NATIONAL ASSEMBLY OF ZAMBIA

REPORT

OF THE

EXPANDED BUDGET COMMITTEE

ON THE

ESTIMATES OF REVENUE AND EXPENDITURE FOR THE FINANCIAL YEAR 1ST JANUARY TO 31ST DECEMBER, 2021

FOR THE

FIFTH SESSION OF THE TWELFTH NATIONAL ASSEMBLY

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1.0 COMPOSITION OF THE COMMITTEE

The Committee consisted of:

Mr M Simfukwe, MP (Chairperson); Ms N M Subulwa, MP (Vice Chairperson); Mr L A Lufuma, MP; Mr S K Kakubo, MP; Mr P Phiri, MP; Mr F C Chaatila, MP; Mr D Mumba, MP; Mr R M Nakacinda, MP; Mr J Siwale, MP; Mrs S S Mulyata, MP; Mr H Kunda, MP; Mr A B Malama, MP; Mr E Kamondo, MP; Mr M J B Ng'onga, MP; Mr G M Imbuwa, MP; Mr G K Mwamba, MP; Mr E K Belemu, MP; Dr C K Kalila, MP; Mr M Jere, MP; Mr E J Muchima, MP; Mr N Samakayi, MP; Dr S Musokotwane, MP; Dr M Malama, MP; Mr P W Daka, MP; Dr M Imakando, MP; Mr C Miyutu, MP; and Mr D M Syakalima, MP.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir

The Expanded Budget Committee appointed to examine the Estimates of Revenue and Expenditure for the Financial Year 1st January to 31st December, 2021 has the honour to present its Report.

2.0 FUNCTIONS OF THE COMMITTEE

The functions of the Expanded Budget Committee are to:

(i) study and analyse the estimates of revenue and expenditure for 2021;
(ii) hear evidence on the 2021 Budget from relevant stakeholders; and
(iii) make recommendations to the House that will inform policy formulation and implementation of future Budget estimates.

3.0 MEETINGS OF THE COMMITTEE

The Committee, in considering the 2021 Estimates of Revenue and Expenditure, held ten meetings during which it examined in detail all the submissions from various stakeholders. The Meetings were held through the hybrid system, pursuant to the National Assembly of Zambia (Corona Virus Disease 2019) Temporary Standing Orders, 2020 as amended in September, 2020.

4.0 PROCEDURE ADOPTED BY THE COMMITTEE

The Committee requested for written submissions on the 2021 Budget from various stakeholders who later virtually appeared before it to make oral submissions and clarify matters arising from the written submissions.

The witnesses who gave both written and oral evidence to the Committee are listed at Appendix I of the Report.

5.0 ARRANGEMENT OF THE REPORT

The Committee's report is in three parts. Part I presents a summary of concerns and submissions by stakeholders while Part II outlines submissions by selected Government ministries. The Committee's observations and recommendations are in Part III of the Report.

PART I

SUMMARY OF SUBMISSIONS AND CONCERNS BY STAKEHOLDERS

6.0. The Committee, in conducting its business interacted with various institutions, including the academia, research institutions, civil society organisations and Ministers from selected ministries. One prominent concern that was repeatedly submitted by the stakeholders on the 2021 Estimates of Revenue and Expenditure was the current debt position. Stakeholders submitted that the crowding out effect of debt had been observed since 2017, with debt allocations in the budget growing at a nominal annual average of about 34.0 per cent from K11.5 billion in 2017 to approximately K46 billion in 2021, representing over 44 per cent. External debt stood at $ 11.97 billion, while domestic debt and domestic arrears stood at K114.3 billion. Stakeholders expressed worry that in light of the sluggish economic growth projected at 4.2 per cent for 2020, coupled with the advent of the COVID 19 pandemic, it was overly optimistic that the 2021 Budget would be executed as projected. A number of stakeholders, however, welcomed a number of positive pronouncements made in the Budget Address and urged the Executive to ensure that the proposals were fully implemented. A synopsis of the submissions made by the stakeholders on the 2021 Budget is presented below.

6.1. MACROECONOMIC FRAMEWORK FOR 2021

The Committee was informed that the macroeconomic framework for Zambia in 2021 was set to focus on stimulating economic recovery and building resilience to safeguard livelihoods and protect the vulnerable groups and individuals. In the medium term, the focus would be on containing the spread of the corona virus, mitigating the effects of the pandemic and restoring macroeconomic stability as well as growth. In addition, priority would be to move towards attaining fiscal fitness and restoring debt sustainability, dismantling domestic arrears and safeguarding social protection spending.

The macroeconomic objectives for 2021 were as set out below.

i. Achieve a real GDP growth rate of at least 1.8 per cent.
ii. Achieve and maintain inflation within the 6 to 8 per cent range.
iii. Increase international reserves to at least 2.5 months of import cover.
iv. Reduce the fiscal deficit to 9.3 per cent of GDP.
v. Achieve domestic revenue collections of not less than 18 per cent of GDP.

Stakeholders commented on the detailed macroeconomic targets set out in the 2021 National Budget as set out below.

a) Achieve a Real GDP Growth rate of 1.8 per cent

The Committee was informed that the economy was projected to grow by 1.8 per cent in 2021 premised on the expected recovery in economic activity as the COVID-19 pandemic abates and the global economy rebounds, the effectiveness of the support measures announced in the Budget to various sectors, particularly tourism and agriculture, as well as improvements in electricity supply with the expected commencement of power generation at Kafue Gorge Lower Hydropower Station later in 2020. However, the risks to the growth outlook were tilted to the downside due to the uncertainty surrounding COVID-19 and the challenges in restoring fiscal sustainability at a time when the full impact of COVID-19 on the economy was not yet complete.

b) Reduce the inflation towards the target range of 6-8 per cent

Stakeholders submitted that inflation was projected to remain above the upper bound of the 6-8 per cent target range for the rest of 2020 largely on account of higher fiscal deficits and the weakening of the global economy which were exerting pressure on inflation through the exchange rate and interest rate. In this regard, monetary policy would continue working towards bringing inflation back to the target range over the medium-term. However, there were upside risks to the inflation outlook that included further deterioration of the fiscal position, adverse impact of monetary expansion, a deeper than projected global recession, as well as prolonged and extended electricity load shedding. Inflation would nonetheless return to the 6-8 per cent target range faster over the medium-term on account of improved food supply, particularly maize grain.

c) Increase International Reserves to at least 2.5 months of import cover

To attain the target of 2.5 months of import cover in 2021 would require a significant reduction in debt service payments and improvement in external financial flows such as project/donor flows. However, the Central Bank remained key in implementing measures to moderate the decline in reserves through various initiatives which include the purchase of locally produced gold.

d) Reducing the fiscal deficit to 9.3 per cent of GDP

The cash fiscal deficit on cash basis target of 9.3 per cent of GDP for 2021 from the 11.7 per cent projected outturn for 2020 demonstrated Government's commitment to pursuing fiscal consolidation under very challenging circumstances. However, the achievement of this target would require more robust implementation of austerity measures to rationalise expenditures and systematically expand revenue collection. In addition, the timing and size of debt service was not certain, given the on-going liability management negotiations with the various creditors. Further, depreciation of the Kwacha against the United States (US$) dollar would entail more external debt service expenditure pressures.

The Committee also heard that the proposed increase in domestic financing of Government to 4.8 per cent of GDP in 2021 from a target of 1.1 per cent in 2020 had the potential to crowd out the private sector, thereby constraining the expected recovery in economic activity.

e) Achieve domestic revenue collection of not less than 18.0 per cent of GDP

Achieving the domestic revenue target of at least 18.0 per cent of GDP in 2021 was plausible. However, it would be challenging as economic activity remained weak. This was evidenced by company shutdowns, job and income losses, declining business output, and a notable weakening in consumer demand. Domestic revenues averaged 18.3 per cent between 2015 and 2019, but revenue performance in 2020 and 2021 would be affected by COVID-19. There was, therefore, need to step up enforcement to improve tax compliance as well as invest in human capacity development and technology to support revenue collection.

6.2 MONETARY POLICY AND ITS IMPLICATIONS ON THE 2021 BUDGET

Table 1 below summarises the performance against macroeconomic targets for the period 2015 to 2020 showing the target and actual indicators in the reference period.

Table 1: Macroeconomic Targets and Outturn 2015-2021

Indicator		2015	2016	2017	2018	2019	2020*	2021
Real GDP growth rate (per cent)	Target	7.0	5.0	3.4	5.0	4.0	3.0	1.8
	Actual	2.9	3.8	3.5	4.0	1.4		
Inflation rate (per cent)	Target	7.0	7.7	9.0	6-8	6-8	6-8	6-8
	Actual	21.1	7.5	6.1	7.9	11.7		
Months of Import cover for international reserves	Target	4.0	4.0	3.0	3.0	3.0	2.5	2.5
	Actual	3.7	3.6	2.9	1.8	2.1		
Fiscal deficit (per cent of GDP)	Target	6.9	3.8	7.0	6.1	6.5	5.5	9.3
	Actual	9.6	6.1	6.0	7.9	9.1		
Domestic Revenue Collection (per cent of GDP)	Target	18.5	20.4	18.0	17.7	18.0	22.0	18.0
	Actual	18.5	18.2	17.4	19.1	21.3		

Source: Bank of Zambia 2020

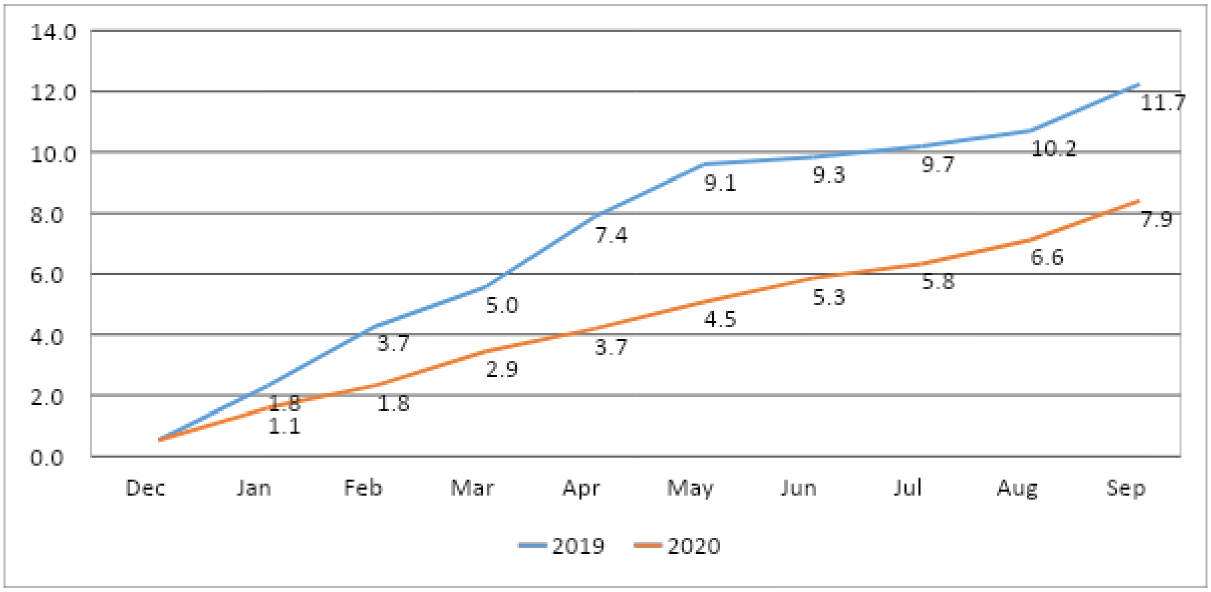
6.2.1 Economic Growth

The Committee heard that economic growth had been trending downwards since 2015 and the Government had been failing to meet the targeted growth rate each year since, save for 2017. This was largely attributed to a combination of external and domestic shocks, as well as structural and policy related influences. In particular, droughts that severely impacted agricultural output and electricity generation as well as the fall in copper prices largely contributed to lower than projected growth. In 2020, the economy was projected to record a negative of 4.2 per cent, due to a substantial decline in consumer and investment spending due to disruptions in business operations which were expected to continue to constrain economic growth. The most adversely affected sectors were tourism, wholesale and retail trade, as well as the construction sector.

6.2.2 Inflation

The Committee was informed that inflation was broadly within target during the period between 2015-2019 except for 2015 and 2019 when the targets were breached. The higher inflation outturns in 2015 and 2019 were largely due to the effects of the sharp exchange rate depreciation, food supply shocks induced by the drought, and the general increase in production costs attributed to electricity load shedding. As at September, 2020, the annual rate of inflation stood at 15.7 per cent, which was significantly higher than the medium-term target of 6-8 per cent. In 2020, inflation had largely been driven by food supply shocks which kept food prices elevated, the depreciation of the exchange rate, and the increase in fuel prices as well as electricity tariffs.

Figure 1: Year to Date Inflation Rates, Sep 2019 and Sep 2020 (per cent)



Source: Zambia Statistics Agency

6.2.3 International reserves

The Committee was informed that international reserves had been declining and below target due to the sustained increase in external debt service payments. This had resulted in a consistent fall in the months of import cover to below the target. The decline had, however, been moderated by the Bank of Zambia purchases of foreign exchange from the market and direct receipt of mineral royalties and other statutory obligations in foreign currency from the mining companies. The Committee was further informed that by August 2020, Bank of Zambia total purchases of foreign currency amounted to US $458.9 million.

6.2.4 Fiscal deficit

With regard to the fiscal deficit, it was explained that the fiscal deficit had consistently breached the programmed level during the period 2015-2019 in light of the slow progress in the implementation of fiscal consolidation measures announced by the Government. Higher than programmed borrowing, accumulation of expenditure arrears and rising external debt service obligations exacerbated by exchange rate depreciation had adversely weighed on the fiscal deficit. In 2020, the projected fiscal deficit outturn was 11.7 per cent against the target of 5.5 per cent. This was exacerbated by the effects of COVID-19 that had induced unplanned health related expenditures in addition to other tax related measures to help cushion the private sector.

The Committee was also informed that domestic revenue collection as a proportion of GDP had remained stable and broadly in line with the targets over the 2015-2019 period. Increased domestic revenue collections through improvements in tax administration had contributed to this performance.

6.2.5 **Measures put in place to foster exchange rate stability**

The Committee heard that as at September 30, 2020, the Kwacha depreciated by 42.4 per cent to K20.02 per US dollar from K14.05 at end-December 2019. The depreciation was largely due to increased demand for foreign exchange, particularly due to the importation of agricultural inputs, health related supplies and procurement of petroleum products amidst reduced supply, particularly from the mining sector. In addition, adverse market sentiments associated with Zambia's credit rating downgrades, and fiscal challenges in the wake of the COVID-19 pandemic weighed heavily on the Kwacha.

To achieve exchange rate stability, the Bank of Zambia had instituted the measures as outlined below.

a) Undertook measured interventions through the sale of foreign exchange to provide relief to the market. This had contributed to a moderation in the rate of depreciation and dampened volatility in the exchange rate.

b) Revised rules governing the operations of the interbank foreign exchange market to support its smooth functioning, strengthen market discipline, and address heightened volatility.

c) Initiated arrangements to purchase and include gold to the reserves portfolio in order to augment reserves. The process of operationalising this proposal was still underway. The Bank had been engaging the mining companies to operationalise this and would aggressively pursue the issue.

6.3. FISCAL POLICY FRAMEWORK FOR 2021

The Committee heard that in 2021, tax revenue collections by the Zambia Revenue Authority (ZRA) were projected to account for 49.3 per cent of the Government expenditure, which translated into about 16.1 per cent of GDP. This ratio of tax revenues to GDP in 2021 had decreased by 1.9 percentage points from the projected ratio for the 2020 fiscal year.

Table 2 shows the measure of revenue expectation in relation to the 2020 National Budget and GDP.

Table 2: Tax and Non-Tax Revenues as Percentage of Budget and GDP, 2021 and 2020

Tax and Non Tax revenues-2021 (K' Millions)		Percentage share of total Budget-2021	Percentage share of total Budget-2020	Percentage share of Projected GDP-2021	Percentage share Projected GDP-2020
		K119, 616.01 million	**K106,007.61 million**	**366,920.28 million**	**K327,184.00 million**
Total Tax Revenue (including mineral royalty)	58,959.1	49.3per cent	59.7per cent	16.1per cent	18.0per cent
Non-Tax Revenue (excluding mineral royalty)	7,023.4	5.9per cent	4.9per cent	1.9per cent	3.9per cent
Domestic Financing	17,430.5	14.6per cent	4.8per cent	4.8per cent	1.1per cent
Grants	1,986.2	0.8per cent	2.2per cent	0.5per cent	0.3per cent
Foreign Financing	36,201.03	30.3per cent	28.4per cent	9.9per cent	9.1per cent

Source: Zambia Revenue Authority 2020

6.3.1 Breakdown of Tax Revenue in 2021 compared to 2020

The Committee was informed that the total revenue expected to be collected by ZRA during the 2021 fiscal year was K59, 369.2 million. Out of this amount, direct taxes (composed of company Income Tax, Pay-As-You-Earn and withholding tax and others) at K27, 064.5 million were projected to raise about 45.6 per cent followed by Value Added Tax (VAT) which was planned to account for 28.5 per cent or K16, 938.0 million, while Customs and Excise Duties were expected to contribute 15.6 per cent or K9, 270.6 million. Mineral Royalty and the levies administered by ZRA (insurance premium levy, skills development levy and tourism levy) would account for 9.6 per cent or K5, 686.1 million and 0.7 per cent or K410.1 million respectively.

The structure of the programmed tax collection by tax type was depicted in Table 3 below.

Table 3: Structure of Proposed Tax Revenue Estimates in 2021 and 2020

Source of Tax	Proposed collection-2021 (K'million)	Proposed collection-2020 (K'million)	Per centage of total tax revenue-2021	Per centage of total tax revenue-2020
Company Income Tax	9,114.6	7,903.9	15.4per cent	13.4per cent
PAYE	12,867.2	12,331.4	21.7per cent	20.9per cent
Withholding tax & others	5,082.8	5,377.2	8.6per cent	9.1per cent

Mineral Royalty	5,686.1	4,819.6	9.6per cent	8.2per cent
Insurance Levy	116.9	106.2	0.2per cent	0.2per cent
VAT	16,938.0	18,942.8	28.5per cent	32.2per cent
Customs and Export duty (Including Motor Vehicle Fees)	4,557.7	4,538.3	7.7per cent	7.7per cent
Excise duty	4,808.3	4,821.8	8.1per cent	8.2per cent
Skills Development Levy	178.9	179.2	0.3per cent	0.3per cent
Tourism Levy	18.9	17.0	0.0per cent	0.0per cent
Total	**59,369.2**	**59,037.5**	**100.0per cent**	**100.0per cent**

Source: Zambia Revenue Authority 2020

It was explained that the structure of the tax system in 2021 was similar to that of 2020 as it would continue to be driven by income taxes (company income tax; PAYE, withholding and mineral royalty) that would collectively account for 55.3 per cent compared to 51.6 per cent of the total tax collections in 2020. The main driver of income taxes would continue to be PAYE, followed by Company Income Tax. Consumption taxes namely VAT and Excise Duty would together account for 36.6 per cent (40.4 per cent in 2020) of the 2021 programmed tax revenue collections, out of which 28.5 percentage points were attributable to VAT. Customs duties were projected at 7.7 per cent of the programmed tax collections in 2021.

The Zambia Revenue Authority was optimistic that with the proposed macroeconomic management measures in the Budget, a more stable and improved economic environment would be attained in 2021 which would spur growth and result in the attainment of the revenue collection as projected.

Table 4: Domestic Revenue Targets vs Actual as Share of GDP, 2011- 2021 (per cent)

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Target	18.0	19.0	20.0	21.0	17.1	14.1	19.0	21.4	18.8	22.0	18.0
Actual	21.1	18.3	17.7	18.7	19.9	19.8	19.7	19.9	20.4	?	?

Source: *MoF & ZamStats*

6.4 CONCERNS BY STAKEHOLDERS

The stakeholders who appeared before the Committee raised various concerns on the 2021 Budget. These are as summarised below.

6.4.1 Rising Public Debt amidst Austerity Measures and the Growth and Stabilisation Programme

Stakeholders expressed dismay that despite their repeated concerns, the country's domestic and foreign debt still remained a huge burden. Further, there had been rising concern from stakeholders on the widening budget deficit and public debt, coupled with increased public spending. While noting that the Executive proposes to contract concessional debt in place of commercial debt, it still would have long term effects on the country. Further, stakeholders wondered how the 2021 Budget would be financed when the series of measures to mitigate the threat on macroeconomic stability and attainment of development had not been achieved.

While recognising the steps undertaken by the Executive to benefit from the G20 Debt Service Suspension Initiative and the signing of a Memorandum of Understanding entered into with the Paris Club creditors as well as the on-going negotiations with G20 members, stakeholders noted that the 2021 Budget Address did not give specific details on the implementation of these measures but instead was focused on the limited initiatives in managing the ballooning public expenditure. They contended that public expenditure in the 2021 Budget represented 48.3 per cent of the total budget in 2021 from 41.6 per cent in 2020 which was the trend in the previous six years where budget deficits were mainly driven by the rapid rise in recurrent expenditures. They were of the view that more realistic actions should be taken in order to arrest the huge debt burden. In addition, they reiterated the need to finalise the International Monetary Fund (IMF) Economic Recovery Programme before the 2021 financial year.

6.4.2 Efficacy of the Economic Recovery Strategy

Stakeholders generally welcomed the pronouncements regarding the implementation of the economic recovery strategy. However, they urged the Executive to ensure that the strategy was fully implemented in order to achieve the intended objectives. Further, they urged the Executive to ensure that the strategy was made public before the end of the existing financial year, to allow stakeholders to monitor its full implementation.

6.4.3 Fiscal Measures for Domestic Resource Mobilisation

Stakeholders noted that the country was generally a mono economy, heavily reliant on the mining operations for most of its economic output, which accounted for 70 per cent of Zambia's export of goods. They noted, however, that the sector was highly susceptible to fluctuations in commodity prices and global economic conditions. They contended that it was a risky undertaking to place reliance in the budget on the mining sector for part of the resource envelop, given the past record. Further, stakeholders implored the Executive to take drastic measures to curb Illicit Financial Flows (IFF), largely driven by trade mis-invoicing, through deliberate mis-reporting of values of commercial transactions on invoices submitted to the Zambia Revenue Authority Customs, as well as unaccounted for balance of payment movements. This would be achieved through institutional and legal frameworks, among other measures.

6.4.4 Maximising Revenue from the Mining Sector

Stakeholders noted that, if well harnessed, the mining sector remained the major contributor to Zambia's export earnings and revenue. However, they regretted that the mining fiscal tax regime had on average undergone one tax change every 18 months. Further, they regretted that in the past sixteen years, mining taxation had been revised over ten times thereby creating an environment of unstability in the sector. This had a potential of limiting growth and meaningful mining expansion, which would lead to negative ripple effects on the general economy, as mining was core to Zambia's economy. Stakeholders also commended the Government for the establishment of the Zambia Gold Company (ZGC) Ltd to spearhead gold mining and trading activities in the country.

Other stakeholders submitted that one key element in the mining sector tax regime that stood out for immediate action was the non-deductibility of the Mineral Royalty Tax. They urged the Executive to consider removing this so as to encourage investment into the sector, especially that a number of neighbouring countries had reversed this decision. In this regard, stakeholders urged the Executive to consider undertaking a comprehensive review of the mining taxation regime in order to establish a sustainable taxation system for the benefit of both the Government and the investors in the mining sector.

6.4.5 Implications of the Fiscal Deficit on Macroeconomic Stability

Stakeholders expressed worry over the country's persistent fiscal deficit in the past five plus years, which was projected to widen to 11.7 per cent of GDP from a target of 5.5 per cent in 2020. While the country projected to achieve a cash-basis fiscal deficit of 9.3 per cent of GDP in 2020, stakeholders were of the opinion that going by the turnout of the last few years, the 2021 deficit was likely to be wider than the projection of 9.3 per cent of GDP as large fiscal deficits had been a recurring feature over the years. They contended that the combination of higher than planned spending and reduced domestic revenues posed a risk of pushing the country into an even deeper deficit with the bulk of the gap being covered through borrowing.

6.4.6 Recovery, Growth and Resilience amidst COVID-19

Stakeholders noted that whereas the impact of COVID 19 had negatively affected economic growth, the country was already in recession way before the pandemic as evidenced by sluggish economic indicators. They submitted that the panacea to achieving recovery, growth and resilience amidst COVID 19 was anchored on the prioritisation of the key sectors identified in the 7NDP to drive economic diversification and job creation. These were agriculture, tourism, mining and manufacturing, with Information and Communication Technologies (ICT), energy and trade as enablers. They urged the Executive to implement the existing strategies in addition to the economic recovery strategy.

6.4.7 Enhancing Trade Facilitation amidst COVID 19

Stakeholders noted that the rising trade costs from transport, logistics and supply chain disruptions, as well as additional border controls and documentation requirements where an impediment to trade flows and the slow down in the global economy had been aggravated by the COVID-19 pandemic. In this vein, stakeholders implored the Executive to switch from the existing border infrastructure spending and focus on human resources and operational measures that could reduce the time spent at boarders by traders. Further, they submitted that the Executive should enhance cooperation with neighbouring countries, as well as streamline, simplify, harmonise and modernise customs procedures. Stakeholders also called upon the Government to redirect its focus towards COMESA, SADC and the Tripartite particularly in the short-term as post-COVID sub-regional demand for primary commodities rebounded. This was especially so given the country's minimal benefits from these bodies.

6.4.8 Legal framework for Enhanced Budget Credibility

The majority of stakeholders commended the Executive for its commitment in tabling most pieces of legislation that enhanced budget credibility such as the Planning and Budgeting Bill and the Public Procurement Bill, among others. They implored the Executive to ensure that amendments to the *Loans and Guarantees (Authorisation) Act*, *Chapter 366 of the Laws of Zambia* were presented to Parliament so as to foster transparency, especially on debt contraction and to strengthen parliamentary oversight.

6.4.9 Industrialisation, Value Addition and the Manufacturing Sector

Stakeholders noted that whereas the 2021 Budget Address contained some notable measures and pronouncements to promote value addition in manufacturing and more broadly, industrialisation, similar pronouncements had been made in the past without corresponding efforts of implementation. They urged the Executive to ensure that the pronouncements on value addition, industrialisation and manufacturing were fully implemented given the supply chain disruptions that had increased the time and cost of sourcing inputs and invariably increased the cost of production.

6.4.10 Allocations to Social Sectors and Anticipated Implications

Overall, stakeholders expressed worry on the decline in social sector public spending, noting that this was crucial for alleviating poverty and inequality, saving lives and sustaining livelihoods. It was, therefore, the most important instrument for ensuring that no one was left behind in the development process. It was noted that the social sector budget was expected to increase by 10 per cent in 2021 from K27.7 billion in 2020 to K30.4 billion. This was largely due to a K2.2 billion increase in the social protection budget. However, in relation to the total budget, the social sector budget was expected to decline to 25.4 per cent in 2021 from 26.1 per cent in 2020. The declining allocation to the social sector could make it more difficult to tackle social development challenges, and could limit the effectiveness of overall poverty reduction efforts.

Stakeholders also noted that despite the decreases as a share of the total budget, Education (11.5 per cent of the budget) had taken up the largest share of the social sector budget, followed by Health (8.1 per cent of the budget) and Social Protection (4.0 per cent). Water Supply and Sanitation (1.8 per cent) took up the lowest share of the allocation despite the revelation that nearly half of the population in rural areas remained without access to safe drinking water.

On a more positive note, stakeholders noted that social protection had emerged as a big winner of the 2021 Budget, receiving an increase of 87 per cent in budgetary allocation in comparison to the 2020 Budget. In absolute Kwacha terms, the budget allocation had increased to K4.8 billion in 2021 from K2.6 billion in 2020 with key programmes within social protection such as the Social Cash Transfers (SCT) and the Food Security Pack (FSP) receiving significant increases in allocations of 124 per cent and 801 per cent, respectively. Stakeholders submitted that while the increased allocations were progressive, past disbursements revealed weak budget performance as evidenced by the poor releases. During the period between 2015 and August 2020, the Government on average under spent on the SCT Programme by 62 per cent, Pensions Fund by 32 per cent and by 26 per cent on the FSP. The consistent failure to actualise the budget was a threat to the various social protection programmes.

6.4.11 Allocation towards Agriculture and Tourism Sectors

A number of stakeholders expressed concern that whereas the agriculture sector had arguably received the largest funding allocation coupled with measures aimed at improving productivity, promoting local production and revamping the horticulture and floriculture sub-sectors, a bigger portion of the allocation was for FISP and FRA, leaving out the key drivers of agricultural growth such as agricultural research and development, extension services, livestock production and disease control, rural infrastructure such as feeder roads and irrigation. Specifically, the allocation to FISP had been increased by more than 400 per cent, from K1.1 billion in 2020 to K5.7 billion in 2021. Another positive pronouncement highlighted by stakeholders was the proposed 100 per cent migration of the FISP to the cost effective e-voucher system.

Regarding the tourism sector, stakeholders noted that undeniably, COVID-19 had had a disproportionate negative impact on the sector compared to other sectors. Stakeholders stated that COVID-19 had eroded any positive gains owing to the drastic collapse in demand for accommodation, food, conferences, tours, entertainment and other tourism-related activities. It was revealed that since the onset of COVID 19, demand for arts and entertainment, accommodation and food grew by -84.2 per cent and -30.4 per cent respectively. They commended the Executive for the key measures and pronouncements made to resuscitate the sector and also promote local tourism. These measures included reduction of the corporate income tax rate to 15 per cent from the existing 35 per cent on income earned by hotels and lodges on accommodation and food services; suspension of import duty motor vehicles used in safari game viewing, tourist buses and coaches; suspension of license renewal fees paid by hotels and lodges; suspension of the retention fees paid by tourism enterprises.

Notwithstanding the foregoing, stakeholders noted that domestic tourism would still be a challenge owing to household income of the average Zambian remaining inadequate, leaving little available for luxury consumption options like travel and holidays, thus limiting the growth of domestic tourism. In this vein, a two-tier tourism product pricing system in line with targets in the 7NDP was the most practical measure. Further, the cost of a multiple and single-entry visa was more expensive in Zambia compared to Zimbabwe and Botswana, ultimately making the country an uncompetitive destination for international visitors. Broadly, if fully implemented, the measures would stimulate recovery, promote investment and offer firms relief from the financial pressure of adhering to statutory obligations.

6.4.12 Adjustments to the Pay As You Earn

Stakeholders noted that despite the adjustment of the PAYE non-taxable threshold from the existing K3,300 to K4,000 for the lowest band, as well as the other tax bands being adjusted accordingly, the adjustment was insignificant and long overdue considering that the last adjustment was in 2017, while the cost of living and inflation had increased significantly. In addition, they noted that PAYE accounted for the largest share of the proposed income tax regime, thereby negating the full benefits by workers.

6.4.13 Strategic Reforms for Poorly Performing State Owned Enterprises

Stakeholders wondered why the Government had continued to delay the implementation of reforms to restructure poorly performing State Owned Enterprises (SOEs), despite numerous concerns by stakeholders. They argued that as had been the trend, very few SOEs had declared dividends in the recent past, and yet the Government had continued financing them. They strongly urged the Government to take bold steps to restructure all SOEs as a matter of extreme urgency in order to enhance their efficiency and enhance domestic resource mobilisation.

6.4.14 Reduction of Import Duty on Electric Vehicles

Stakeholders noted that while the Government proposed to reduce import duty on electric vehicles from 30 per cent to 15 per cent in order to reduce the demand on petroleum products, the same should be accompanied by the introduction of incentives to enhance the growth of the bio-fuel sector, especially that the current stock of motor vehicles still had a healthy lifespan. They contended that a developed bio-fuel sector would further create options for production of bio-gas, increase employment opportunities, and improve incomes and livelihood for farmers involved in this trade.

6.4.15 Support to the ICT subsector

Stakeholders noted that the ICT subsector had emerged as a critical industry during the COVID-19 wave, rapidly growing at a rate of 29.3 per cent from 20.7 per cent in the second quarter of 2020. Its growth had been bolstered by measures aimed at limiting person-to-person contact such as working from home, virtual meetings, e-learning and other e-services (including electronic financial intermediary services – mobile money) that had increased the demand for broadband and other ICT services. To share in the cost of developing ICT infrastructure in rural areas more broadly, and ensure sustainable financing, stakeholders urged the Executive to ensure that a proportion of the 17.5 per cent excise duty levied on airtime should be earmarked for ICT infrastructure development in rural areas, especially that this strategy had been employed to finance rural electrification. It could be extended to finance ICT service provision as well.

6.4.16 Child Funding

Some stakeholders expressed concern that the 2021 Budget Address made no mention of nutrition despite the country not only being food insecure, but also nutrition insecure, given the impact of floods and COVID 19, among other factors. Stakeholders further regretted that despite donors injecting over $112 million in nutritional programmes, the failure to highlight nutrition was an indication of the fact that this was not a priority on the part of Government. Further, it was noted that the allocation to National Food and Nutrition of K 10,011,139 had remained the same for the last three years despite inflation and expansion of the National Food and Nutrition Commission team in target districts and provinces. They urged the Executive to take deliberate measures to actualise the theme of the budget of enhancing the livelihood of the vulnerable in society.

6.4.17 Launch of the Youth Empowerment Fund

Stakeholders commended the launch of the Youth Empowerment Fund with an allocation of K470 million for economic diversification and job creation. They submitted that in order to harness the effective implementation of the programme, lessons should be drawn from the challenges faced during the implementation of the Youth Development Fund, which was characterised by poor loan recovery rate (16 per cent) and failure of several businesses to thrive. In this vein, they urged the Executive to identify a specialised institution with experience in both managing loan portfolios and providing business development services to administer the Fund on behalf of the Government. The institution should also be able to provide sufficient mentorship, training and business support services before loans were disbursed so as to build financial and business management skills and improve the loan recovery rates.

PART II

SUBMISSIONS FROM SELECTED MINISTERS

7.0. In the quest to have an appreciation of the implications of the 2021 Budget on the performance of some sectors in the economy, the Committee undertook a brief overview of the budgetary allocations to selected ministries. This was done through interactions with Ministers from selected ministries. The submissions received from Ministers are summarised as outlined below.

7.1 MINISTRY OF LOCAL GOVERNMENT AND HOUSING

The Minister submitted as set out below.

Budgetary Provisions for the Ministry against National Budget – 2020 And 2021

The Committee was informed that the Ministry of Local Government migrated from Activity Based Budgeting (ABB) to Output Based Budgeting (OBB) in 2020, and had since operationalised the OBB with the 2021 Budget having been processed under the new budgeting system.

The Minister submitted that a total of **K1,494,521,865.00** was allocated in the 2021 Budget to facilitate the implementation of programmes by the Ministry. The programmes included: Local Governance; Municipal Infrastructure and Support Delivery; Management Support Services; and Human Settlements Planning and Regulation. The Committee was also informed that this allocation represented 1.25 per cent of the national Budget. This was a reduction compared to the 2020 Budget in which the Ministry was allocated K1, 504,582,674.00 representing 1.42 per cent of the national budget. Despite an increase in the national budget, there was a reduction in the share of budget to the Ministry.

The 2020 and 2021 Budget allocations for the Ministry are summarised in the table below.

Table 5: 2020 and 2021 Budget Provisions

Year	National Budget	MLG Budget H29	Percentage of the National Budget
2020	K106,007,000,000.00	K1,504,582,674.00	1.42per cent
2021	K119,616,000,000.00	K1,494,521,865.00	1.25per cent

While the Ministry acknowledged the constrained environment within which all Government sectors and agencies were operating, the Minister submitted that going forward, there was need to further prioritise local governance and municipal service delivery by increasing the proportion of the Ministry's allocation given its critical role in fostering resilience to epidemics and its strategic role in contributing to socio-economic development.

7.1.1 2021 Programmes and Estimates

The Committee was informed that the K1, 494,521,865 allocated to the Ministry was broken down into allocations for the four programmes as shown in Table the table below.

Table 6: 2021 Programmes and Estimates

S/N	Programme	2020 Budget Estimates (K)	2021 Budget Estimates (K)
1.	Local Governance	1,444,647,886.00	1,444,165,286
2.	Municipal Infrastructure and support delivery	30,672,158.00	28,504,935
3.	Human Settlement Planning and Regulation	6,157,043.00	3,862,879
4.	Management and Support Services	23,105,587.00	17,988,765
Ministry Total		**1,504,582,674.00**	**1,494,521,865**

The largest portion (96.6 per cent)of the Ministry's total allocation had been channeled to the Local Governance Programme with the largest component being the Local Government Equalisation Fund (LGEF), and the Constituency Development Fund (CDF).

The rest of the programmes in the Ministry were allocated the remaining amount, which was only 3.4 per cent of the Ministry's budget. Municipal Infrastructure and Support Delivery Programme had been allocated K28.5 million (1.9 per cent), Human Settlements Planning and Regulations Programme had K3.9 million (0.3 per cent), while K18 million (1.2 per cent) was allocated to Management and Support Services.

This showed that the bulk of the budget was allocated to grants while a minimal amount was left to other equally important programmes in the Ministry. The Ministry of Local Government, therefore, appealed to the Minister of Finance to ensure that, going forward, funding was allocated to these programmes for enhanced operations and service delivery.

7.2 THE MINISTRY OF MINES AND MINERALS DEVELOPMENT

The Minister submitted as outlined below.

i. 2021 Ministerial Budget

Under the 2021 Budget, the Ministry had been allocated K466, 793,404.00 representing 0.41 per cent of the total national budget. From the allocated amount, K27, 946,014.00 (5.99 per cent) was meant to cater for salaries, while K 5,666,371.00 (1.21 per cent) was for the operations of grant aided institutions under the Ministry, K418, 181,019.00 (89.59 per cent) were grants and loans from cooperating partners with the remaining K15, 000,000.00 (3.21 per cent) for operations of the Ministry.

ii. Implications of 2021 Budget on the Ministry's set Targets

The focus of the Ministry during the 2020 financial year was to increase coverage of geologically mapped areas; promote diversification, strengthen the policy and legal frameworks and enhance monitoring and regulation of the sector. The Ministry would also work on implementing the programmes outlined below to enable it fulfill its mandate and meet set targets.

a) Mineral Resource Development and Management

The Ministry would increase coverage of geologically mapped areas by about 5274 km^2 at a cost of K1,191,700.00 in Mbereshi and Kalaba areas of Luapula Province of Zambia. Currently, only 63 per cent of the country was mapped. Therefore, the Ministry had prioritised geological mapping in order to define the resource quantum of different mineral commodities in other parts of the country.

In addition, the Ministry would continue to pursue the diversification agenda in order to reduce over dependence on copper. Exploitation of other minerals such as gemstones, industrial minerals and energy minerals would continue to be promoted.

b) Mines Development and Management

Under this programme, the Ministry planned to enhance the monitoring and regulation of the sector through statutory inspections of small and large scale mines and verification of mineral exports at border points. This would ensure compliance with the conditions of grant of licenses by mining entities, and seal the revenue leakages.

As highlighted by the Honorable Minister of Finance, gold mining was one of the priority focus areas during 2021. The Ministry would continue to curb illegal gold mining in different parts of the country through deployment of security. In addition, sensitisation of stakeholders including traditional and civic leaders; and host communities would continue in order to secure the social license to operate on the part of the mining entities. This measure was intended to ensure that gold mining significantly benefited the country through employment creation and increased revenues.

c) Petroleum Exploration

With regard to petroleum exploration, the Ministry would monitor all the twelve active petroleum licence areas/blocks for compliance. This was expected to increase compliance levels by the exploration license holders.

d) Mines Safety Health and Environment

The Ministry planned to enhance monitoring of the sector to ensure compliance with safety, health and environment standards. This was in order to reduce the number of fatalities in the mines and promote sustainable mining.

e) Management and Support Services (Planning, Policy and Coordination)

The Ministry would focus on strengthening the policy and regulatory frameworks. This included the review and development of various polices and legislation such as the *Mines and Minerals Development Act, No. 11 of 2015, Petroleum (Exploration and Production) Act of 2008, Explosives Act of 1974, the 2013* Mineral Resource Development Policy, Petroleum

Policy, Statutory Instrument on local content; Mining Regulations (Health and Safety) Regulations and Mining (Environmental) Regulations.

iii. Analysis of Financing to the Sector

The Ministry appreciated the measures announced by the Ministry of Finance relating to the mining sector. The removal the import duty on copper ores and concentrates to encourage local processing was a welcome move which would stimulate economic recovery and also contribute to job creation. Further, mining companies would be able to channel financial resources which would have been expended on paying import duties to other operational activities requiring financing, thereby providing a means of alternative financing for the business.

Further, the introduction of a local content allowance for income tax purposes for utilisation of selected local raw materials would enhance the participation of Zambians across the mining value chain. In this regard, the development of a Statutory Instrument on local content for the mining sector was already under way.

7.3 MINISTRY OF FINANCE

The Minister submitted as set out below.

i. Revenue Measures to Stimulate Economic Recovery

The Committee was informed that the tax and non-tax measures contained in the 2021 Budget had laid a foundation for igniting economic recovery. This was in line with international good practice where jurisdictions were focusing on measures that were directly impacting on improving the liquidity and cash flows of the affected sectors.

ii. Expenditure Policy and Strategy

The public expenditure policy and strategy was focused on economic recovery, building resilience, safeguarding livelihoods and protecting the vulnerable. In this regard, substantial amounts had been allocated towards social protection safety nets and programmes that would stimulate economic activities in the wake of the COVID-19 pandemic. Some of the notable interventions included the following:

a) Measures to Safeguard Livelihoods and Protect the Vulnerable

i) **Water and Sanitation**: Government would continue to implement various water supply and sanitation programmes across the country. An allocation of K2.1 billion had been set aside in the 2021 Budget. This was aimed at ensuring increased access to safe and clean drinking water among people, as well as mitigate the outbreak of waterborne diseases, such as cholera and dysentery. Some notable water projects to be implemented in 2021 included the Lusaka Water Supply, Sanitation and Drainage Project (MCA), National Rural Water Supply and Sanitation Project, Nkana Water Supply and Sanitation, and the Kafulafuta Water Supply System Project.

ii) **Social Protection Programmes:** The Committee was informed that the year 2020 had been a very challenging year for vulnerable households as they had been affected by the negative effects of COVID-19. Regarding the social cash transfer targets, in 2021, the Government had proposed to increase the number of beneficiaries of the social cash transfer to 994,000 households from 700,000 in 2020. This was aimed at ensuring that the social cash transfer programme reached more vulnerable households in the communities. The Government had also increased the transfer amount from the current K90 to K110 per beneficiary household. In addition, the allocation to the Food Security Programme had also been increased to K1.1 billion in 2021 from the K100 million allocated in 2020. All these measures were taken in order to safeguard the vulnerable groups and mitigate poverty. The Government was targeting to benefit over 288,500 vulnerable but viable households in 2021 from 80,000 in 2020.

iii) **Pension Arrears:** In order to ameliorate the plight of public service retirees, an amount of K1.1 billion had been allocated in the 2021 Budget to the Public Service Pension Fund.

iv) **Education and Skills Development:** A sum of K13.8 billion had been allocated to the education sector in 2021 compared to the K13.1 billion allocated in 2020. The allocation was meant to improve skills training, quality and access to education at all levels. Of this amount, K1.2 billion would account for infrastructure projects.

v) **Health Care:** A total of K9.7 billion had been provided to the health sector in 2021 compared to K9.4 billion in 2020 to support the provision of health care services and hospital services to our people. This allocation would also cater for the provision of drugs and medical supplies as well as the improvement of existing health infrastructure.

b) Measures to Accelerate Economic Recovery and Building Resilience

The Minister submitted the measures as outlined below.

i) **Agriculture Sector:** the Government in the 2021 Budget would continue to enhance efforts to build a diversified and more resilient agricultural sector taking cognisance of the challenges presented by the effects of climate change. In addition to the tax measures that were aimed at diversifying the agriculture sector, K5.7 billion had been allocated towards the Farmer Input Support Programme (FISP) in order to equip farmers with farming inputs timely to promote food security.

In addition, the Government through the Industrial Development Corporation would establish a tomato and fruit processing factory which would provide markets for farmers.

ii) **Road Sector:** K6.2 billion had been allocated to the road sector in 2021 to ease the movement of goods and people and enhance access to markets, in order to stimulate economic activities. The allocation had reduced from the 2020 estimates on account of the re-scoping exercise that was underway, including re-scoping from bituminous standard to construction of all-weather gravel standard roads.

iii) **Dismantling of Domestic Arrears:** the Government had set aside a centralised allocation of K2.8 billion for dismantling of arrears to local suppliers of goods and services in order to unlock the much needed liquidity to the private sector. This was in addition to the various budget allocations for dismantling of arrears in Ministries, Provinces and Spending Agencies.

iv) **Youth and Women Empowerment:** To support women, youth, and small to medium enterprises, K266.3 million had been set aside as capital injection into various empowerment programmes. Out of this amount, K155.2 million was for the youth. The allocation to empowerment funds had increased by K236.0 million, representing an increase of over 770 per cent from the 2020 Budget.

c) Cross-Cutting Measures

i) **Recruitment and Public Service Pay Policy:** K2.5 billion had been set aside for a public service wage adjustment of approximately 5 per cent in an effort to cushion the impact of inflation, and for net recruitment of approximately 4000 front line personnel to enhance service delivery.

7.4 MINISTRY OF HIGHER EDUCATION

The Committee was informed that the Ministry had been allocated a sum of K13.77 billion in the 2021 Budget, representing an increase of 5 per cent from the K13.12 provision of 2019, similar to the 2020 Budget. The provision for the Ministry had continued to decline over the years although the recommended global practice was that at least 20 per cent of the total budget should go towards the education sector. However, the provision in the 2021 Budget stood at 15.3 per cent. The table below shows the declining trend in the provisions to the educational sector.

Table 7: Budget allocations to the Education Sector

S/N	**Year**	**Allocation**
1.	2015	20.0per cent
2.	2016	17.2per cent
3.	2017	16.5per cent
4.	2018	16.1per cent
5.	2019	15.3per cent

6.	2020	15.3per cent
7.	2021	15.3per cent

Budgetary Provisions for the Higher Education Sector

The Committee heard that a total sum of K1.9 billion had been allocated to the Ministry of Higher Education in the 2021 Budget. The total estimates of expenditure for the Ministry had decreased from K2.4 billion in 2020 to K1.9 billion in 2021, representing a 19.3 per centage decrease. The decrease was attributed to reduction in foreign financed infrastructure development projects under the Ministry. The summary Budget estimates by programme showed an allocation of K1.6 billion representing 81 per cent towards university education, K243.9 million presenting 12 per cent to skills development, K95.3 million representing 5 per cent to science technology and innovation, and K42.3 million representing 2 per cent to management and support services programme.

Implications of the 2021 Budgetary provisions on Higher Education and Skills Training

The Committee heard that in order to achieve the expected outputs for the Ministry in 2021, the Ministry had anticipated adequate allocation of funds to the sector. However, due to Government's fiscal consolidation efforts, the 2021 allocation to the Ministry recorded a reduction. This was against the backdrop of the desire to increase access to education and skills training among the young population.

The Committee was also informed that the mandate of the Ministry was to increase access to quality education and skills training through infrastructure development, equipment provision, skills upgrading of lecturers, curriculum development and revision to align it to industry among others. Therefore, the reduction in budgetary provisions, particularly to infrastructure development would slow down the process of achieving this mandate.

Infrastructure Development

The Committee heard that under infrastructure development, the Ministry of Finance released a total sum of K22.9 million out of the approved budget allocation of K1.032 billion in 2020 for construction and rehabilitation of university infrastructure. The Ministry of Finance released K1.066 billion against the approved budget of K2.4 billion as at 30th September 2020 for the overall budget for higher education. As a result, the Ministry was unable to commence the Phase II construction of additional university infrastructure at Kwame Nkrumah, Mukuba, Kapasa Makasa and Paul Mushindo universities. This was compounded by Government's decision to implement fiscal consolidation initiatives that saw priority being given to projects that were at 80 per cent completion or above, thereby stalling some expansion and other works. This constrained access to university education and skills training. Additionally, increased infrastructure related debt was an impediment because the Ministry currently owed over K680 million in unpaid infrastructure project certificates for certified works.

The Minister submitted that the Ministry of Finance did not release any funds in 2020 and this resulted in stalling of project works. The Ministry, however, utilised funds from the skills development fund to complete the construction and equipping of Isoka and Kalabo

Trades Training Institutes. The two institutes would provide access to skills training to over 600 learners in 2021.

Quality of Education and Skills Development

The Committee heard that in order to improve the quality of higher education and skills development, the Ministry planned to prioritise the re-organisation of the legal, policy and institutional frameworks. This would improve efficiency and effectiveness of service delivery in the sector. The newly developed Higher Education Policy (2019) and the revised Technical Education, Vocational and Entrepreneurship Training (TEVET) and Science Policies (2020) all spoke to revised structures and institutions for improved efficiency.

The Committee was informed that under skills development, the Ministry would prioritise the implementation of the Entrepreneurship Development Strategy which promoted enhanced collaboration between TEVET, the private sector industry and other key stakeholders as the major players in entrepreneurship development. In this regard, business incubators would be established in three TEVET institutions and entrepreneurship training would be extended to the informal economy, especially among the women and youths.

Equity in Education and Skills Development Provision

The Committee was informed that the allocation towards the Loans and Scholarship Fund under university education remained the same at K557 million. This meant that the Higher Education Loans and Scholarship Board would continue to sponsor students at University of Zambia, Copperbelt University, Kapasa Makasa University, Mulungushi University, Kwame Nkrumah University, Mukuba University and Chalimbana University. The Board rolled out the provision of loans to four additional public universities in 2020 in line with the *Higher Education Loans and Scholarships Act No. 31 of 2016*.

7.4 MINISTRY OF TOURISM

Mandate

The Committee was informed that the mandate of the Ministry was to develop the tourism industry through effective tourism planning, management, promotion and coordination, provide for the establishment, control and management of national parks, game management areas (GMAs), bird and wildlife sanctuaries, conserve and enhance wildlife eco-systems, biological diversity and objects of aesthetic, pre-historic, historical, geological, archaeological and scientific interest in national parks.

Budget Summary

The Committee heard that the total estimates of expenditure for the Ministry had increased from K287.8 million in 2020 to K300.6 million in 2021, representing a 4.3 percentage increase. The allocations had been broken down as follows: K168 million towards the

Wildlife Conservation and Management Programme representing 55.9 per cent. This significant outlay of resources would be used to manage, conserve and protect National Parks, bird and wildlife sanctuaries and to strengthen collaboration with local communities in the Game Management Areas.

With regard to Tourism Development and Promotion, an amount of K67.7 million had been allocated to conduct research and product diversification in tourism, formulate, review and implementation of tourism policies and legislation, develop, disseminate and enforce the code of ethics and regulations in tourism, and to facilitate training.

The Committee was informed that K43.2 million had been provided for the Arts and Culture Preservation Programme to facilitate the review, formulation and implementation of arts and culture policies and legislation. The programme would also strive to ensure the safeguarding of Zambia's folklore, tangible and intangible cultural heritage through promoting standards of total care and handling of museum exhibitions, support to cultural villages and hosting of cultural and music festivals.

Key Output Targets for the Year 2021

The Committee heard that the Ministry's key output target areas in the Northern Circuit included:

i) Lusenga Plain National Park (restocking and infrastructure development);
ii) Lumangwe and Kabwelume Falls (infrastructure development);
iii) Ntumbachushi Falls;
iv) Samfya Beach;
v) Accessibility improvement to revenue generation to national parks (Lusaka, Kafue, Mosi-oa-Tunya and South Luangwa);
vi) Wildlife Conservation;
vii) Community Resource Boards (CRBs); and
viii) Tourism Marketing and Promotion.

Implications of the Measures

The Committee heard that the sector welcomed the planned implementation of relief measures of agreement covering the time to pay Income Tax and Value Added Tax, including the measures provided for reducing Corporate Income Tax rate to 15 per cent from 35 per cent on income earned by hotels and lodges on accommodation and food service. The sector also welcomed the suspension of import duty on safari game viewing motor vehicles, tourist buses and coaches. Other relief included the suspension of license renewal fees paid by hotels and lodges; the retention fees paid by tourism enterprises; and registration fees for hotel managers. This would not only provide relief to the operators but also eventually have a trickledown effect in the promotion of domestic tourism and provide the much needed jobs and poverty reduction.

7.6 MINISTRY OF AGRICULTURE

Proposed 2021 Budget Estimates

The Committee was informed that the Ministry of Agriculture had been allocated a total sum of K7.209 billion, representing 6.03 per cent of the total national budget in 2021. The K7.209 billion allocation represented an increase of 106.92 per cent from the 2020 Budget of K3.484 billion. This implied that the Ministry's budget allocation as a percentage of the total national budget had increased to 6.03 per cent compared to 3.29 per cent of the 2020 Budget.

MINISTRY OF AGRICULTURE 2020 BUDGET PERFORMANCE AS AT 28TH SEPTEMBER 2020

The Committee heard that as at 28th September 2020, the Treasury released K1.834 billion against the total budget of K3.484 billion representing 52.6 per cent against the total budget for the Ministry. No funds were released to support agricultural shows due to the COVID-19 social distancing measures required. Table 2 below provides details.

Table 8: Ministry of Agriculture Budget Releases against MOA 2020 Budget as at 28.09.2020.

MAIN BUDGET LINES	2020 AS AT 28.09.2020		per cent RELEASED AGAINST BUDGET
	BUDGET	RELEASES	
Food Reserve Agency (FRA)	660,000,000[1]	1,209,954,311	**183.3**
FISP E voucher Arrears	348,436,025	174,466,209	**50.1**
Grants and Other Payments	83,607,094	32,008,617	**38.3**
Personal Emoluments[2]	452,727,796	133,286,793	**29.4**
Recurrent Departmental Charges	65,895,521	16,868,096	**25.6**
FISP Evoucher	761,840,201	179,059,818	**23.5**
Agricultural Development Programs	1,110,535,223	88,659,107	**8.0**
Agricultural shows	1,733,598	-	**0**
TOTAL	**3,484,775,458**	**1,834,302,950**	**52.6**

MINISTRY OF AGRICULTURE 2021 BUDGET BREAKDOWN

[1]A supplementary Budget of K2.2 billion was approved for the Food Reserve Agency.

[2] The payment of salaries is up to date, and the record of releases is currently being updated by the Ministry of Finance.

The Committee heard that the K7,209,802,795 budget allocation for the Ministry of Agriculture had been broken down as follows: K5,701,404,933 was for the Farmer Input Support Programme (FISP); K517,500,000 for the Food Reserve Agency (FRA); K455,075,262 was for personal emoluments; K355,497,095 to go towards donor funded projects/ programmes; K83,607,094 for Grants; K8,000,000 for capital expenditure and K88,718,411 allocated towards to other Programmes, such as extension service delivery, research and development and general office and operational expenditures.

The Committee was informed that in percentage terms, 79.08 per cent of the total Ministry's budget had been allocated to FISP; 7.18 per cent to grain purchases under the FRA; 6.31 towards personal emoluments; and 4.93 per cent to donor funded projects and programmes.

Table 9: Ministry of Agriculture 2021 Budget Breakdown

MAIN BUDGET LINES	2021 K	per cent of TOTAL MOA BUDGET
Farmer Input Support Programme (FISP)	5,701,404,933	79.08
Food Reserve Agency (FRA)	517,500,000	7.18
Personal Emoluments	455,075,262	6.31
Agricultural Development Programs	355,497,095	4.93
Recurrent Departmental Charges	85,793,411	1.19
Grants and Other Payments	83,607,094	1.16
Capital Expenditure	8,000,000	0.11
Agricultural shows	2,925,000	0.04
Total	**7,209,802,795**	**100.00**

ANALYSIS OF THE ALLOCATION FOR DONOR FUNDED PROJECTS AND PROGRAMMES IN 2021

The Committee was informed that to supplement the Ministry's budget in 2021, an allocation of K359 million had been set aside by cooperating partners to support the implementation of programmes and projects. From the allocation, K13 million would go towards the completion of existing irrigation projects; K40.5 to upgrade infrastructure at various agricultural training colleges in the country; and K61 million had been allocated to support cashew value chain development in Western Province, through the Cashew Infrastructure Development Project (CIDP). The smaller amounts supported by GRZ for projects such as the Agriculture Transformation Project (K500, 000), Community Based Small scale Irrigation (K420, 000), and the SDG Optimal Package Project (K400, 000) have been budgeted for to facilitate feasibility studies for pipeline projects. (Table 4 below provides a complete list of donor funded projects and programmes)

Table 10: Ministry of Agriculture Donor Funded Projects and Programmes in 2021

DONOR FUNDED PROJECTS AND PROGRAMMES IN 2021	DONOR	GRZ	TOTAL BUDGET
Agriculture Productivity and Market Enhancement Project	80,000,000	1,000,000	81,000,000
Enhanced Smallholder Agribusiness Promotion Programme	70,000,000	-	70,000,000
Cashewnut Infrastructure Development Project	61,072,856	500,000	61,572,856
Strengthening Climate Resilience Of Agricultural Livelihoods In Agroecological 1 & 2	57,474,677	100,000	57,574,677
Upgrading And Rehabilitation Of Education Infrastructure At Training Institutions	40,000,000	500,000	40,500,000
Performance Enhancement Project II	17,355,569	-	17,355,569
Upscaling Small Scale Irrigation	16,750,000	200,000	16,950,000
Irrigation Development Support Project	12,843,993	500,000	13,343,993
Agriculture Transformation Project	-	500,000	500,000
Community Based Small Scale Irrigation	-	420,000	420,000
SDG "Optimal Package Project"	-	400,000	400,000
Chiansi Water Development Project	-	300,000	300,000
TOTAL	**355,497,095**	**4,420,000**	**359,917,095**

Ministry of Agriculture 2021 Budget Priorities

The Committee heard that the Ministry's budget in 2021 would prioritise the following programmes.

(a) **Farmer Input Support Programme –** the Ministry would continue delivering subsidised inputs under the FISP Electronic Voucher (E-voucher) System and the Direct Input Supply (DIS) in all districts. The total number of beneficiary farmers in 2021 would remain unchanged at 1,000,000 farmers.

(b) **Purchase of Strategic Food Reserves –** the Food Reserve Agency (FRA) would continue to provide an assured market for disadvantaged rural-based smallholder producers. The budgetary allocation of K517 million given to the Ministry in 2021, could facilitate purchases of about 300,000 metric tonnes of maize.

(c) **Control of Migratory Pests and Diseases –** in the 2021 Budget, a total of K3 million had been allocated to support locust control operations in districts. The Ministry would seek to source additional funds from cooperating partners to ensure that low density populations were contained and breeding was disturbed, in order to avoid serious outbreaks.

(d) **Completion of Irrigation Projects –** With respect to irrigation development, the Ministry's focus in 2021 would be to complete the construction of three irrigation schemes, namely: Mwomboshi (Chisamba District), Musakashi (Mufulira Dstrict), and Lusitu (Chirundu District) irrigation schemes.

(e) **Rehabilitation of Dam Infrastructure –** A total of K8 million had been allocated in the Ministry's budget in 2021 to facilitate the rehabilitation of three dams. A number of dams across the country required maintenance work as they were at the verge of collapse and therefore threatened human life, livestock and peoples livelihoods downstream.

(f) **Disbursement of Matching Grants to Farmer Groups and Cooperatives –** under the Enhance Smallholder Agribusiness Promotion Programme (ESAPP), the Ministry would continue disbursing matching grants to farmer groups and cooperatives. This would ensure access to the much needed finance and capital for farmers with bankable project proposals.

(g) **Rehabilitation of Infrastructure at Agricultural Colleges –** A total of K40.5 million had been allocated towards the upgrading of infrastructure at various colleges under the Ministry. The funds would be made available under the ORIO project, supported by the Dutch Government.

(h) **Improvement of Cashew Value Chain –** K61.5 million had been set aside in the 2021 Budget to support cashew value chain development through the Cashew Infrastructure Development Project in Western Province.

(i) **Provision of Extension Services –** K18.5 million had been budgeted for in the 2021 Budget to ensure that camp level operations were supported. The budgetary provision would go towards procurement of fuel and extension kits for extension officers in each of the 2701 camps countrywide.

7.7 MINISTRY OF HEALTH

Budget Allocations for 2021

The Committee was informed that a total of K9.7 billion had been allocated to the health sector representing 8.1 per cent of the national Budget. A total sum of K9.2 billion had been allocated to the Ministry of Health in the 2021 Budget, representing 8 per cent of the total budget. However, this was still below the Abuja Declaration of 15 per cent. The allocation had been broken down as follows: K7.3 billion would come from the Treasury while K1.9 billion would come from various cooperating partners. The K2.3 billion Government component of the budget would go towards the implementation of various programmes, whilst K5 billion would be spent on personnel emoluments. Of the Government funds allocated for key programmes, K1.4 billion would go towards the procurement of drugs and medical supplies; K1.2 billion for Primary Health Care; K899 million as grants for hospitals; K84 million as grants for training schools; K178 million would go towards management support, and K33 million would be spent on infrastructure development.

Implication of the 2021 Budget on the Ministry of Health

Health Service delivery

HIV/AIDS

The Committee was informed that Zambia still faced a formidable but surmountable burden of HIV/AIDS with approximately 1.2 million people living with the disease. The country had recorded remarkable progress on the Anti-Retroviral Therapy (ART) coverage, with 1,103,690 people living with HIV currently on treatment. In an effort to sustain progress made so far, the Ministry in 2021 would continue to implement high impact intervention such as Test and Treat Strategy, Index Testing combined with targeted testing, Pre-Exposure Prophylaxis for discordant partners, E-learning platforms for Prevention of Mother to Child Transmission (PMTCT), Differentiated Service Delivery Models, Elimination of Mother to Child Transmission (EMTCT), viral suppression through the establishment of more ART centres, and expanding access to HIV/AIDS prevention services among others.

Tuberculosis

The Committee heard that the burden of Tuberculosis in Zambia remained unacceptably high, and was being aggravated by the rising numbers of drug resistant cases. The Ministry's focus for 2021 would be to strengthen provision of TB services, improving supply chain for TB commodities, as well as improve case-detection through expansion of diagnostic capacity among others.

Malaria

The Government through, National Malaria Elimination Centre in 2021 would continue prioritising interventions aimed at eliminating malaria to make Zambia malaria free by strengthening case management, timely indoor residual spraying, and distribution of insecticide treated mosquito nets. The mass distribution earmarked for 2020 had targeted about 7 million nets for distribution in the 2021 routine distribution of nets to pregnant women and under five children.

Health Security

The Committee heard that Zambia suffered the negative impact of Covid-19 pandemic. The Ministry had continued to respond with a robust multi-sectoral response which included heightened surveillance at community level, in health facilities, at ports of entry and in sentinel sites in order to rapidly detect and isolate cases.

Further, dedicated screening, diagnostic and treatment centres for people that have tested positive for Covid-19 have been set up and in 2021, the Ministry would continue strengthening public health security through effective surveillance, disease intelligence and emergency preparedness. In this regard, the response to the Covid-19 pandemic would continue in 2021 and therefore sustained financing to health would be key.

Drugs, Vaccines and Medical Supplies

The Committee was informed that commodity security required that key medicines and vaccines and other supplies were made available when needed by clients. Funding for medicines and other supplies therefore remained a priority for the health sector. The Ministry of Health had been allocated a total of K1.4 billion for drugs, vaccines and medical supplies for 2021. However, the allocation may not meet the demand as the national drug requirement currently stands at K5.7 million.

Infrastructure Development and Medical Equipment

The Committee heard that in the 2021 Budget, K1.6 billion had been allocated towards infrastructure programme. The larger share of this allocation were loans contracted to finance current infrastructure projects while the remaining K33 million was meant to cover the construction, rehabilitation and maintenance of other health facilities. These funds however, may not be adequate to cater for counter funding and other loans for the establishment of various health facilities, within which commitments have been made to provide counterpart support.

The Ministry's focus for 2021 would be to complete ongoing projects and to continuously maintain hospitals at various levels considering that, some were old and dilapidated and required overhauling of sewer systems, replacement of water tanks as well as general maintenance, so that sanitation was maintained in facilities. The specific activities would include:

(a) continuing with the construction of the remaining health posts from the 650 health posts project countrywide under the India Line of Credit; and
(b) construction of the General Hospitals, Mini Hospitals, and Lusaka specialist hospital (King Salman Abdulaziz) and the Children's hospital among others.

The Committee heard that with regard to medical equipment, failure to maintain medical equipment shall have a resultant effect on service delivery. Therefore, funds were required to maintain equipment that had been procured so that it provided the requisite service. Further, to operationalise, the hospitals that have been completed, medical equipment was required but the allocation for 2021 did not have the required funds to fully operationalise the district hospitals.

Human Resource

Net Recruitment for Human Resource for Health

The Committee was informed that the Ministry required adequate numbers of human resource for health to be able to meet the demand for health care services. Currently, the Ministry was operating at only 49 per cent of its approved establishment and in a bid to address this staffing gap, the Ministry had in 2021 planned to recruit an additional 5, 000 health personnel in line with the strategic goal of recruiting 30,000 health workers by 2021.

Training Human Resources for Health

The Committee heard that the Ministry of Health through National Training Operation Plan (NTOP) had been investing in training for Human Resource Human (HRH) in order to bridge the human resource gap and improve the quality of health care. The focus had been on increasing the production of staff in the training institutions. In line with the specialised training, funds were required to support students already enrolled under specialised training. However, the funds available may not be adequate to support this programme effectively as a debt of about 37 million had been accumulated over the years.

Priorities for 2021

The Committee was informed that in the 2021 Budget, the Ministry would focus on achieving Universal Health Coverage in line with Sustainable Development Goal number 3which seeks to ensure healthy lifestyles and promoting wellbeing for all by 2030.

Some of the key priorities for the Ministry of Health for 2020 include but not limited to the following:

(a) reduce maternal mortality and under-five child mortality ratios
(b) elimination of malaria;
(c) achieve HIV epidemic control, reduce HIV new infection
(d) halt and reduce non-communicable diseases
(e) public health security
(f) recruitment of health care workers;
(g) train about 500 health workers in various specialties
(h) implementation of national health insurance scheme
(i) completion of ongoing constructions

Analysis ff Financing to the Health Sector for 2018 –2021

The Table below shows the share of the health sector budget as a percentage of the national budget for the three-year period**.**

Table 11: Health Sector Budget as share of total Budget

YEAR	National Budget (ZMK)	MoH Budget (ZMK)	Proportion of the Budget (per cent)
2018	71,662,385,976	6,781,558,820	9.5
2019	86,807,804,727	8,069,128,277	9.3
2020	106,007,612,236	9, 359,158,466	8.8
2021	119,616,011,615	9,230,638,999	7.7

The Table below shows the trends for Ministry of Health budget allocation alone and not as a sector for the three-year period (2018 to 2021).

Table 12: Ministry of Health but allocated from 2018-2021

YEAR	PEs	Non PEs	MoH Total Budget (ZMK)
2018	3,675,510,694 Billion	3,148,366,138 Billion	6.8 Billion
2019	4,4,450,282,512 Billion	1,913,881,552Billion	7.5 Billion
2020	4,727,661,419 Billion	3,928,719, 625Billion	8.6 Billion
2021	*5,017,738,253 Billion*	4,212,900,751 Billion	9.2 Billion

Debt

The Committee was informed that due to limited funding and partial release of the approved budget over the years, the Ministry of Health incurred debt in some of the key programme areas that included drugs and medical supplies, suppliers of goods and services, staff arrears and in-service training. The total debt stood at over K3.7 billion broken down as shown in the Table below.

Table 13: Summary of Debt as of 2nd Quarter 2020

Drugs	**2,162,204,401.03**
Other Personal Emoluments	756,526,572.64
Use of Goods and Services	123,445,437.52
Electricity(ZESCO)	32,218,735.13
Water	106,776,132.70
Telephone(ZAMTEL)	10,953,427.94
Medical Equipment	279,977,510.37
Capital	237,529,628.57
GRAND TOTAL	3,709,631,845.90

PART III

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

8.0 After a detailed analysis of the 2021 Budget and consideration of submissions from the stakeholders, selected Ministers and the Minister of Finance, the Committee makes observations and recommendations as set out hereunder.

8.1 Rising Public Debt amidst Austerity Measures and the Growth and Stabilisation Programme

The Committee is dismayed that the country's domestic and foreign debt still remains a huge burden. It is worrying that foreign debt has increased to $11.97 billion while domestic debt stands at K114.3 billion. The proposal to have domestic debt contribute 14.6 per cent in the 2021 financial year from 3.3 per cent in the 2020 fiscal year will not only crowd out private borrowers, but also further raise the stock of public debt. Further, the Committee wonders how the 2021 Budget would be financed when the series of austerity measures and the growth and stabilisation programme to mitigate the threat on macroeconomic stability and attainment of development have not been agreed upon. The proposed financing of the 2021 Budget by using both foreign and local debt, accounting for over 44 per cent of the budget is effectively borrowing to pay debt.

Additionally, the Committee observes that while the Executive has taken steps to benefit from the G20s Debt Service Suspension Initiative and the signing of a Memorandum of Understanding with the Paris Club creditors, as well as the ongoing negotiations with G20 members, no specific details on the implementation of these measures have been provided. The Committee is further concerned to note the trend in the last six years where budget deficits are mainly driven by the rapid rise in recurrent expenditures.

The Committee strongly urges the Executive to take more realistic actions in order to arrest the huge debt burden given the failure to implement the austerity measures and stabilisation programme. In addition, there is urgent need to finalise the International Monetary Fund (IMF) Economic Recovery Programme before the end of the 2020 financial year.

8.2 Efficacy of the Economic Recovery Strategy

The Committee welcomes the pronouncements regarding the implementation of the short to medium term economic recovery strategy despite no details being availed. Regrettably, following interactions with selected Ministers from economic ministries, it was noted that most of their programmes do not resonate around economic recovery but business as usual. In this vein, the Committee urges the Executive to ensure that the strategy is fully implemented. The Committee emphasises the need for implementation given the historical weak policy implementation by the Executive. Further, the Executive should ensure that the strategy is made public before the end of the current financial year in order for stakeholders to monitor its full implementation.

8.3 Fiscal Measures for Domestic Resource Mobilisation

The Committee notes that achieving the set fiscal targets amidst the COVID 19 while being overly dependant on the mining operations output which account for 70 per cent of Zambia's exports is a big challenge, especially that the mining sector is highly susceptible to fluctuations in commodity prices and global economic conditions. The Committee contends that it is risky to place reliance in the budget on the mining sector for part of the resource envelop given the past record. In this vein, the Committee implores the Executive to take drastic measures to curb illicit financial flows, which are largely driven by trade mis-invoicing, through deliberate mis-reporting of values of commercial transactions on invoices submitted to ZRA Customs, as well as unaccounted for balance of payment movements. This can only be achieved by putting in place an appropriate institutional and legal framework, among other measures, so as to guarantee resource mobilisation.

8.4 Maximising Revenue from the Mining Sector

The Committee notes that the mining sector remains the major contributor to Zambia's export earnings and revenue if well harnessed. However, it is regrettable that the mining tax regime has on average undergone one tax change every eighteen months. Further, the revelation that in the past sixteen years, mining taxation had been revised over ten times, is evidence of uncertainty and lack of stability in the sector has the potential to limit growth and meaningful mining expansion, which in turn leads to negative ripple effects on the general economy, as mining is core to Zambia's economy.

While the establishment of the Zambia Gold Company (ZGC) Ltd to spearhead gold mining and trading activities in the country is commendable, the Committee is of the view that transparency and strategic partnerships should remain key in actualising full benefits for the country. The Committee also urges the Executive to re-consider the deductibility of mineral royalty tax as it remains a serious source of concern not only in the country but in the region as well as it has the potential to limit the number of investors in the sector. Further, the Committee urges the Executive to consider a comprehensive review of the mining taxation regime in order to establish a sustainable taxation system for the benefit of both the Government and mines.

8.5 Implications of the Fiscal Deficit on Macroeconomic Stability

The Committee expresses worry over the country's persistent fiscal deficit in the past five years, which is projected to widen to 11.7 per cent of GDP from a target of 5.5 per cent in 2020. While the country projects to achieve a cash-basis fiscal deficit of 9.3 per cent of GDP in 2021, the Committee is of the opinion that if the turnout of the last few years is anything to go by, the 2021 deficit is likely to be wider than the projection of 9.3 per cent of GDP as large fiscal deficits have been a recurring feature over the years. It contends that a combination of higher-than-planned spending and reduced domestic revenues poses the risk of pushing the country into an even deeper deficit with bulk of the gap being covered through borrowing. A more realistic fiscal deficit target should, therefore, be projected.

8.6 Recovery, Growth and Resilience amidst COVID-19

The Committee notes that whereas the impact of COVID 19 has negatively affected economic growth in the past few months, the country was already in recession, way before the pandemic as evidenced by sluggish economic growth and macroeconomic data since the third quarter of 2018. It is the considered view of the Committee that the panacea in achieving recovery, growth and resilience amidst COVID 19 is anchored upon the prioritisation of the key sectors identified in the 7NDP to drive economic diversification and job creation, which include agriculture, tourism, mining and manufacturing, with Information and Communication technologies (ICT), energy and trade acting as enablers. The Committee urges the Executive to effectively implement the existing strategies on the identified sectors.

8.7 Enhancing Trade Facilitation amidst COVID 19

The Committee notes that given the rising trade costs from transport, logistics and supply chain disruptions, as well as additional border controls and documentation requirements which to a large extent are impediments on both trade flows and the global economy, the trade costs have been aggravated by the COVID-19 pandemic. In this vein, the Committee urges the Executive to switch from the current border infrastructure spending focus to human resources and operational measures that can reduce the border time spent by traders. Further, the Executive must enhance cooperation with neighbouring countries to streamline, simplify, harmonise and modernise customs procedures as well as redirect it focus towards COMESA, SADC and the Tripartite Free Trade Areas, particularly in the short-term, as post-COVID sub-regional demand for primary commodities rebounds given its minimal benefits from these bodies.

8.8 Value Addition, Industrialisation and the Manufacturing Sector

The Committee notes that whereas the 2021 Budget Address has some notable measures and pronouncements to promote value addition in manufacturing and more broadly, industrialisation and diversification, similar pronouncements have been made without corresponding efforts of implementation in previous Budget Addresses. Therefore, the Committee urges the Executive to ensure that the pronouncements on value addition and industrialisation are fully implemented given the supply chain disruptions that have increased the time and cost of sourcing inputs and invariably, the cost of production mainly attributed to the COVID 19 pandemic.

8.9 Legal framework for Enhanced Budget Credibility and Parliamentary Oversight

The Committee is pleased by the Executives' commitment in the tabling of most pieces of legislation that enhance Budget credibility such as the Planning and Budgeting Bill, the Public Procurement Bill, among others, following its repeated recommendations. However, it implores the Executive to ensure that the amendment of the *Loans and Guarantees (Authorisation) Act*, *Chapter 366 of the Laws of Zambia* is done within the current meeting of the House so as to foster transparency, and parliamentary oversight strengthening especially on debt contraction.

8.10 Allocations to Social Sectors and Anticipated Implications

Overall, the Committee expresses worry on the decline in social sector public spending which is crucial for alleviating poverty and inequality, saving lives and sustaining livelihoods. The Committee notes that social sector spending is arguably the most important instrument for ensuring that no one is left behind in the development agenda.

The social sector budget is expected to increase by 10 per cent in 2021 from K27.7 billion in 2020 to K30.4 billion, largely due to a K2.2 billion increase in the social protection budget. However, expressed in relation to the total budget, the social sector budget is expected to decline to 25.4 per cent in 2021 from 26.1 per cent in 2020. There is a risk that the declining allocation to the social sectors could make it more difficult to tackle social development challenges and limit the effectiveness of overall poverty reduction efforts.

On a more positive note, the Committee recognises that social protection has emerged as a big winner of the 2021 Budget, receiving an increase of 87 per cent in budgetary allocation in comparison to the 2020 Budget. In absolute Kwacha terms, the budget allocation will increase to K4.8 billion in 2021 from K2.6 billion in 2020 with key programmes within social protection such as the Social Cash Transfers (SCT) and the Food Security Pack (FSP) receiving significant increases in allocations of 124 per cent and 801 per cent, respectively. However, the Committee is perturbed over the poor releases to social protection programmes that have persistently been observed in the past financial years. The consistency in the failure to actualise budgets is a threat to the various social protection programmes. In this vein, the Executive should ensure that releases, especially for social protection, are prioritised in the disbursement of funds by the Treasury.

8.11 Allocation towards the Agriculture Sector

The Committee observes that whereas the agriculture sector has arguably received the largest funding allocation coupled with measures aimed at improving productivity, promoting local production and revamping the horticulture and floriculture sub-sectors, a bigger proportion of the allocation still remains dedicated to the Farmer Input Support Programme (FISP) and the Food Reserve Agency (FRA). This has left out the key drivers of agricultural growth, such as agricultural research and development, extension services, livestock production and disease control, rural infrastructure, including feeder roads and Irrigation. Specifically, the allocation to FISP has increased by more than 400 per cent, from K1.1 billion in 2020 to K5.7 billion in 2021. The Committee finds the allocation of 87 per cent of the agriculture budget to FISP and FRA combined extremely unacceptable. The Committee urges the Executive to ensure that there is a balance in allocations between FISP and FRA and other key drivers of agriculture growth. Further, the Committee commends the Executive for the proposed migration of FISP to the cost effective e-voucher system following the Committees repeated recommendations over time.

8.12 Allocation towards the Tourism Sector

With regard to the tourism sector, the Committee notes that the sector is undeniably the most hit by COVID-19 compared to other sectors. This has eroded the positive gains recorded over time, owing to the drastic collapse in demand for accommodation, food, conferences, tours, entertainment and other tourism-related activities. In this light, the Committee commends the Executive for the key measures taken and pronouncements made to resuscitate the sector and promote local tourism such as the reduction of the corporate income tax rate to 15 per cent from the current 35 per cent on income earned by hotels and lodges on accommodation and food services, suspension of import duty on safari game viewing motor vehicles, tourist buses and coaches, suspension of license renewal fees paid by hotels and lodges, suspension of the retention fees paid by tourism enterprises and retention fees paid by tourism enterprises, and the suspension of registration fees for hotel managers. However, the Committee contends that domestic tourism remains a challenge owing to the inadequate household income of the average Zambian. This leaves little if any income available for luxury consumption options like travel and holidays and thus limits the growth of domestic tourism.

In this vein, it is the Committee's considered view that a two-tier tourism product pricing system in line with targets in the 7NDP should be considered as the most practical measure to address the challenge. Further, the Committee recommends that the Executive should revisit the high cost of a multiple and single-entry visas which ultimately makes the country an uncompetitive destination for international visitors.

8.13 Strategic Reforms for Poorly Performing State Owned Enterprises

The Committee wonders why the Government has continued to delay the implementation of reforms to restructure poorly performing State Owned Enterprises (SOEs) despite repeated recommendations to this effect by the Committee over the years. The Committee is displeased that despite most SOEs failing to declare dividends, and only a few doing so in the recent past, the Executive has continued financing them. The Committee, therefore, strongly urges the Executive to take bold steps to restructure all SOEs, as a matter of extreme urgency, in order to enhance their efficiency and enhance domestic resource mobilisation. Further, the Industrial Development Corporation (IDC) should enhance its oversight role on the SOEs it presides over as the performance of some SOEs under the supervision of the IDC is not satisfactory.

8.14 Rolling out of the Output Based Budget to all MPSAs against Release of Funds

The Committee notes that whereas the Output Based Budget has been rolled out to all MPSAs, there should be corresponding measures to ensure timely release of budgeted funds in order to ensure timely programme implementation. The revelation that the average releases in the current 2020 Budget are below 50 per cent, as of end of the third quarter, is a serious source of concern. For example, the Committee is disappointed that, as of September 2020, the Zambia Agriculture Research Institute (ZARI) received less than 1 per cent of its approved funding for non personal emoluments allocation.

The Committee urges the Executive, even amidst the competing needs in the economy, to ensure timely release of budgeted funds for MPSAs, with prioritisation on key sectors for enhanced service delivery.

8.15 Support to the ICT subsector

The Committee notes that the ICT subsector is undoubtedly one of the industries that has emerged as a critical industry during the COVID-19 pandemic, rapidly growing at a rate of 29.3 per cent from 20.7 per cent in the second quarter of 2020. The implementation of measures aimed at limiting person-to-person contact such as working from home, virtual meetings, e-learning and other e-services (including electronic financial intermediary services – mobile money) have increased the demand for band width and other ICT services. In order to distribute the cost of developing ICT infrastructure in rural areas more broadly, and ensure sustainable financing, the Committee strongly urges the Executive to ensure that a proportion of the 17.5 per cent excise duty levied on airtime should be earmarked for ICT infrastructure development in rural areas especially that a similar strategy has been employed to finance rural electrification.

8.16 Child Funding

The Committee expresses concern that the Budget Address made no mention of nutrition despite the country not only being food insecure, but nutrition insecure too. This is mainly attributed to the impacts of floods and COVID 19 effects, but other factors are also at play. This is despite donors injecting over $112 million into nutritional programmes. Further, the Committee has observed with serious concern that the allocation to the National Food and Nutrition Commission allocation of K 10,011,139 has remained the same for the last three years despite inflation and expansion of the National Food and Nutrition Commission team in target districts and provinces. The Committee urges the Executive to take deliberate measures to actualise the theme of the Budget of enhancing the livelihood of the vulnerable in society through increased support to nutrition programmes.

8.17 Launch of the Youth Empowerment Fund

The Committee commends the launch of the Youth Empowerment Fund with an allocation of K470 million for economic diversification and job creation. However, it contends that in order to ensure the effective implementation of the programme, lessons should be drawn from the challenges faced during the implementation of the Youth Development Fund which suffered a poor loan recovery rate (16 per cent) and failure of several businesses to thrive. In this vein, the Committee urges the Executive to identify a specialised institution with expertise and experience in both managing loan portfolios and providing business development services to administer the Fund on behalf of the Government. The institution should also be able to provide sufficient mentorship, training and business support services before loans are disbursed so as to build financial and business management skills and improve the loan recovery rates.

8.18 Delayed and Inconsistent Disbursement of CDF

The Committee is concerned yet again, over the delayed and inconsistent disbursement of the Constituency Development Fund. The Committee is however, cognisant of the release of the 2020 CDF which will aid the implementation of projects at the lowest level of Government.

The Committee urges the Executive to ensure that CDF for the 2021 financial year is released before the end of the first quarter in order to enhance service provision and development at local level.

8.19 Indefinite postponement of the 2020 Census of Population and Housing

The Committee notes that statistics remain key for evidence based planning and budgeting and is concerned that the country failed to undertake a census of population and housing in 2020. In this vein, the Committee implores the Executive to ensure that adequate funds are allocated and released on time in order to ensure that the programme can be successfully conducted in the first quarter of 2021.

9.0 CONCLUSION

The Committee notes that the 2021 Budget aims to stimulate economic recovery and build resilience towards protecting the poor and vulnerable and safeguarding their livelihoods. Executing the Budget, therefore, will require strong responses from all sectors of the economy. At the same time, economic actors must brace for strong headwinds in the coming year, given the prevailing economic conditions.

The budget, being a critical fiscal tool for positive economic growth and poverty eradication, requires strict adherence to set macroeconomic targets. The Committee notes that the huge public debt will have far reaching effects on the credibility of the budget following the sluggish growth of the economy and the past budget performance. The projection to spend a total of 38.5 per cent of the budget in 2021 towards debt servicing will directly affect releases to MPSAs, resulting in poor service delivery.

Policy pronouncements are effective only if they are implemented. Over the years, however, the failure to implement policy pronouncements as contained in the Budget Address has to a large extent affected budget execution.

It is the expectation of the Committee that the observations and recommendations contained in its report will be supported and implemented in order to achieve the set objectives and targets for the 2021 Financial Year.

Sir, the Committee concluded its deliberations within its terms of reference and this was facilitated by the contributions of various stakeholders from whom the Committee sought comments on the estimates of revenue and expenditure for 2021. The Committee is, therefore, grateful to the stakeholders who tendered both written and oral submissions.

It also wishes to thank you, Mr Speaker, for affording it an opportunity to consider the estimates of revenue and expenditure for 2021. Gratitude further goes to the Clerk of the National Assembly and her staff for their assistance and advice throughout the Committee's deliberations as well as the consultants engaged with support from cooperating partners.

We have the honour to be, Sir, the Expanded Budget Committee appointed to consider the 2021 Estimates of Revenue and Expenditure.

Mr M Simfukwe, MP
Chairperson

Ms N M Subulwa, MP
Vice Chairperson

Mr L A Lufuma, MP
Member

Mr S K Kakubo, MP
Member

Mr R Nakacinda, MP
Member

Mr F C Chaatila, MP
Member

Mr P Phiri, MP
Member

Mr D Mumba, MP
Member

Mr J Siwale, MP
Member

Mrs S S Mulyata, MP
Member

Mr H Kunda, MP
Member

Dr S Musokotwane, MP
Member

Mr A B Malama, MP
Member

Mr E K Belemu, MP
Member

Mr M J B Ng'onga, MP
Member

Mr E J Muchima, MP
Member

Mr D M Syakalima, MP
Member

Mr G K Mwamba, MP
Member

Dr M Malama, MP
Member

Mr N Samakayi, MP
Member

Mr C Miyutu, MP
Member

Mr M Jere, MP
Member

Mr P M W Daka, MP
Member

Dr C K Kalila, MP
Member

Dr M Imakando, MP
Member

Mr E Kamondo, MP
Member

Mr G M Imbuwa, MP
Member

APPENDIX 1-List of Witnesses

1. Minister of Finance
2. Ministry of Local Government
3. Ministry of Higher Education
4. Ministry of Health
5. Ministry of Agriculture
6. Ministry of Mines
7. Ministry of Tourism and Arts
8. Ministry of Local Government
9. Ministry of Mines and Minerals Development
10. Secretary to the Cabinet
11. Bank of Zambia (BOZ)
12. Zambia Revenue Authority (ZRA)
13. Zambia Statistics Agency (CSO)
14. Zambia Institute of Chartered Accountants (ZICA)
15. Zambia Institute for Policy Analysis and Research (ZIPAR)
16. Economic Association of Zambia (EAZ)
17. ZCCM-IH
18. Civil Society Organisation Scaling Up Nutrition (CSO-SUN)
19. Indaba Agricultural Policy Research Institute (IAPRI)
20. Zambia National Farmers Union (ZNFU)
21. Zambia National Education Coalition (ZANEC)
22. Water Aid/ NGO WASHE Forum
23. UNZA-Department of Economics
24. Chamber of Mines in Zambia (CMZ)
25. Zambia Association of Manufacturers (ZAM)
26. Policy Monitoring and Research Centre (PMRC)
27. Zambia Association of Chambers of Commerce and Industry (ZACCI)
28. Industrial Development Corporation (IDC)
29. Zambia Agricultural Research Institute (ZARI)
30. Zambia Congress of Trade Unions (ZCTU)
31. Tourism Council of Zambia (TCZ)

APPENDIX II – List of National Assembly Officials

Ms C Musonda, Principal Clerk of Committees
Mr F Kateshi, Principal Clerk – Parliamentary Budget Office
Mr H Mulenga, Deputy Principal Clerk of Committees (FC)
Mr S Mtambo, Deputy Principal Clerk- Parliamentary Budget Office
Mrs C K Mumba, Senior Committee Clerk (FC)
Mr S C Samuwika, Committee Clerk
Mrs E K Zgambo, Committee Clerk
Ms C R Mulenga, Committee Clerk
Mr F Chikambwe, Revenue Analyst
Ms L Chilala, Typist
Mr D Lupiya, Parliamentary Messenger
Mr F Kwelaka, Intern

CONSULTANTS
Dr M Nyamazana
Dr D Mudenda