



REPUBLIC OF ZAMBIA

REPORT OF THE PLANNING AND BUDGETING COMMITTEE

ON THE

REVIEW OF THE 2024 MID-YEAR BUDGET PERFORMANCE REPORT

FOR THE

THIRD SESSION OF THE THIRTEENTH NATIONAL ASSEMBLY

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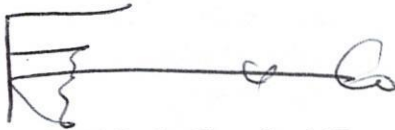
FOREWORD

Honourable Madam Speaker, the Planning and Budgeting Committee has the honour to present its Report on the Review of the 2024 Mid-Year Budget Performance Report. The functions of the Committee are set out in Standing Order 204 (4) (c) of the National Assembly Standing Orders, 2024.

In order to acquaint itself with the contents of the Report, the Committee sought both oral and written submissions from different stakeholders. The list of the stakeholders is at Appendix II of the Report. The Committee held seven meetings to consider the Report in accordance with section 49 of the *Planning and Budgeting Act, No.1 of 2020*.

The Committee's Report has three parts: Part I highlights the Committee's findings from its deliberations. Part II presents the views of stakeholders, and highlights the Committee's engagement with the Minister of Finance and National Planning. Part III contains the Committee's observations and recommendations, and conclusion.

Madam Speaker, the Committee is grateful to the stakeholders who tendered both written and oral submissions. It also wishes to thank you, for affording it the opportunity to review the 2024 Mid-Year Budget Performance. Gratitude further goes to the Office of the Clerk of the National Assembly for the assistance rendered throughout the Committee's deliberations.



Mr Fred Chibulo Chaatila, MP
CHAIRPERSON

July; 2024
LUSAKA

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List of Acronyms and Abbreviations

Annual Borrowing Plan	ABP
Gross Domestic Product	GDP
Medium-Term Debt Strategy	MTDS
Eighth National Development Plan	8NDP
Mid-Year Budget Performance Report	MYBPR
Strategic Development Areas	SDAs
Value Added Tax	VAT
Local Government Equalisation Fund	LGEF
Industrial Development Corporation	IDC
Company Income Tax	CIT

1.0 COMPOSITION OF THE COMMITTEE

The Committee consisted of Mr Fred C Chaatila, MP (Chairperson); Ms Brenda Nyirenda, MP (Vice-Chairperson); Mr Machila Jamba, MP; Mr Koonwa Simunji, MP; Mr David Mabumba, MP; Mr Kalalwe Mukosa, MP; Mr Jeffrey Mulebwa, MP; Mr Anthony C Mumba, MP; Mr Mayungo Simushi, MP; and Mr Mwabashike Nkulukusa, MP.

PART I

2.0 INTRODUCTION

The 2024 Mid-Year Budget Performance Report (2024 MYBPR) was presented to the National Assembly in accordance with section 49 of the *Planning and Budgeting Act, No. 1 of 2020*. The 2024 MYBPR was referred to the Planning and Budgeting Committee for detailed scrutiny in line with Standing Order 204(4)(c) of the National Assembly of Zambia Standing Orders, 2024.

The 2024 National Budget themed “*Unlocking Economic Potential through enhanced Private Sector Investment, Increased Production and Productivity, and Improved Public Service Delivery*” totalled K177.9 billion and was 27.8 per cent of Gross Domestic Product (GDP). The 2024 Budget aimed at unlocking Zambia’s economic potential by addressing constraints faced in the economy in key sectors such as mining, energy, manufacturing and agriculture sector. In 2024, the Government envisaged to pursue policies anchored on the four strategic development areas of the Eighth National Development Plan (8NDP) namely: Economic Transformation and Job Creation; Human and Social Development; Environmental Sustainability; and Good Governance Environment.

Therefore, in view of the requirements of the law, the Planning and Budgeting Committee considered the 2024 MYBPR, to evaluate progress against the set targets and milestones for the first half of the year with a focus on the country’s macroeconomic fundamentals, fiscal performance, and alignment with the Strategic Development Areas (SDAs) of the 8NDP.

2.1 Overview of the Mid-Year Budget Performance Report

The Mid-Year Budget Performance for the first half of 2024 faced a number of challenges such as slow economic growth and on-going debt restructuring negotiations. Growth in 2024 was projected to slow down to 2.3 per cent compared to 4.8 per cent in 2023, on account of the drought experienced in the 2023-2024 Farming Season, as well as the low water levels at major power stations, which had led to a contraction in production of agriculture and energy industries by 19.4 per cent and 15 per cent, respectively. However, sectors such as transportation and storage; information and communication; accommodation and food services as well as manufacturing were expected to support growth.

During the period under review, total revenues and grants collections amounted to K74.77 billion comprising tax revenue K55.84 billion, non-tax K17.44 billion and grants from Co-operating

Partners K1.50 billion. This outturn was 1.4 per cent below the target of K75.8 billion due to lower collections in income taxes mainly on Company Tax. The lower collections were attributed to reduced payments made by mining companies, increased operational costs due to insufficient energy supply, leading to lower production levels.

With respect to expenditures, K88.76 billion was expended, out of which K84.48 billion was financed from domestic resources, while K4.27 billion was foreign-financed. The outturn under expenditures was 1.1 per cent below the projected K89.77 billion. Therefore, the prevailing factors mentioned above were a threat to achieving the theme for the 2024 National Budget.

2.2 Developments in the Global Economy

Global economic performance had significant effects on the economies of both developed and developing nations. The global economy was projected to grow by 3.2 per cent in 2024, at the same level of growth recorded in 2023, reflecting supportive demand developments, higher than expected Government spending in major economies and gradual easing of supply side disruptions. In emerging markets and developing economies, growth was projected to marginally slowdown to 4.2 per cent in 2024 from 4.3 per cent recorded in 2023. Growth in these economies would mainly be driven by improvements in economic activity in the Middle East, Central Asia and a few countries in Sub-Saharan Africa. The financial conditions in the higher interest rate environment continued to pose a challenge of capital flight on emerging markets and developing economies with rapidly narrowing differentials against interest rates in the United States.

Over the medium term, global growth was forecasted at 3.2 per cent on account of downside risks including, a possible worsening of the Israel-Gaza War as well as the continued Russia-Ukraine War, which would lead to a further spike in food and energy prices. In addition, a disruptive turn to fiscal consolidation, and persistence of core inflation, requiring tight monetary policy stance may affect the growth projections.

PART II

3.0 VIEWS OF STAKEHOLDERS ON THE 2024 MID-YEAR BUDGET PERFORMANCE

All stakeholders who appeared before the Committee commended the Government for adhering to the provisions of section 49 of the *National Planning and Budgeting Act, No. 1 of 2020*, which directed the Minister of Finance and National Planning to submit to the National Assembly Mid-Year Budget Performance Report.

3.1 Macroeconomic Performance

Stakeholders informed the Committee that the economy was initially projected to grow at 4.8 per cent. However, the country was hit with the worst drought in the recent past, leading to revised growth projections from 4.8 per cent to 2.3 per cent in 2024. Consequently, macroeconomic fundamentals weakened as evidenced from the decline in agricultural output coupled with an

energy crisis, which was caused by the drought. The Committee was further informed that the 2024 Nominal GDP forecast was increased from the initial K641.0 billion to K656.9 billion. Subsequently, this affected GDP-related targets, such as the projected fiscal deficit, which was initially set at 4.8 per cent of GDP in the National Budget, and now anticipated to reach 6.2 per cent. This change was further influenced by both the increased financing outlined in the Supplementary Estimates No.1 of 2024 and the revised GDP figure.

3.1.1 Inflation

In the first half of 2024, inflation averaged 14.0 per cent compared to 12.0 per cent over the same period in 2023. Stakeholders submitted that maize grain prices and sustained depreciation of the Kwacha against major currencies were the main drivers of inflation during this period. Further, heightened demand for solid fuels, due to adverse weather conditions, and increases in fuel prices also contributed to the higher inflation outcome. Notably, the tight monetary policy interventions undertaken in the first half of 2024, had minimal impact on the inflation target.

(i) Monetary Policy Instruments Deployed in 2024 and their Effectiveness in Ensuring Price Stability

The Committee was informed that while the inflation rate continued to rise during the period under review, the focus of monetary policy remained to contain inflationary pressures and anchoring inflation expectations. In this regard, the Monetary Policy Rate was increased by a cumulative 250 basis points to 13.5 per cent in May, 2023, from 11.0 per cent in December, 2023.

In addition, the Statutory Reserve Ratio was increased by 900 basis points to 26.0 per cent. This was necessitated by the persistently high demand pressures in the foreign exchange market that were contributing to the rise in inflation. The Central Bank also considered fragile growth, and vulnerabilities and risks in the financial sector.

3.1.2 Exchange Rate

In the first half of 2024, the Kwacha depreciated by 35.1 per cent against the US dollar to an average of K25.76 compared to 9.2 per cent depreciation recorded in the corresponding period in 2023. This depreciation, like in 2023, was driven by excess demand for the Dollar and limited foreign currency supply from exports. The importation of electricity, maize, other food commodities, and petroleum was expected to increase demand for foreign currency, which would likely weaken the domestic currency.

3.1.3 Interest Rate

The Committee was informed that during the first half of 2024, interest rates increased further as monetary policy was tightened to rein in inflation. Commercial banks' average nominal lending rate rose to 27.7 per cent in June 2024 from 26.6 per cent in December 2023. Over the same period, yield rates on Treasury bills and Government bonds rose to 15.3 percent and 23.9 per cent from 12.9 per cent and 23.5 per cent, respectively. Stakeholders submitted that the elevated interest rates, coupled with short repayment periods, hindered borrowing by the private sector, potentially limiting development projects in key sectors such as energy and agriculture. In light of this, they contended that the absence of a development bank, following the possession of the Development Bank of Zambia in July, 2023, further limited options for financing development projects in key sectors.

3.1.4 External Sector Development

(i) Trade Performance

In the first quarter of 2024, the value of exports of goods rose by 13.8 per cent to K60.6 billion from K53.0 billion in the corresponding quarter of 2023. This was mainly on account of an increase in export earnings of intermediate goods mainly copper anodes.

Similarly, value of imports of goods in the first quarter of 2024 increased by 22.7 per cent to K59.4 billion from K48.4 billion recorded in the first quarter of 2023. This was mainly as a result of an increase in intermediate goods. The economy, however, recorded a quarterly trade surplus of K1.1 billion from the trade deficit of K1.3 billion recorded in the fourth quarter of 2023. Further, the country recorded a trade surplus of K3.0 billion in May, 2024, compared to a surplus of K2.4 billion in April, 2024.

(ii) Copper Prices and Production

In the first quarter of 2024, copper prices averaged US\$ 8,443 per metric tonne (MT) compared to copper prices during the first quarter of 2023, which averaged US\$ 8,832.16 per MT. As at end May, 2024, copper prices stood at US\$ 10,129.1 per MT, giving a five-month average of 8988.44 per MT. With respect to copper production, production increased by 14.9 per cent to 165,984 MT from 144,453 MT. Cumulative volume of refined copper exported from January to May, 2024, was 315.9 thousand MT while that of 2023 for the same period was 318.0 thousand MT representing a 0.7 per cent decrease.

3.2 Revenue Performance

In the first half of 2024, total revenue and grants were 1.4 per cent below target, amounting to K74.8 billion, against a target of K75.8 billion. During the same period in 2023, total revenue and grants amounted to K57.3 billion. Of the K74.8 billion, tax revenue was K55.8 billion, non-tax revenue was K17.4 billion, and grants were K1.5 billion. The revenue collection deficit was mainly due to reduced growth observed across all the sectors, cumulating in a real GDP growth rate of 2.2 per cent in the first quarter of 2024.

3.2.1 Positive Performing Revenue Types

Stakeholders informed the Committee that selected revenue types performed favourably in the first half of 2024. Non-tax revenue exceeded the target by K174.3 million or 3.3 per cent, driven by Mineral Royalty, Skills Development Levy, and Tourism Levy, which surpassed their targets by K143.9 million or 2.8 per cent, K35.9 million or 27.1 per cent, and K15.1 million or 129.9 per cent, respectively.

Import Value Added Tax (VAT) also continued to perform positively due to increased imports of petroleum products and other goods subjected to import VAT. The VAT on domestic and imported goods exceeded its target by K2,006.7 million or 11.7 per cent. Import VAT exceeded its target by K3,110.6 million or 27.8 per cent, which offset the K1,103.9 million or 18.3 per cent deficit in domestic VAT. However, ongoing increases in outright refund payments under the VAT Deed Agreement with the Ministry of Finance and National Planning, Kansanshi Mining Plc, and FQM Trident Limited negatively impacted domestic VAT collections.

3.2.1.1 Performance and Effectiveness of Strategies to Enhance Tax Mobilisation in the First Half of the Year

The Committee was informed that to enhance tax mobilisation during the first half of the year, the Zambia Revenue Authority (ZRA) implemented various strategies aimed at improving tax administration, broadening the tax base and enhancing compliance across the different tax types. Some of these strategies included but not limited to the following:

(i) Rollout of the Smart Invoice System

The Smart Invoice System aimed at sealing revenue leakages by electronically managing invoices and stock data in real time. The system was officially launched on 19th March, 2024 and all VAT registered taxpayers were required to issue electronic invoices using Smart Invoice effective 1st July, 2024. A grace period before the start of charging of penalties had been granted for taxpayers to register and integrate on Smart Invoice by 30th September, 2024.

Other Stakeholders noted that while Electronic Smart Invoicing was one of the measures to enhance compliance and easy administration of VAT, as VAT claims would be restricted to invoices issued via Smart Invoicing, they observed that the incremental value in VAT collections from established businesses was expected to be minimal as they were largely already compliant.

(ii) Implementation of the electronic Tax Clearance Certificate (eTCC)

The Committee was informed that the level of tax compliance among taxpayers had continued to decline from a peak of about 70 per cent in 2018, to about 40 per cent as at December, 2023. To enhance compliance, one of the key reforms undertaken with effect from 1st January, 2024, was to automate the Tax Clearance Certificate and link it to filing and payment compliance. However, to cushion taxpayers that had cashflow challenges, the Authority was offering deferred payment of taxes upon signing of Time to Pay Agreement.

(iii) Full rollout of the Cross-Border Electronic Services Taxation Project

The Authority launched the taxation of VAT on Cross-Border Electronic Services on 1st April, 2024, to complement other initiatives aimed at effectively taxing the digital economy. This initiative focused on strengthening the taxation of digital commerce-related services provided by non-resident companies in Zambia. In the medium term, the Authority intended to extend the scope of the taxation of Cross-Border Electronic Services beyond VAT, subject to the implementation of the necessary legal framework and stakeholder engagement.

3.2.2 Negative Performing Revenue Types

Stakeholders submitted that income taxes, were at K4,682.4 million or 14.1 per cent below target. The overall deficit was primarily driven by underperformance in Company Income Tax, which was below the mid-year target by K5,944.8 million or 39.0 per cent. Mining and Non-mining Company Income Taxes fell short by K5,238.0 million or 63.9 per cent, and K706.8 million or 10.0 per cent, respectively. The negative outturn of Mining Company Tax was due to low profitability by most mining companies resulting from a reduction in the grade of copper ore at some mines and increased operational costs due to inadequate energy supply. Additionally, during the first half of 2024, the mining sector accounted for 5.8 per cent of total tax revenues, down from

7.8 per cent recorded during the same period in 2023. Further, the Committee learnt that the negative outturn of Non-mining Company Tax was due to unfavourable payment compliance by major contributors to this tax type. Similarly, grants recorded a negative performance of 5.8 per cent in the first half of 2024 compared to a positive outturn of 49.9 per cent during the same period in 2023. The negative performance in 2024, had been attributed to reduced remittances from cooperating partners.

The Committee was further informed that Customs and Excise Duties underperformed by K149.6 million or 1.9 per cent. Customs Duty deficits resulted from revenue losses on goods imported under Southern Africa Development Community preferential treatment (K3,368.4 million) and concessions for mining companies under Statutory Instrument No. 50 of 2022 (K801.9 million).

3.2.2.1 Credibility of the Mobile Money Levy Target

While acknowledging the importance of expanding the tax base, stakeholders noted that the underperformance of the Mobile Money Levy by 87 per cent, with collections amounting to K63.7 million against a mid-year target of K538 million, was partly due to its limited application to person-to-person transactions. Notably, transactions between a person and the Government, utility bill payments, payments to merchants, and bank account transfers were exempted to avoid double charges. Despite the exemptions, the stakeholders questioned the accuracy of the forecasting used in setting the collection targets.

3.2.3 Electronic Export Tracking Framework

The Committee learnt that the Export Proceeds Tracking Framework was implemented on 1st January, 2024, to enhance the compilation of external sector statistics, particularly to better understand the use of export earnings abroad. Stakeholders informed the Committee that since the implementation of the Framework, about US\$5.4 billion worth of exports had been captured on the Electronic Balance of Payments Monitoring System (e-BoP). Out of this amount, US\$2.7 billion had been channelled through local commercial banks. Of this amount, US\$1.5 billion had been fully reconciled. The Committee heard that over time, increased export proceeds being routed through domestic commercial banks were expected to help manage the exchange rate by making more foreign exchange available to banks to trade.

3.3 Financing

The Committee was informed that total financing amounted to K10.8 billion against the target of K14.0 billion, representing an underperformance of 22.8 per cent. Of the total financing, K6.6 billion was domestic financing, which was at 9.4 per cent above the target of K6 billion. External financing was K4.2 billion, 47 per cent below the target of K7.97 billion. Stakeholders submitted that the deficit was much lower than the projected deficit of 2.0 per cent for the first two quarters of the year. They further submitted that while this was a positive outlook, it was a result of budget cuts experienced in the first half of the year.

In order to finance the deficit, the Government relied on both external and domestic sources of finance. Domestic financing through the issuance of Government securities contributed K6.6 billion. On the other hand, external sources contributed K4.2 billion, which included K2.3 billion as

disbursements by creditors for foreign financed projects, K1.3 billion from the 2023 International Monetary Fund and Extended Credit Facility disbursements.

The Committee learnt that despite positive outcome on domestic financing, the Central Bank experienced an undersubscription on four out of the six bond auctions in 2024. This was attributed to tight liquidity conditions resulting from monetary tightening by the Bank of Zambia in a bid to contain inflation. The shortfall in subscription of securities was met through a selective bond auction to commercial banks in June, 2024.

3.3.1 Public Debt

The Committee learnt that total stock of domestic debt stood at K225.50 billion as at 30th June, 2024, while the external debt stock was USD 14.7 billion as at 31st March 2024, up from USD 14.6 billion as at 31st December 2023, representing a 0.6 per cent increase. The total stock of domestic arrears stood at K88.65 billion as at 31st March, 2024. Stakeholders submitted that while the Arrears Dismantling Strategy had been revised, most of the local businesses had been adversely affected due to the delay by the Government to clear outstanding arrears.

3.4 Expenditure Performance

The Committee learnt that total expenditure including amortisation amounted to K88.8 billion, 1.1 per cent below target, while total expenditure excluding amortisation amounted to K78.5 billion, 11.4 per cent below the approved budget expenditure estimate. This pattern in spending was observed across all sub-categories except for interest payments, which was overspent by 8.8 per cent. The spending pattern was similar to that of 2023, though marginally more pronounced.

A substantial portion, 66 per cent, was allocated to non-discretionary expenditure (wage bill and debt), leaving only 34 per cent for investment in productive sectors and social sector expenditure. This was concerning, as non-discretionary spending limited the fiscal space available for the Government to undertake developmental projects and fund social sectors.

Stakeholders submitted that with regard to transfers and subsidies, disbursements fell below the budget projection of K12.5 billion by 14.6 per cent. This was attributed to releases towards Local Government Equalisation Fund (LGEF), Constituency Development Fund (CDF), Farmer Input Support Programme (FISP), and the Food Security Pack (FSP), which were below target by (-16.7 per cent), (-77 per cent), (-16 per cent), and (-16.5 per cent), respectively.

The underperformance of CDF and LGEF in the first half of 2024, affected Government's aspiration of fiscal decentralisation to transfer resources to the local level for service delivery. The low disbursements towards CDF was due to low absorption capacity and huge unspent balances from the 2023 Financial Year under the Programme. Based on this, there was need to ensure capacity building of local authorities in Public Resource Management and Procurement in order to improve the absorption rates of various CDF Components. The Committee was further informed that funding towards the LGEF was not sustainable to enhance the Fiscal Decentralisation agenda. Local Authorities should be encouraged, through devolution of certain sectors, to ensure they found ways to enhance own-source revenue mobilisation at the local level.

Apart from the low absorption rate of the CDF, the Auditor General's Report on the CDF for 31st December, 2022, revealed some irregularities in the management of CDF, which arose due to

internal control deficiencies in local authorities. Stakeholder submitted that there was, therefore, urgent need to address structural challenges and internal controls to achieve prudent utilisation and expedite service delivery through the Fund

3.5 Performance of Economic Drivers under the Eighth National Development Plan

Stakeholders submitted that the economic drivers under the 8NDP included, the mining, manufacturing, agriculture and tourism sectors. During the first half of the year, the performance of each sector was as discussed below.

(i) Mining

The Committee was informed that the mining industry experienced a contraction with output declining from 834, 000 MT in 2020, to 682,000 MT in 2023. Further, stakeholders informed the Committee that it was anticipated that production would increase following the resolution of the challenges at Mopani and Konkola Copper Mines and the ramp-up of operations at First Quantum Mines. As such, during the first quarter of 2024, the mining sector contributed 9.6 per cent to GDP.

(ii) Manufacturing

Stakeholders submitted that the growth of Zambia's manufacturing sector decelerated to 1.5 per cent as at December, 2023, from 4.7. This was largely due to the depreciation of the Kwacha against major convertible currencies which resulted in increased costs for imported intermediate goods. Despite the overall slowdown, the paper and paper products, along with the non-metallic products subsectors continued to exhibit high growth rates. The Committee was informed that there was need to focus on digital transformation and innovation to drive future growth and silence in the face of global economic challenges. During the first quarter of 2024, the manufacturing sector contributed 2.3 per cent to GDP.

(iii) Agriculture

The agriculture sector faced significant challenges in 2024, primarily due to prolonged drought that led to a slowdown in the industry. This had a cascading effect on the economy, impacting food security and energy generation due to low water levels at major hydroelectric station. The Committee learnt that despite these setbacks, the sector's resilience and its role in employment and economic performance remained crucial. Stakeholders were of the view that there was need to enhance efforts to modernise the sector through technology and Artificial Intelligence in an endeavor to mitigate the effects of climate. The sector contributed negative 23.8 per cent to GDP in the first quarter of 2024.

(iv) Tourism

The Committee learnt that the tourism sector showcased a favourable trend with a surge in international visitors and increased patronage of national parks, heritage sites and museums primarily driven by strategic marketing, aviation sector improvements and hosting of key events such as international conferences. The sector contributed 24.9 per cent to GDP in the first quarter of 2024.

3.6 Performance of the State-Owned Enterprises during the First Half of 2024 vis-à-vis their Impact on Economic Development

Stakeholders informed the Committee the subsidiaries generated aggregate revenues of K18.0 billion in the first half of 2024 against a budget of K21.1, while in 2023, they generated K20.9 billion representing an 85 per cent budget achievement. However, there was a 14 per cent decline in revenue in the first half of 2024, relative to the same period last year. Despite this decline, companies in the energy, telecommunication, transport, and manufacturing clusters recorded growth in the first half of 2024.

The Committee learnt that the subsidiaries reported an aggregate profit of K216 million against the budget loss of K306 million, while in 2023, they recorded a loss of K4.2 billion. Of the twenty-one subsidiaries under management in the portfolio, eleven were profitable in the first half of 2024 compared to ten in the same period last year. ZESCO, Zamtel, INFRATEL, Zamcargo and Kawambwa Tea moved from loss making in the first half of 2023, to profit making while Zambia Daily Mail Limited moved from profit making to loss making. ZCCM-IH was the main loss driver with a loss of K3.9 billion resulting from investment expenses of K3.9 billion relating to the completion of the Mopani Copper Mines Plc transaction. The Committee was informed that a number of risks hindered the effective and efficient operations of State-Owned Enterprises during the first half of 2024. Some of these included but not limited to:

(i) Financing of Projects and Subsidiary Interventions

Securing adequate funding remained a critical challenge for the Industrial Development Corporation (IDC). The significant mismatch between cash inflows and capital requirements made it difficult to fully support both subsidiary turnaround initiatives and project development. This challenge was further exacerbated by Zambia's sovereign debt status, which had increased the country's risk profile and impeded IDC's access to traditional financing avenues.

(ii) New Regulatory Processes

The IDC was experiencing delayed execution of transactions due to protracted clearance processes. Responses were often received after weeks and months, rather than days for documents such as Non-Disclosure Agreements and financing agreements. This was significantly impacting project timelines and posed a reputational risk, especially to international counterparts. Therefore, there was urgent need to streamline procedures and enhance operational efficiency.

4.0 COMMITTEE'S ENGAGEMENT WITH THE MINISTER OF FINANCE AND NATIONAL PLANNING

The Minister of Finance and National Planning appeared before the Committee to give a policy perspective on the 2024 mid-year budget performance and also clarify issues that arose during interaction with the stakeholders.

The Minister reported that the budget performance in the first half of 2024 was relatively strong, with only a slight underperformance of about 1 per cent, despite the country's challenges with the

drought and an energy crisis. The positive revenue performance was attributed to strong grant performance. However, income tax collections, particularly from the mining sector, faced difficulties due to sector-specific challenges. On the expenditure side, most disbursements were close to the projected amounts, though they fell short by about 1 per cent. This shortfall was due in part to the resumption of debt repayments following the debt restructuring agreement. The Minister provided clarification on the matters outlined hereunder.

i. Provision of Financial Assistance to the Agriculture Sector following the Severe Impact of the Drought

The Committee was informed that the Government had engaged the Bankers Association of Zambia in order to jointly come up with a restructure program for farmers. Government was also in the process of mobilising resources that could be deposited in banks for onward lending to the agriculture sector with the Government being a guarantor. Additionally, the e-voucher system was going to be expanded to cater for more farmers.

ii. Payment of Legacy Value Added Tax Refunds by the Ministry of Finance and National Planning

The Minister informed the Committee that the Government was alive to the challenges of outstanding VAT refunds which dated as far back as 2013. The Minister informed the Committee that the Government was considering to take up the legacy VAT refund arrears from the ZRA. However, this could not be done in 2024 as dismantling of arrears for 2024 were focused on dismantling arrears on fuel, with the possibility of taking up VAT refunds in 2025.

iii. Formulation of an Annual Fiscal Risk Statement

The Minister submitted that the development of the 2025 Fiscal Risk Statement was on course with the finalisation expected by September 2024. The Fiscal Risk Statement will be submitted together with the 2025 National Budget. The statement would highlight the risks which the country would be prone to. He further informed the Committee that some of the risks encompassed factors that would cause deviations of fiscal outcomes from the budget forecasts or expectations, and would hinder the attainment of the set macroeconomic objectives. The statement would further highlight the policy responses and management framework for managing the risks in 2025 and the medium-term.

iv. Strategies to Enhance Absorption and Utilisation of Releases towards the Constituency Development Fund (CDF)

The Committee was informed that the Government remained ambitious with the allocation of CDF in a bid to take development to all areas. However, there was a wider call from various stakeholders for implementors to act and move faster. The Minister submitted that in 2024 there had been an improvement with absorption and this was attributed to the streamlining of procedures under CDF. Key to these reforms was that the Secretary to the Treasury no longer approved all projects as this had been devolved to local authorities. However, the Attorney General was still required to approve

contracts amounting to K1 million and above. Additionally, one of the biggest challenges in the administration of CDF had been the attitude of council workers.

v. Mis -alignment of Fiscal and Monetary Policy

The Minister submitted that the Monetary and Fiscal policies were not mis-aligned. He further submitted that the biggest challenge had been the repayment of debt which led to increase in expenditure on the part of the Government.

In addition to this, the onset of the drought meant that government had to increase social sector spending to mitigate the effects of the drought which had put additional pressure on the budget, leading to more inflationary pressure. Owing to these challenges and more, fiscal consolidation had not been to the extent of sustainable macro setting. The Government, had however, through the Bank of Zambia been engaging Impact Investment to work on the best way to deploy and bring in venture capital using a K5 billion fund. Once the modalities were done, this investment would be directed to the agriculture sector.

vi. Enhance support to the Information and Communication Technology (ICT) sector

The Minister acknowledged that the ICT sector continued to be one of the highest contributors to GDP growth of the country for the financial years 2023 and 2024. In this regard, in addition to supporting the sector through the lowering of taxes, the Government was working on modalities of financing and encouraging innovation among the youths so as spur growth as per the prevailing trends.

PART III

5.0 COMMITTEES OBSERVATIONS AND RECOMMENDATIONS

Following its interaction with various stakeholders on the review of the Mid-year Budget performance, the Committee makes its observations and recommendations as outlined below.

1. Low Budget Releases

The Committee notes, with concern, that releases to Ministries, Provinces and Spending Agencies (MPSAs) in the first half of the year were below target, ranging between 35 and 45 per cent. This outturn significantly affects service delivery. Further, in the absence of information on releases to respective Heads of Expenditure, the Committee could not assess which MPSAs were mostly affected by the underperformance in Budget releases.

In light of this, the Committee recommends that the Government should increase the release of resources in the second half of the year to enhance delivery of services, especially given the drought crisis which has impacted both livelihoods and economic activities. Further, the Committee recommends that in future, the Ministry of Finance and National Planning (MoFNP) should present a schedule of releases to MPSAs alongside the Mid-Year Budget Performance Report as this will strengthen the oversight role of the National Assembly.

2. Sustain Growth in Sectors Recording Positive Performance

The Committee notes that the negative effects of the drought will persist in the second half of 2024, further impacting production, heightening operational costs, subduing profits, and limiting domestic revenue collection.

In light of this, the Committee recommends that sectors recording positive growth such as tourism and ICT, must be sustained while recovery measures should be pursued in sectors that contracted, if the projected 2024 growth target of 2.3 per cent of GDP is to be attained.

3. Expedite Targeted Financing Interventions to Support Recovery of the Agricultural Sector

The Committee notes that the ratio of non-performing loans (NPLs) in the agricultural sector is projected to rise significantly due to the reduced agricultural output caused by the drought during the 2023/2024 Farming Season. The Committee recalls that during the COVID-19 Pandemic, the Government, through the Bank of Zambia, introduced a Targeted Medium-Term Refinancing Facility to enable financial service providers to support businesses and households impacted by COVID-19.

Given that economic growth is premised on the recovery of the agricultural sector, among other factors, the Committee recommends that the MoFNP, in collaboration with the Bank of Zambia and other key financial sector stakeholders, should develop targeted interventions for the sector. These interventions should aim at providing relief to affected farmers and support them to recover and increase output in the 2024/2025 Farming Season, given the expected favourable rainfall.

4. Enhancing Revenue Collection Amid Reduced Economic Activity

The Committee observes that the negative performances of Company Income Tax (CIT) and domestic VAT are largely due to reduced economic activity caused by the energy crisis, thereby affecting business operations. In particular, the energy deficit has caused a significant increase in operational costs, reduced production and profitability, and consequently affected CIT remittances.

Therefore, the Committee recommends that the Government's response to the energy crisis should be expedited to counter the negative impact of load shedding on revenue collection and reduce dependency on imported electricity, which has higher tariffs. The Committee, further, recommends that small and medium enterprises should be supported adequately with energy efficiency initiatives to help maintain production levels and sustain domestic VAT contributions.

5. Underperformance of the Mobile Money Levy

The Committee observes that the Mobile Money Levy, introduced in the 2024 Budget to expand the tax base, significantly underperformed by 88.2 per cent, with collections amounting to K63.7 million against a mid-year target of K538 million. The Committee believes that the negative outturn undermines the credibility of the set target.

In light of this, the Committee recommends that the Government should undertake a comprehensive review of the Mobile Money Levy with the possibility of revising the exemptions under the Mobile Money Transaction Levy Act, 2023, to improve collections. The Committee also recommends accuracy in forecasting to avoid setting ambitious targets. Further, the Committee urges the Government to consider engaging a private Institution to manage the Mobile Money Levy as the case is in Tanzania as opposed to having it being managed by the Bank of Zambia or the Zambia Revenue Authority.

6. Enhancing Economic Management Beyond Monetary Policy

The Committee notes that while the continued tightening of monetary policy was necessary to prevent elevated inflation, its impact is minimal if the measure is not effectively supported by other structural reforms to increase production and the supply of foreign currency.

Therefore, the Committee is of the view that the Government should augment efforts to complement the effectiveness of monetary policy. To address structural economic challenges, the Committee is of the view that the export base must be broadened as well as enhance agricultural output to curtail food inflation, which is among the major drivers of inflation.

7. Fast-Track Value Added Tax Refunds to Support Economic Activity

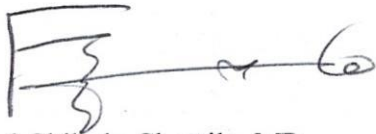
The Committee notes that the backlog of VAT refunds extends as far back as 2013, adversely impacting businesses, especially given the challenging economic conditions. While the implementation of the Import VAT Deferment Mechanism partly helped avoid the accumulation of large refunds, delays in paying refunds persisted due to cashflow challenges and delayed completion of legacy VAT audits.

To manage VAT refund arrears effectively, the Committee recommends that the Zambia Revenue Authority (ZRA) should fast-track refunds for SMEs and expedite the auditing process for larger liabilities. Additionally, the Committee recommends that the MoFNP includes legacy VAT refunds as part of the refunds to be cleared using general revenues as outlined in the Revised Domestic Dismantling of Arrears Strategy 2024-2029. This will enable the ZRA to focus on new VAT refunds.

6.0 CONCLUSION

The first half of 2024 has been relatively less favourable owing to the underperformance of Government securities coupled with higher than projected debt payments as well as the materialising of the drought effects such as power rationing, which has negatively affected the economic activities. The Committee notes that the negative outturns in revenue collection may potentially strain the National Budget, necessitating adjustments in spending and potentially leading to cuts in public service delivery or development projects. Further, underperformance in revenue collection especially from the mining sector may result in increased projected fiscal deficit, thereby demanding for more debt financing.

The Committee further notes with concern that a substantial portion or 66 per cent of expenditure is allocated to Non-Discretionary Expenditure (Wage Bill and Debt), leaving only 34 per cent for investment in productive sectors and social sector expenditure. This is concerning, as non-discretionary spending limits the fiscal space available for the Government to undertake developmental projects and fund social sectors. This eventually results in an increase in the financing gap which has an effect in attaining Government's objectives in the 8NDP. While the Committee acknowledges that the economy continues to face a number of challenges, particularly from the impact of the drought in 2024, it remains optimistic and forward looking.



Fred Chibulo Chaatila, MP
CHAIRPERSON

July; 2024
LUSAKA

Appendix I List of National Assembly Staff

Mr Stephen Chiwota, Director – Financial Committees
Mr Fitzgerald Kateshi, Director – Parliamentary Budget Office
Mrs Angela M Banda, Deputy Director – Financial Committees
Mr Simon Mtambo, Deputy Director – Parliamentary Budget Office
Ms Chitalu R Mulenga, Senior Committee Clerk (FC2)
Mr Ferdinand Chikambwe, Senior Budget Analyst – Revenue
Mr Aubrey Chilambwe, Senior Budget – Expenditure
Mrs Edna Zygambo, Budget Analyst
Mr Elijah I C Chilimboyi, Committee Clerk
Mr Philip Mwiinga, Budget Analyst
Mr Wiza Zimba, Budget Analyst
Ms Catherine Chibuye, Administrative Assistant II
Mrs Rachael M Kanyumbu, Administrative Assistant
Mr Daniel Lupiya, Committee Assistant
Mr Muyembi Kantumoya, Committee Assistant

Appendix II List of Witnesses

1. Bank of Zambia
2. Civil Society for Poverty Reduction
3. Jesuit Centre for Theological Reflection
4. Industrial Development Corporation
5. Ministry of Finance and National Planning
6. Price Water House
7. Zambia Institute for Policy Analysis and Research
8. Zambia Institute of Chartered Accountants
9. Zambia Revenue Authority