

PRESENTATION

**SUBMISSION TO THE PARLIAMENTARY COMMITTEE ON
ENERGY, WATER DEVELOPMENT AND TOURISM.**

**BUDGET ANALYSIS OF HEADS 52, 62 and 68: MINISTRY
OF WATER DEVELOPMENT AND SANITATION, MINISTRY
OF ENERGY AND MINISTRY OF TOURISM**

OCTOBER 2023

PMRC was requested by the Committee on Energy, Water Development and Tourism to submit a written memorandum commenting on the 2024 estimates of revenue and expenditure of Heads 52 (Ministry of Water Development and Sanitation), 62 (Ministry of Energy) and 68 (Ministry of Tourism).

Head 52: Ministry of Water Development and Sanitation

Mandate: To develop and manage water resources as well as to ensure universal access to clean and safe water and adequate sanitation services

Zambia aspires to achieve universal access to clean and safe Water, Sanitation and Hygiene (WASH) services by 2030. In the 2024 National Budget, Government proposes to allocate K2.1 billion towards water and sanitation. This represents approximately 1.2% of the proposed national budget for 2024. Crucially, this amount is less than the K2.2 billion (or 1.3% of the budget) allocated in 2023.

Sources of funding

Funding for sanitation programmes will come from the following sources:

- European Investment Bank loan of 446,400,000
- Various donors loan of 18,600,000
- African Development Bank Loan of 55,800,000
- International Development Association loan of 14,515,275

Funding for water supply programmes will come from the following sources:

- OPEC Fund for International Development loan of 28,082,280
- African Development Bank loan of 358,975,925
- World Bank grant of 423,847,497

Given the constrained fiscal space, loans from cooperating partners play a critical role in supporting social sector spending in strategic areas such as water development and sanitation.

PMRC holds the view that the loans being accessed are on concessional terms which allow for low interest payments over an extended repayment period. Such loans have the potential to address current needs while government spends resources on other priority sectors. The grant to be received from the World Bank eases the pressure on government given that it is currently pursuing debt sustainability efforts.

Challenges and progress made

Some of the major challenges that continue to impact the WASH sector are the low levels of access to and provision of services which could potentially be attributed to the low budgetary allocations and inadequate private sector financing.

As can be in the budgetary allocation trends to the sector, the financing of this sector has remained significantly low, posing potential challenges to meet the Sustainable Development Goals targets (UNICEF, 2022). According to USAID (2022), Zambia needs an investment of about US\$384 million dollars annually into the provision and infrastructure maintenance of WASH if it is to meet universal coverage by 2030. In line with meeting the 2030 coverage goals, the Zambia Water and Investment programme worth US\$6 Billion was launched in 2022. The programme seeks to provide support towards water investments for economic

transformation, resilience and water and sanitation. It is envisaged this will provide critical financing towards enhancing provision of WASH across the country.

Poor access to water and sanitation services have been persistent particularly in rural areas. According to the 2018 Zambia Demographic and Health Survey, access to an improved drinking water source stood at 71% of the population with access standing at 57% in rural areas compared to 91% in urban areas. Notwithstanding these challenges, the Government has continued to make strides aimed at meeting its commitments to improve access to water, the Government as of June 2023 constructed 634 boreholes and aims to complete over 1000 boreholes by end 2023 set to benefit over 52,000 households. Of the 130 piped water schemes constructed, over 13,000 households have benefited from the scheme. Additionally, the Government has earmarked the construction of 38 dams across the country set to commence in 2024. As outlined in the 2024 National Budget, the intention to 1,374 boreholes and rehabilitate 1,270 boreholes across the country aimed at benefiting 92,000 households is a positive measure aimed at improving the provision of clean and safe water. Other projects such as the Integrated Small Towns Project in Luapula, Muchinga, Northern and Western Provinces to be completed in 2024 stand to benefit over 193,000 households.

With regards to sanitation services, 54% reported access to improved sanitation services. Access within urban areas was relatively higher at 79% compared to 38% in rural areas (Zambia Statistics Agency, 2020). Therefore, the Government intends to provide adequate sanitation services by connecting 6,000 households to sewer networks in 2024 and these projects will be implemented in Chipata, Kalulushi, Kitwe, Lusaka, Mongu and Sesheke. The construction of 168 waterborne sanitation facilities in public places and institutions across the country are key to maintaining public health, particularly, in high traffic public places such as markets and bus stations which have generally lacked adequate sanitation facilities. However, there is also need for investment aimed at improving the management of solid waste by investing in infrastructure and technology to promote recycling.

In view of the effects of climate change and its impact on national water security, the Government commenced the construction of 16 multi-purpose water harvesting dams in Central, Eastern, Luapula, Northern, Northwestern and Southern provinces in 2023. The project is estimated to harvest about 1.7 million cubic metres of water to support over 22,000 households and about 1.7 million livestock. Other works include the rehabilitation of 6 dams in Central, Eastern, Muchinga, Northern and Western provinces with an additional 6 earmarked for rehabilitation in Eastern and Southern provinces in 2024.

The water and sanitation budget allocations have remained low with only 1.2% of the total budget being allocated to the sector in the current budget down from the 1.3% allocated last year. Considering the challenges the sector is facing and the significant investments that are required in order to meet the set goal of universal access to safe and affordable WASH services by 2030, the funding is insufficient. With the current funding levels, it will be difficult to achieve the goal of universal access to WASH services by 2030.

Recommendations

- Government is urged to conduct a costing exercise in order to determine the necessary resources and financing that would support the provision of decent and affordable WASH services across the country
- Government is urged to pursue private sector financing in the provision of WASH services in order to diversify and complement government funding in the sector.

- In order to bridge the financing gaps in the sector, innovative opportunities for PPP model financing in the sector could be explored to increase investments and meet development outcomes.

■ With the increased allocation towards CDF, all constituencies will be required to facilitate the provision of water reticulation and sanitation systems in public amenities. In view of the increased funding towards CDF, communities are urged to prioritise the development, provision and maintenance of WASH services and infrastructure within their communities. Further to this, the Government is urged to pursue development of decentralised WASH services to cater to communities, particularly for rural and peri-urban areas.

Head 62: Ministry of Energy

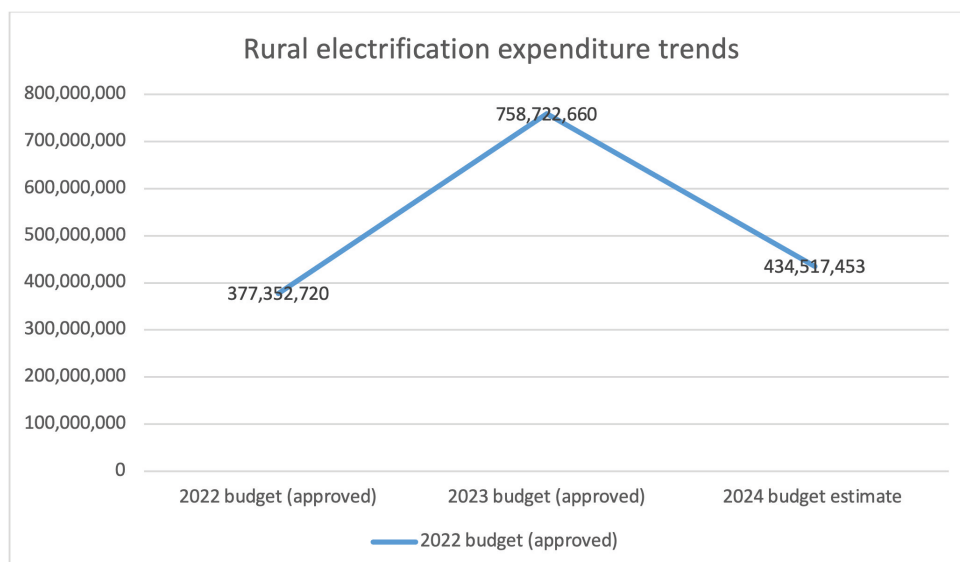
Mandate: To develop and manage energy resources in a sustainable manner for the benefit of the people

The 2024 National Budget underscores the significance of the energy sector in driving economic development and sustainability. This is in keeping with Zambia's 8NDP which identifies the energy sector as a key enabler of economic growth. Both the 8NDP and Zambia's Medium Term Budget Plan (2024-2026) outline that a major objective is to increase the country's electricity generation capacity and to promote the use of green and renewable energy. The major priorities for the sector in proposed 2024 budget therefore include increasing electricity generation capacity, improving efficiency, promoting competition and private sector participation, and expanding access to clean energy, especially in rural areas.

Government proposes to allocate K1.9 billion for the energy sector in the 2024 budget. This is approximately 1% of the total budget.

Rural electrification programme

In its continued efforts to improve access to electricity for the country, the Government increased allocation to the Rural Electrification Programme from K362.2 million in 2022 to K743.6 million in 2023. As at 30 September 2023, Government, through the Rural Electrification Authority had embarked on 62 Grid-Tied Electrification Projects and 19 Solar Mini-Grid Projects.



Source: 2024 Output Based Budget

However, as can be seen from the graph above, the 2024 proposed allocation amount of 434,517,453 is a reduction from the 2023 approved amount. Reduced funding for Zambia's rural electrification program could lead to limited access to electricity, hinder economic development, and exacerbate inequalities between urban and rural areas. It may also impede social development, slow the adoption of renewable energy sources, and impact job creation, while affecting investment confidence and environmental sustainability.

Further measures

The Government has also converted the Tazama Pipeline from a carrier of petroleum feedstock to a transporter of low-sulphur diesel in order to reduce diesel prices. Unfortunately, the impact of this has not been fully appreciated as the overall cost of petroleum prices has increased. We believe that as long as the global dynamics that have driven crude oil prices higher persist and the Kwacha fails to appreciate or at remain stable, fuel prices are likely to remain high. PMRC maintains that fuel subsidies should not be reintroduced because they would need to be funded by cuts in spending elsewhere.

To enhance growth in the energy sector, the Government is implementing measures to increase electricity generation capacity which currently stands at 3,790 megawatts as at August 2023, through provision of incentives to attract investment in power generation. The Government proposes the following incentives:

- Increase the period in which a business can claim a refund on VAT incurred on eligible goods before the commencement of commercial operations to 7 years from the current 4 years for hydroelectricity generation.
- Remove customs duty on machinery, equipment and other goods designed for geothermal energy activities.

Increasing the period in which a business can claim a refund on VAT incurred on eligible goods before the commencement of commercial operations to 7 years instead of the current 4 years for hydroelectricity generation is a significant benefit. Hydroelectric projects often have long gestation periods and require substantial upfront investments. By extending the VAT refund period, the government is providing a financial incentive for investors in hydroelectric power generation. This can help attract more private investment into the sector, as investors will have a longer time frame to recoup their initial VAT expenses, making hydroelectric projects more financially viable.

Removing customs duty on machinery, equipment, and other goods designed for geothermal energy activities is a direct incentive for the development of geothermal energy projects. Geothermal energy is a renewable energy source with immense potential, but it often involves specialized equipment and technology (Ribeiro et al., 2023). Therefore, a geothermal energy installation project is usually long and expensive. By eliminating customs duty, the government is reducing the cost of importing these crucial components, which can make geothermal energy projects more cost-effective and attractive to investors. This move can stimulate investment in geothermal energy and help diversify Zambia's energy mix.

By providing these incentives to attract investment in power generation and promoting the use of renewable energy sources, the government aims to address the country's growing energy needs and make the energy sector more resilient. This emphasis on increasing generation capacity aligns with the broader goal of ensuring a reliable and sustainable energy supply, which is crucial for supporting economic growth and development

in Zambia.

Recommendations

- The cost of refined oil/crude accounts for about 80% of the cost components of the fuel pump price. To reduce the price of fuel in the short to medium term, Government should look for other cheaper sources of refined fuel. Angola is a prospect for this, given its fuel has been the cheapest in the region.
- Government should also continue promoting oil and gas exploration to be able to extract oil locally and reduce the price of fuel in the long term.
- PMRC recommends increasing budget spending for the rural electrification program in order to accelerate economic growth, reduce inequalities, and promote sustainable energy sources, ultimately improving the quality of life for the rural populations.
- With hydro electricity continuing to account for more than 80% of the national power generation capacity and the warning from the Ministry of Green Economy and Environment that El-nino has started, stakeholders should be encouraged to adopt energy-efficient practices throughout this period to guarantee stability.
 - This may be accomplished by putting in place policies that encourage predictability and hastening the development of renewable energy programmes at the governmental, commercial and industrial sector level and households.
 - Furthermore, it may also be critical to alter the calendar for agricultural production, embracing numerous green agricultural activities and to explore ecologically friendly mining operations via greater efficiency and the generation of less waste.

Head 68: Ministry of Tourism

Mandate: To promote and explore the tourism potential of the country in order to contribute to national development

In the coming year The Ministry of Tourism will continue to focus on maximising its contribution to the objectives and targets of the economic transformation and job creation agenda in the Eighth National Development Plan (8NDP) and the Zambia Tourism Master Plan (ZTMP 2018-2038).

Post Covid-19, tourism has rebounded and is expected to continue to grow. A pivotal move that led to immediate success was the waiver of tourist Visa requirements for visitors from a host of countries, including the UK, USA, Canada, China and parts of the European Union, effective from 1 October 2022. This saw a surge in international tourist arrivals within the first half 2023 registering a 22% increase in international tourists to 605,650 compared to 496,456 in the same period in 2022. Additional measures which aided the sectors recovery includes streamlining the sector with the introduction in 2023 of 26 services on the Government Service Bus which include licenses such as Bird Hunting, Casino, and Professional Hunting among others. Furthermore, import duties were suspended on selected fixtures and fittings, capital equipment, machinery and safari gaming vehicles up to 31 December 2025. Government is commended for these measures and the subsequent impact they have had on the sector.

Budget Allocation

Year	Amount	Percentage of the budget
2023	366,293,198	0.22
2024	769,496,627	0.43

As can be seen from the table above, the tourism budget allocation has more than doubled from K366 million (representing 0.22% of the total budget) in 2023 to K769 million (representing 0.43% of the total budget) in 2024. This indicates increased Government commitment to uplift the sector and suggests Government's recognition that investing in tourism could potentially lead to the sector contributing significantly to the country's economic growth.

To continue with this growth in the sector, Government intends to:

- Develop tourism facilitation infrastructure at Kasaba Bay, Liuwa National Park and the source of the Zambezi River. Having secured a US\$100 million loan from The World Bank in 2023, under the Green, Resilient, and Transformational Tourism Development Project, the focus is to use these funds to improve accessibility and diversity of tourism product offerings to attract more tourists and increase length of stay.
- Establish a tourism satellite account to measure the contribution of tourism to the economy. This will help with policy formulation and inform decision-making. This pronouncement is timely as the 2020 report by the Office of the Auditor regarding the tourism sector's performance in increasing international tourists' stay length, a tourism satellite account to quantify its economic impact has been lacking. Due to non-systematic data collection, tourism statistics were incomplete. An inaccurate data collection system made it difficult to determine how many international tourists visited each tourism destination and how long they stayed. It also affected Ministry planning. Through collaboration with Immigration and Customs, the Tourism Satellite Account will facilitate visitor arrival data collection and research. PMRC envisions that the effective implementation of this satellite account will improve on the accuracy of data collection and analysis which is key for planning purposes.
- Promote sustainable tourism development to include tourism products such as cultural tourism, avitourism, health tourism and sports tourism. The promotion of these diverse offerings of tourism are welcome developments which are likely to create employment opportunities and enhance the country's global appeal as a tourist destination.
- Continue promoting the hosting of meetings, international conferences and exhibitions (MICE) as another way of boosting tourism. This demonstrates Governments continued commitment to diversify its tourism sector by attracting business travellers and delegates which can lead to increased revenue gains.

Overall, the Government's commitment to boost tourism in is commendable but there is still scope for further improvement. By prioritising sustainable practices, promoting cultural experiences, improving accessibility, and implementing effective marketing strategies, tourism in Zambia can reach its full potential and contribute significantly to the country's economy.

Recommendations

- It is essential that the funds that have been secured in the sector are appropriately used to achieve the intended purpose.
- The decision to maintain incentives around visas and tax relief in the sector is commendable and should be extended to other potential export markets including those within the African continent.
- Comprehensive advertising, participation in travel fairs, and utilising social media can also help to push Zambia towards becoming a prime tourist destination.
- Authorities are urged to continue identifying and developing new attractions to diversify tourist attraction offers while investing in strategic partnerships with regional member countries to market and provide tourism packages that support tourism across countries. This also requires educating and training personnel working in the sector to match global standards.

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