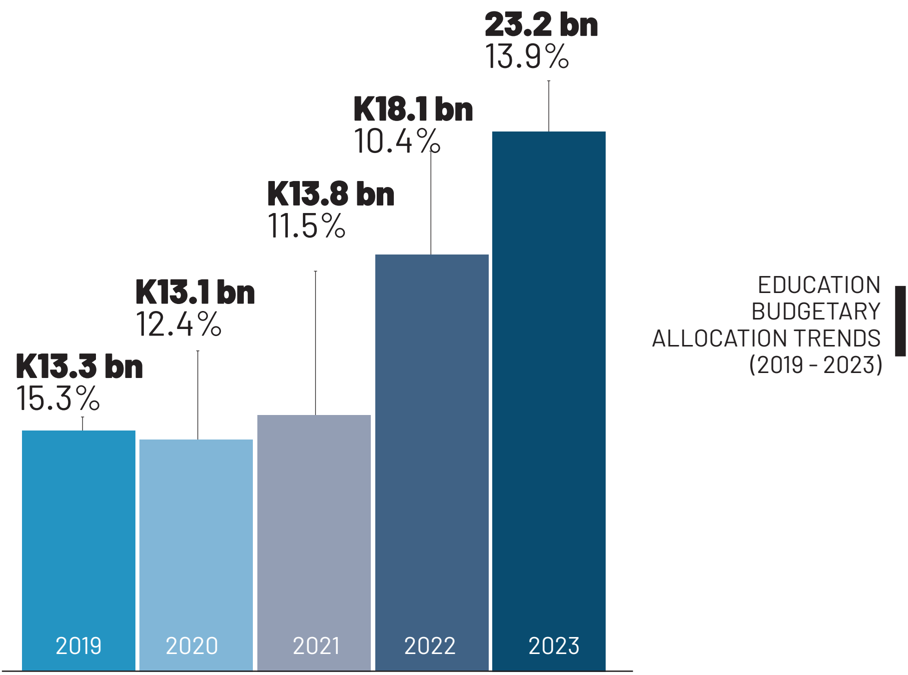
Government recognises that Persons with Disabilities (PWDs) are one of the most vulnerable groups in our society and generally have more health care needs than other groups with minimal capacity to cope and adapt to shocks. **In the 2023 National Budget, the Tax credit for persons with disabilities increased from K500 to K600.** A tax credit is a tax incentive that allows certain taxpayers to subtract the amount of the credit they have accrued from the total they owe the state. To reduce the levels of inequalities faced by persons with disabilities, PMRC commends the Government for increasing the tax credit amount for PWDs as they face multiple risks to their health, safety, food security and livelihoods by virtue of their disabilities.

Concerning pensioners, the Government has made significant progress in clearing arrears and is up-to-date with the Public Service Pensions Fund and aims to reduce arrears under the Local Authorities Superannuation Fund. Furthermore, **Government will ensure that pension benefits are paid within three months of retirement to ensure timely payment and curb the accumulation of arrears in the future.**

EDUCATION

In the 2023 budget, the sector has been allocated **K23,188,742,594, of which 1,504,847,894 is for school infrastructure, K871,448,712 is for the provision of secondary school and skills development bursaries under Constituency Development Fund (CDF), and K220,830,254 is for the Skills Development Fund.** This accounts for 4.9% of the budget and is an increase from K18.1 billion allocated in 2022.

Figure 7: Education Budgetary Allocation Trends



Source: Annual National Budget Speeches

The Government recognises that a highly skilled and educated citizenry is crucial for reducing poverty and inequality while strengthening the labour force that responds to the dynamic needs of the economy. **Several measures have been implemented to complement the Free Education Policy. One such measure is the recruitment of 4,500 teachers in addition to the 30,496 recruited in 2022.** Specific focus has been placed on rural areas to bridge developmental inequalities. Further, the Government will upgrade teachers generally serving in positions lower **than their qualifications, including those in acting positions.** This is commendable as it will motivate teachers to improve service delivery in the sector. However, **Government should consider the inclusion of special education teachers that can cater to the needs of autistic children to ensure that they equally benefit from education services.** In addition, the Government has allocated funds towards monitoring of the education quality standards. This will enhance adherence to standards in the sector key for ensuring quality.

In 2011, the Government scored a significant milestone by integrating Early Childhood Education (ECE) into the mainstream education system. Notable is the investment towards advancing ECE through the completion of the construction of 56 centres in 2023. This is in line with the targets of the 8NDP, Vision 2030 and the Sustainable Development Goals (SDGs) on universal education. Government is currently the largest service provider accounting for 62.2% of the total ECE enrolment in 2020. Thus, the addition of ECE facilities will act as a catalyst to advance universal access to ECE and improve enrolment rates that stand at 11.2% of the total target population as well as the cognitive, literacy and numeracy skills of children. However, children in rural areas and those with special needs continue to struggle with inadequate and inappropriate infrastructure, long distances to ECE centres and inadequately trained staff to cater to their learning needs.

To respond to the increased demand for secondary school education which has partly been influenced by the provision of bursaries and free education, the Government is set to complete 115 secondary schools and construct an additional 120 new secondary schools with the support of the World Bank through a concessional loan. Additionally, re-introducing student meal allowances for students on Government loan schemes in 2023 is a significant step towards making education affordable and bridging inequality gaps for vulnerable students.

The Ministry of Education has been undertaking curriculum reviews to match skills with labour market demands. The new curriculum will include financial literacy and anti-corruption courses, increasing investment in ICT infrastructure and innovative education delivery. This comes on the backdrop of a COVID-19 crisis that underscored the need for innovation and technology in teaching and learning methods. The inclusion of financial literacy into the curriculum will build life skills for learners. **Financial literacy rates currently stand at 15.6% in rural areas and 32.5% in urban areas, according to the 2020 FinScope survey.** Improving these rates is critical for achieving financial inclusion and building a society that understands how to grow and manage its resources effectively.

Regarding TEVET, the Government's move to review the curricula and syllabi of the programmes on offer is crucial to address the skills gap, as indicated by the 2020 National Skills Survey Report, which highlighted the need to enhance the quality of technical skills in the country. Particularly in industries such as repair of motor vehicles and motorcycles, manufacturing, agriculture, forestry and fishing, among others, were cited to have significant skills gaps. Further, modernising these facilities with state-of-the-art training equipment would encourage innovation and absorption of modern technology in the trades skills.

Additionally, the establishment of polytechnics will help improve the grading of qualifications in trade fields and offer higher certifications such as degrees, thus improving the skills levels since most graduates in these centres are at grade 3, the lowest grade. **The upgrading of TEVET institutions is in line with the target of attaining at least 40% of phase one institutions in 2026 from the 7.8% in 2020. The 2020 Skills Survey revealed that 62.3% of the registered TEVET institutions were in grade three, 29.9% were in grade two, and only 7.8% were in grade one**. Furthermore, the commissioning of Lundazi, Nsumbu and Mporokoso Trades Training Institutes is commendable as this will increase the skills base in the districts to be able to take up CDF projects in the communities.

Recommendations

- PMRC urges the Government to develop indicators that will assess how well the spending in social sectors is responding to the needs of the people.
- There is a need to strengthen the targeting and selection criteria of social protection programme beneficiaries and improve the monitoring of the Keeping Girls in School initiative to ensure that beneficiaries are reaping the intended benefits of these programmes.
- There is a need to invest more in special education for children facing **various cognitive and learning challenges, such as autism, by decentralising assessment facilities and improving staffing levels to ensure they are not left behind.** Similarly, curriculum development should take care of the needs of these children.

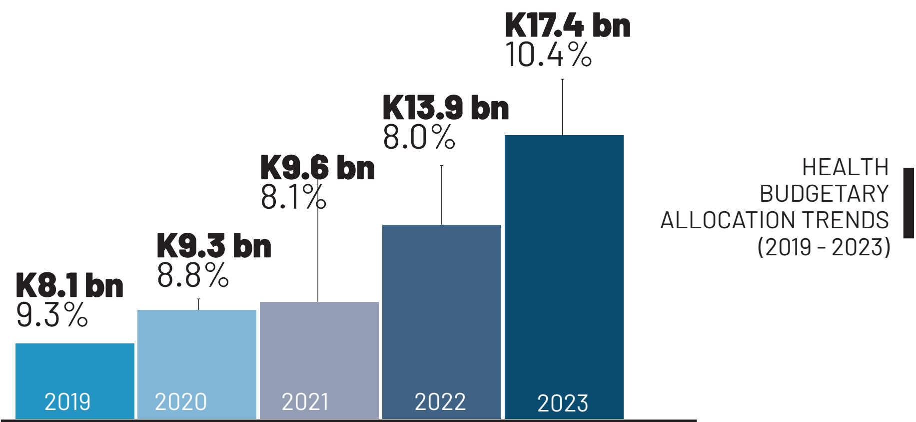
HEALTH

The Government has allocated **K17.4billion to the health sector, representing 10.4% of the 2023 total budget**. Compared to the 2022 budget, which had an allocation of K13.9billion, there is a difference of K3.5Billion in nominal terms representing a 25% increment. Drugs and medical supplies have a portion of at K4.6billion, which is an increase of about 35% compared to the 2022 allocation of 3.4Billion. **This is a critical measure as it will reduce the drug and supply shortages which have been a massive challenge in the health sector**. Medical equipment has also been allocated K900million. This measure is a huge step towards achieving access to adequate quality health care for all while ensuring that Government saves on monies spent on evacuations for medical attention abroad.

The allocation towards health infrastructure has been reduced by a K0.5billion representing a 31% decrease compared to the 2022 allocation of K1.6billion. Despite the decline, it is hoped that the measure will address the challenges of inadequate health infrastructure, especially for people in rural Zambia.

Further,in its quest to improve the quality of health care,Government intends to recruit 3,000 health care personnel in 2023, this is in addition to the 11,200 recruited in the 2022 budget. This measure not only addresses the goal of enhancing the quality of health care by improving the health worker-to-patient ratio but also the high unemployment rate. All these measures align with the aspirations of the Eighth National Development Plan (8NDP) of enhancing access to quality health services.

Figure 8: Health Budgetary Allocation Trends



Source: Annual National Budget Speeches

The health sector budgetary allocation has been on an upward trajectory in the past five years both in nominal terms as well as in terms of the proportion of the budget which is allocated to the sector as seen in Figure 8.

Recommendations

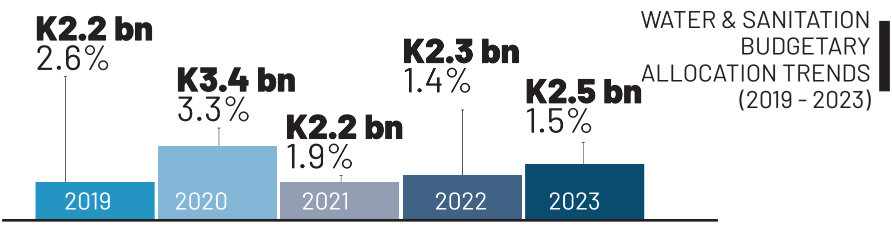
- PMRC commends Government for an increased budgetary allocation towards the provision of health services, more so, for setting up measures to improve supply management systems that will ensure the availability of essential medicines and medical supplies given the increased allocation to this area in the 2023 budget. However, Government is urged to continue striving towards attaining the 15% target set in the Abuja Declaration on Health.
- Further, PMRC urges the Government to urgently strengthen procurement systems and reinforce accountability in the health sector to resolve the various challenges in the procurement and disbursement of supplies to curb the wastage of resources.
- In addition, the Government needs to exploit public-private partnerships to enhance Zambia's health sector. PMRC urges the Government to increase funding towards ICT for service delivery in the health sector. In the same vein, it is hoped that the SMART CARE project will be developed into an integrated health system for easy information sharing and be decentralised for more effective public service delivery.
- Finally, Government is urged to increase allocation towards research and development in the health sector for better emergency preparedness in the face of emerging pandemics.

WATER AND SANITATION

Much progress has been made by the Government and its cooperating partners in the water and sanitation sector, as demonstrated by the various projects embarked on, such as the National Urban and Rural Water Supply Programme. These projects have been implemented in Kafue, Nakonde, Chinsali, Chongwe, Lusaka, Kafulafuta, Serenje and Mufumbwe districts. However, a lot still needs to be done, mainly for the rural populations, to ensure access to safe drinking water and sanitation services as envisioned in the Eighth National Development Plan (8NDP).

The 2023 budget has increased the allocation by 8%, from K2.4billion in 2022 to K2.6billion for 2023. External financing of K135million is also provided under the Millennium Challenge Account. The Government has in the past five budgets allocated rather constant amounts to the water sector with the exception of 2020 when there was a sharp increase as can be seen in Figure 9 below.

Figure 9: Water & Sanitation Budgetary Allocation Trends (2019 – 2023)



Source: Annual National Budget Speeches

Recommendations

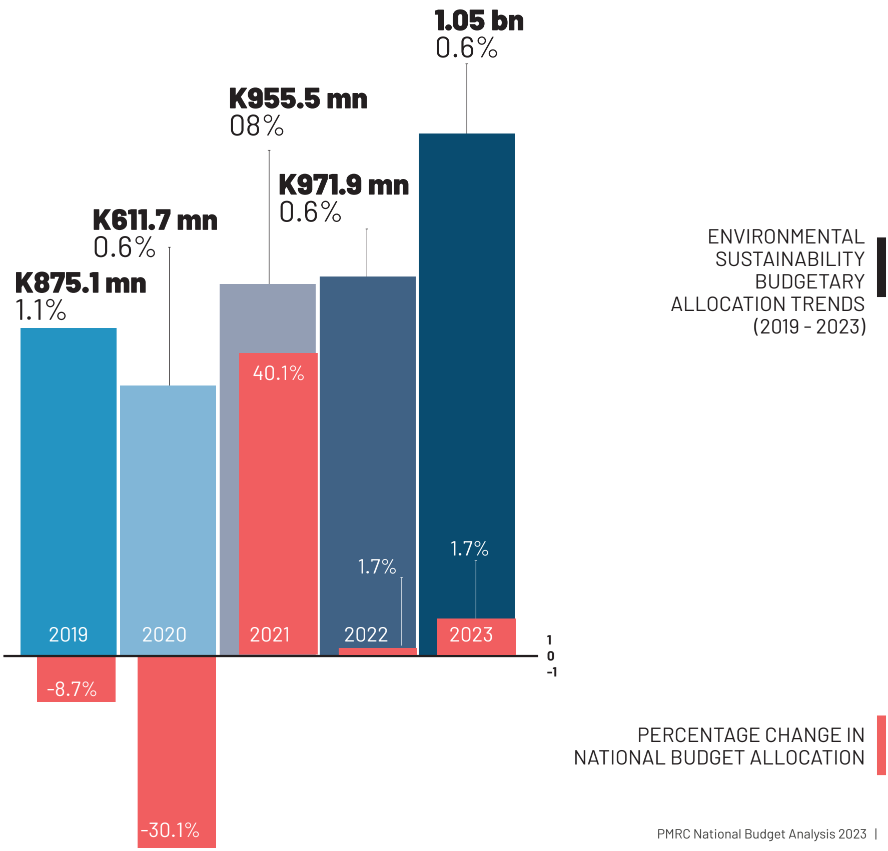
- PMRC urges Government to increase the allocation to water and sanitation which will ressult in clean water,decent toilets and good hygiene for the larger population in rural areas where there have a lot of challenges accessing proper water and sanitation.
- The Government is urged to speed up the implementation and completion of various water and sanitation projects across the country and promote public-private partnerships to achieve equitable access to clean water and improved sanitation for all.
- Further, the Government is urged to improve the drainage systems and solid waste management systems to address the challenges faced by flooding during the rainy season and indiscriminate waste disposal.
- PMRC urges the Government to increase water and sanitation funding to enhance expansion, improve water resources and infrastructure management, and monitor

climate-related risks to water management. Furthermore, given the recently launched Water Investment Programme, the Government is urged to prioritise investment in modern water technology such as water harvesting; this will have the dual benefit of providing increased access to water and sanitation services while also building climate change resilience.

ENVIRONMENTAL SUSTAINABILITY

Environmental protection in the 2023 budget has been allocated K1,059,981,064 - an increase of approximately 8.3% from 2022's allotment of K971,923,264. Barring 2020, there has been an upward trend in the financing of this sector over the last five years. This is commendable; however, the necessary accompanying policy and legislation needs to be speedily developed/implemented to facilitate the smooth execution of this budgeted amount.

Figure 10: Environmental Protection Budgetary Allocation Trends (2019 – 2023)



Source: Annual National Budget Speeches

The Government has also reiterated its resolve to promote green growth. This concept **has emerged as a new approach to reframe the conventional growth model and to re-assess many of the investment decisions in meeting energy, agriculture and water needs, as well as the resource demands of economic growth without compromising future growth and poverty reduction goals**. This resolve can be evidenced by Government's commitment to better managing the country's forestry resources; and the continued implementation of green projects such as 'Transforming Landscapes for Resilience and Development. Furthermore, the proposed review of the fee structure for environmental impact assessments is expected to strengthen Zambia's management of the assessment process and make it easier for investors to set up development projects.

Innovative financing for climate change interventions has been prioritised in the 2023 budget, with green bonds and carbon trading taking centre stage in facilitating the inflow of Foreign Direct Investment (from countries such as the United Kingdom) in renewable energy and urban planning. **Green bonds are the financial instruments used to fund projects with climate and environmental benefits**. It is expected that part of the budgetary allocation to Environmental Protection will be used to ensure that this market is properly established. Additionally, the development of guidelines and listing rules (regulations applicable to any company listed on a United Kingdom stock exchange) for green bond trading and the sensitization among potential green bond issuers is a further demonstration of the Government's commitment to back the development of the Green bond market in the country. These listing rules result from Cabinet's approval of the capital markets master plan, which has been in effect since 2017, championed by the Zambian Securities and Exchange Commission, The Ministry of Finance and National Planning, Zambian Financial Sector Deepening Zambia and other key stakeholders. Market forecasts suggest that Zambia should begin to see issuances in 2023 and beyond as capital markets deepen. Further, the 2023 budget provides for a 50% customs duty tax cuts of 15% on electric car importation, a 10% increase in surtax for carbon emissions and a 15% excise tax on plastic articles. The budget also provides for zero withholding tax on investments in green bonds listed on the Lusaka Stock Exchange.

GOOD GOVERNANCE ENVIRONMENT

The policy pronouncements in the 2023 budget address have responded to the strategies in the Eighth National Development Plan (8NDP) to strengthen the following systems and mechanisms:

- Decentralised public service delivery
- National data and information
- Transparency and accountability
- Public service performance management
- Land management and administration

The Government is committed to the fight against corruption and to building robust governance systems. **The Government will publish the Governance Diagnostic Assessment Report by the end of the year, identifying the main governance weaknesses and corruption vulnerabilities and measures to address them**. The Government will also **implement fiscal, debt management, monetary and external sector policies that are expected to stimulate growth and improve livelihoods**. Government undertakes to adhere to transparency and accountability in managing public resources. To demonstrate commitment to these reforms and the fight against corruption, Government will **increase funding to law enforcement agencies and oversight institutions**.

DEBT MANAGEMENT

The Public Debt Management Act No. 15 of 2022 was enacted to demonstrate commitment to prudent debt management. This is intended to strengthen systems against the backdrop of transparency and accountability. Parliamentary oversight on public debt contraction is a significant shift in the new legislation; it has been a long-held concern that public debt was previously contracted by the Executive without the necessary checks and balances by the Legislature on behalf of the Zambian people.

DECENTRALISATION

As Government seeks to implement the Decentralisation Policy's objectives further, local authorities will take the lead in planning for priority allocation of resources at the district level and increase citizen participation at the sub-district level. Improved financial allocations in the 2023 national budget and increased capacity are a feature that will enable the full actualisation of the Decentralisation Policy.

Notably, there has been an increase in the allocation of resources to local authorities to be supported by strengthened financial governance systems, enhanced internal controls and timely reporting through the development of a **Local Government Financial Management System**. It remains to see what the features of this system will include, although it is proposed that it should have an in-built monitoring and evaluation system to track spending. The policy pronouncement supports that all local authorities currently on activity-based budgeting will migrate to an output-based budgeting system in 2023. This is expected to enhance the performance of the local authorities.

In the 2022 budget, Government significantly increased the Constituency Development Fund (CDF) from K1.6 million to K25.7 million. So far, K3 billion has been released, representing 75 percent of the allocation. While this is a considerable feat, utilisation has been unsatisfactory as less than 10 per cent of the released amount has been utilised. The under-utilisation has been due to **administrative** challenges such as highly **centralised approval processes** required under the law, **cumbersome procurement procedures**, and **limited capacity in project preparation**, among others.
These challenges present the necessary impetus for Government to take remedial measures as follows:

i) Amend the **Constituency Development Fund Act** to streamline the approval processes and give more decision-making powers to the local communities. This is out of a realisation that while funds were decentralised, decision-making processes were not decentralised;

ii) Simplify the Guidelines relating to the management of the CDF budget; and

iii) Build capacity and raise awareness in communities.

The increase from K25.7 million to K28.3 million indicates Government's commitment to further decentralising functions to local authorities and providing the required financial resources to enable constituency-led projects to drive development. This increase signals the urgency with which the aforementioned challenges should be addressed in order to avoid compounding them and in order to avoid inefficiency in spending. Increased capacity and sensitisation cannot be overstated in this regard.

It has been reaffirmed that the Treasury will not recall any unutilised funds under CDF at the end of the year, as provided in section 11 of the Act. Considering that some projects are long-term and will already have been costed in a particular financial year, it is trite that the funds remain on the account with the necessary reports being made available to the relevant authority.

On the pronouncement that from 2024, allocation to the CDF will be conditional, i.e. that it will take into account **population size and poverty levels** of each constituency and that disbursements will be based on utilization, this is indicative of the fact that development is expected to take place and will be audited. It is common cause that some provinces are less developed than others and therefore require more support to bring them to the level of development enjoyed by other provinces. Prudence demands that the allocation be determined on a needs basis to free up resources for different demands.

PUBLIC PRIVATE PARTNERSHIPS

An important statement about the prominence that Public Private Partnerships (PPPs) will play in the economic transformation agenda has been made. In recognition of financial resource constraints alongside the critical need for infrastructure, the PPP approach is an alternative source of financing for key developmental projects without overburdening the fiscus. To enhance the effectiveness of PPPs', the Government intends to address the legal framework to provide specific incentives to make PPPs more attractive in favour of private sector participation. The launch of the Public Private Dialogue Forum (PPDF) was meant to strengthen further collaboration between the public and the private sector to provide an opportunity for Government to interact with the private sector and provide practical solutions to the challenges hindering private sector growth.

PMRC commends the decision to decentralise Central Government functions to local authorities. The proposed amendment of the Constituency Development Fund (CDF) Act is important because it responds to the challenges associated with the approval process, which takes away from the spirit of decentralisation in practice.

Recommendations

PMRC wishes to highlight recommendations made in its analysis of the CDF framework and urges that the following factors be kept in focus:

- Communicate Government objectives of the CDF expansion clearly to help create a shared sense of purpose among citizens in support of the programme to manage citizen expectations, and ensure that citizens understand how they can participate in the CDF more effectively.

- Establish a cross-governmental CDF working group, using the whole-of-Government approach with representation across key Government departments, including the Ministry of Finance and National Planning, Ministry of Local Government and Rural Development, Community Development and Social Services, Education and Health. The working group should have a clearly defined scope, ideally focused on implementing these recommendations, national monitoring of the programme roll-out, identifying priorities for experimentation and learning, and guiding subsequent reforms to its design.
- Earmark funds for periodic local authority capacity development surveys considering they are at the core of CDF's institutional structure. Building their implementation capacity is critical to delivering the CDF programme effectively. To this end, the Government will enable local authorities, the Ward Development Committees (WDCs) and CDF Committee (CDFC) members to identify their needs and tailor technical assistance accordingly. The expanded resources envelope can be used for this purpose.
    - Create a standard monitoring framework for CDF projects. As the Guidelines are reviewed, CDF projects should be monitored by wards, local councils, and provincial authorities, and then cascade this to Central Government.
    - Develop an impact measurement strategy for CDF-funded projects. Understanding whether the CDF is accomplishing its objectives is crucial to assessing its effectiveness and increasing its impact over time. **This will require designing an impact measurement strategy that identifies the desired outcomes, defines ways to measure them, and secures the budget needed to undertake an impact evaluation in the future**.
    - Standardize and digitize key critical data for all local councils and create a central repository at the Ministry of Local Government and Rural Development on project proposals, characteristics of approved projects being procured, and those finished and evaluated should be standardized and digitized.
    - Support local innovation to learn what works best through working with

specific councils and CDFCs that can act as reform champions. Doing so can provide valuable evidence on what works best and the foundation for program-wide reforms beyond 2022. Comparing how different practices reflect on the programme outcomes and impacts could offer insights that could be replicated and institutionalized.

- Improve programme monitoring through random centralised audits and increased community audits. Government can consider several measures to improve further monitoring of two aspects of the CDF: — Fiscal monitoring of the CDF to ensure no leakage in project procurement. — Procedural monitoring to assess if funded projects are being implemented on time and in compliance with the Guidelines.
- Link CDF to the Medium-Term Expenditure Framework in order to promote longer-term planning and investment, allow more significant projects to be more easily procured, demonstrate to local communities that the CDF is a transformative source of local investment, and convey a solid commitment to decentralisation.
- Develop a possible business model to ensure that the constituencies run their developmental projects as investments that can benefit the constituency by bringing in income.
- The tenets of good governance should be employed decisively; decentralisation should be demonstrated, which will influence self-actualisation, empowerment of local entrepreneurs who are now expected to take centre stage, and skills training to ensure quality and value for money. The use of local resources should be encouraged so that communities are self-sustaining.
- Review and develop a local labour pool or database linked to training programmes so that only skilled labour is selected for the construction and implementation of projects.

The foregoing calls for financial and human resources for a fully functional governance structure to support accountability and transparency in all other strategic development areas. The budgetary increment is a welcome move as it ticks the boxes to entrench local communities' participation in decision-making and drive the empowerment agenda.

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