NATIONAL ASSEMBLY OF ZAMBIA

REPORT

OF THE

EXPANDED PLANNING AND BUDGETING COMMITTEE

ON THE

ESTIMATES OF REVENUE AND EXPENDITURE FOR THE FINANCIAL YEAR 1ST JANUARY TO 31ST DECEMBER, 2023

FOR THE

SECOND SESSION OF THE THIRTEENTH NATIONAL ASSEMBLY

Printed by the National Assembly of Zambia

1.0 COMPOSITION OF THE COMMITTEE

The Committee consisted of:

Mr Fred C Chaatila, MP, (Chairperson); Ms Jean C Chisenga, MP (Vice-Chairperson); Mr Machila Jamba, MP; Amb. Robert K Kalimi, MP; Mr Koonwa Simunji, MP; Mr Brian Kambita, MP; Mr Gystave Chonde, MP; Mr Davison Mung'andu, MP; Mr Lloyd Lubozha, MP; Peter Phiri, MP; Mr Warren C Mwambazi, MP; Mr Remember C Mutale, MP; Mr Elliot Kamondo, MP; Mr Kasauta S Michelo, MP; Eng. Rapheal S Mabenga, MP; Mr Twaambo E Mutinta, MP; Dr Christopher K Kalila, MP; Dr Clement Andeleki, MP; Mr Darius Mulunda, MP; Mr Romeo Kangombe, MP; Brig Gen (Rtd) Sitwala M Sitwala, MP; Mr Mubika Mubika, MP; Mr Harry K Kamboni, MP; Mr Mr Lloyd Lubozha, MP; Mr Mutotwe Kafwaya, MP; and Mr Andrew Lubusha, MP; Mr Newton Samakayi, MP; Mr Sydney Mushanga, MP

2.0 FOREWORD

The Honourable Madam Speaker the Expanded Planning and Budgeting Committee appointed to examine the Estimates of Revenue and Expenditure for the Financial Year 1st January to 31st December, 2023 has the honour to present its Report. The functions of the Committee are as stipulated in Standing Order 157 No. (4), of the National Assembly Standing Orders, 2021. In order to consider the Estimates of Revenue and Expenditure, the Committee held fifteen meetings during which it examined, in detail, all the submissions from various stakeholders.

The Committee requested for written submissions on the 2023 Budget from various stakeholders, who later appeared before it to make oral submissions and clarify matters arising from the written submissions. The Committee also received Reports on Sector Budget analysis produced by the Committee on Energy, Water Development and Tourism; and Agriculture, Lands and Natural Resources Committee. The two Reports are appended to the Report of the Expanded Planning and Budgeting Committee. The Report has been segmented into Four Parts and the witnesses who gave written and oral evidence to the Expanded Planning and Budgeting Committee are listed at Appendix I of the Report. Part I presents the macro-economic framework while Part II contains the revenue envelope and the expenditure side of the Budget. Part III contains a summary of concerns by stakeholders, while the Committee's observations and recommendations are contained in Part IV of the Report.

Madam Speaker, the Committee is therefore, grateful to the stakeholders who tendered both written and oral submissions. It also wishes to thank you, Madam Speaker, for affording it an opportunity to consider the estimates of revenue and expenditure for 2023. Gratitude further goes to the Clerk of the National Assembly and her staff for their assistance and advice throughout the Committee's deliberations.

Mr Fred C Chaatila, MP
CHAIRPERSON

October, 2022
LUSAKA

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List of Acronyms

Constituency Development Fund	CDF
Eighth National Development Plan	8NDP
Gross Domestic Product	GDP
Gross International Reserves	GIR

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3.0 INTRODUCTION

The Minister of Finance and National Planning, Dr Situmbeko Musokotwane presented the Estimates of Revenue and Expenditure for the Financial Year 1st January to 31st December 2023 pursuant to Article 202 of the *Constitution of Zambia (Amendment) Act No. 2 of 2016*. The Estimates of Revenue and Expenditure were referred to the Expanded Planning and Budgeting Committee for detailed scrutiny in accordance with Standing Order No. 157 (4) of the National Assembly Orders, 2021.

The 2023 Budget theme, *Stimulating Growth for Improved livelihoods* which is centred around improving the livelihoods of the Zambian people, is in line with the theme of the Eighth National Development Plan (8NDP). It was also in line with the Presidential Address during the official opening of the Second Session of the Thirteenth National Assembly whose theme was *Working Together Towards Socio-Economic Transformation: Stimulating Economic Growth for Improved Livelihoods*. As a fiscal tool, the 2023 Budget will mark the start of the implementation of the 8NDP (2022 to 2026) which was approved by the National Assembly in June 2022 and subsequently launched by the Ministry of Finance and National Planning.

The 2022 Budget which totalled 163.7 billion fell short of the 2022 Budget of 173 billion by 3.3 percent. The reduction was a major shift from the 50 per cent increase recorded in the 2022 Budget. The Budget contained many revenue measures and policy pronouncements in various sectors whose socio and economic implications are discussed in the Committee's Report.

4.0 SUMMARY OF SUBMISSIONS BY STAKEHOLDERS

Most stakeholders who appeared before the Committee supported the Budget stating that it provided a broad range of incentives and increased expenditure in priority areas to stimulate growth, create jobs, and ultimately improve the livelihoods of the people. They were optimistic that if the key measures announced in the Budget were effectively implemented, they would contribute to the restoration of macroeconomic stability.

PART I

4.1 MACRO ECONOMIC FRAMEWORK

The 2023 national Budget covered all the four strategic development areas of the 8NDP namely: Economic Transformation and Job Creation; Human and Social Development; Environmental Sustainability; and Good Governance Environment. The Committee was informed that the macroeconomic objectives set out in the

Budget were a breakaway from the broad and long-term objectives to be attained under the 8NDP by 2026. The 2023 national Budget was therefore, set to achieve the following specific macroeconomic targets:

(a) attain a real Gross Domestic Product (GDP) growth rate of at least 4.0 per cent;
(b) reduce inflation to within the target band of 6-8 per cent by the end of the year;
(c) maintain international reserves above 3 months of import cover;
(d) mobilise domestic revenue to at least 20.9 per cent of GDP;
(e) achieve a fiscal deficit of not more than 7.7 per cent of GDP; and
(f) limit domestic borrowing to not more than 3.0 per cent of GDP.

Stakeholders commented on the detailed macroeconomic targets set out in the 2022 national Budget as set out below.

(a) Attain a real Gross Domestic Product growth rate of at least 4.0 per cent

As pronounced in the 2023 Budget, the economy was projected to grow by 4.0 per cent in 2023 and stay on the recovery path in the medium-term. The Committee was informed that the growth target was largely premised on the effectiveness of multiple support measures and reforms Government was undertaking in various sectors, particularly mining, agriculture, manufacturing, and tourism. Improvements in electricity supply, following the completion of the power generation units at Kafue Gorge Lower Hydropower Station, was expected to support growth. However, tighter global financial conditions; increases in commodity prices, induced by the Russia-Ukraine conflict; and lingering negative COVID-19 pandemic effects, continued to be key downside risks to the growth outlook. Stakeholders, however, recognised, that the growth rate of 4 per cent remained insufficient to meet the Vision 2030 goal of being a prosperous middle-income country.

(b) Reduce inflation to within the target band of 6-8 percent by the end of the year

Inflation was projected to remain on a downward trajectory and towards the targeted bound of 6 to 8 per cent in 2023. The Committee heard that the downward projection in inflation was underpinned by recent monetary restraint by the Bank of Zambia, stable exchange rate, sustained implementation of fiscal consolidation and structural reform measures backed by the secured International Monetary Fund (IMF) Extended Credit Facility. It was highlighted that constrained food supply had been one of the main drivers of inflation, hence securing food security by promoting growth in the agriculture sector would be crucial for attaining the inflation target.

(c) Maintain international reserves above 3 months of import cover

The 2023 Budget aspired to maintain gross international reserves (GIR) of above 3 months of cover. As at end-August 2022, GIRs were US$3.0 billion, representing 3.5 months of import cover exceeding the target of at least 3 months of import cover for 2022. To achieve the 2023 target, the Committee was informed that the Bank of Zambia would continue with direct market purchases of foreign exchange, as conditions permitted, and the local gold purchase programme. Expected donor inflows would also go towards achieving the target. However, a more assured way to continuously build reserves was to scale up exports and in a diversified way. The downside risks to the objective of reserves build up included falling copper prices and a rise in the value of imports as the economy recovered.

(d) Mobilise domestic revenue to at least 20.9 percent of GDP

The Committee was informed that domestic revenue averaged 21.1 per cent of GDP between 2018 and 2021. In 2022, revenue to GDP was projected at 19.1 per cent. To improve on this performance, stakeholders called for concerted efforts to continuously improve tax administration and compliance by investing in human capacity development and technology, as well as widen the tax base.

(e) Achieve a fiscal deficit of not more than 7.7 per cent of GDP

The 2023 Budget projected a fiscal deficit of 7.7 per cent of GDP, from the projected 6.7 per cent in 2022. The Government planned to achieve this through a combination of revenue mobilisation and expenditure rationalisation measures and reforms. Most stakeholders submitted that the target was realistic especially with the comprehensive set of public financial management reforms the Government had undertaken that included the enactment of the *Public Debt Management Act, No. 15 of 20*22 and other measures announced in the 2023 Budget.

(f) Limit domestic borrowing to not more than 3.0 percent of GDP

The 2023 Budget recorded a sharp decline in planned domestic borrowing to K15.6 billion in 2023 from K27.2 billion in 2022. The Committee was informed that the reduction was expected to help unlock resources for the private sector as a significant amount of liquidity would not be directed to financing the Budget. It was recognised that access to credit by the private sector was essential to support economic recovery.

4.1.2 Factors that could Impact Attainment of Macroeconomic Objectives

a) Public Debt Management

The Committee was informed that the projected fiscal deficit of 7.7 per cent entailed that both domestic and external debt would increase in nominal terms. Worth noting, however, was that financing the deficit would be done in line with the Annual Borrowing Plan, debt sustainability analysis, and commitments made under the Extended Credit Facility Arrangement. The Government:

i) had demonstrated commitment in managing public debt by enacting the *Public Debt Management Act, No.15 of 2022*;
ii) working with the IMF had also finalised the Debt Sustainability Analysis which provided an indication of the relief that Zambia required from its creditors; and
iii) would also limit all new borrowing to concessional loans until debt sustainability was restored.

b) International Monitoring Fund Programme

The Committee was informed that a lot of progress had been made as evidenced by the financing assurances issued by the Official Creditor Committee for Zambia and the recently secured Extended Credit Facility arrangement with the International Monitoring Fund (IMF) which anchored the debt restructuring process under the G20 Common Framework for debt treatment. This was in addition to the Debt Sustainability Analysis. The IMF Programme through the Extended Credit Facility was anchored on the 8NDP and aimed at restoring macroeconomic stability and supporting more resilient growth.

c) Fiscal Policy

The Committee was informed that the fiscal policy would be anchored on the 8NDP in order to actualise the country's development objectives. The primary focus would be to reduce the fiscal deficit to sustainable levels while creating a business environment that would lead to job creation and poverty reduction. This would be achieved by strengthening compliance and administrative capabilities to generate more revenues while keeping the tax policy environment stable and predictable. In addition, the Government would focus on containing public expenditures within sustainable levels and ensuring strict adherence to priority projects. It would also curb the accumulation of new arrears by enforcing the use of the Commitment Control System for procurement of goods and services.

d) **Unstable Copper Prices**

The Committee was informed that the country's heavy reliance for revenue and foreign exchange posed a risk due to high susceptibility to commodity prices and global economic conditions. Therefore, placing so much reliance on the sector to finance a major part of the 2023 Budget was a risk.

e) **Full Implementation of the Electronic Balance of Payments Monitoring System**

The Committee was informed that compilation of external sector statistics had improved by strengthening the regulatory framework regarding the submission of statistics, conducting private capital flow surveys, and implementing the Electronic Balance of Payments Monitoring System. However, gaps remained in the coverage of external sector statistics, particularly relating to the capture of data on the utilisation of export earnings and information on balances held abroad by resident enterprises; and generally other financial account flows.

PART II

5.0 REVENUE ENVELOPE

5.1 Financing the 2023 Budget

The 2023 Budget projected to raise a total of K167 billion from tax and non-tax revenue, domestic and external financing as well as grants. The Committee was informed that however, as a percentage of GDP, total domestic revenues were projected to decrease to 20.9 per cent of GDP in 2023 from the 21.2 per cent projected in the 2022 Budget, suggesting as lack in revenue mobilisation efforts. The projected target of 20.9 per cent of GDP was below the Medium-Term Budget Plan (MTBP) target of 22.0 per cent of GDP, posing a threat to the attainment of fiscal sustainability. With regard to domestic revenue, the Committee was informed that total domestic revenue would increase by 12.8 per cent from K98.9 billion in the 2022 Budget to ZMW111.6 billion in 2023 in nominal terms. The breakdown of the projected revenue and source is as outlined in the table below.

Table 1: Resource Envelope

	Amount		Share of Budget		Share of GDP	
	2023	2022	2023	2022	2023	2022

Total Budget Allocation	**167,321,733,563**	**172,987,077,535**	**100%**	**100%**	**31.4%**	**37.1**
Domestic Revenue	111,643,321,261	98,859,157,828	66.7%	57%	20.9%	21.2
Domestic Financing	15,575,869,900	24,458,940,993	9.3%	14%	2.9%	-
Foreign Financing and Grants	40,102,542,402	49,668,978,774	24%	29%	7.6%	10.7

Source: Policy Monitoring and Research Centre

5.2 Breakdown of Tax Revenue in 2023 Compared to 2022

The Committee was informed that more than 50 per cent of the 2023 Budget would be financed by revenue generated from taxes. The breakdown of the target for each tax type is as outlined in the table hereunder.

The details of the contribution of the various tax types to the 2023 and 2022 targets are depicted in Table 2 below.

Table 2: Structure of Proposed Tax Revenue Estimates in 2023 and 2022

Source of Tax	Proposed collection-2023 (K'million)	Proposed collection-2022 (K'million)	Percentage of total tax revenue-2023	Percentage of total tax revenue-2022
VAT	29,209.2	22,903.6	28.3%	25.2%
Company Income Tax	21,196.0	16,393.9	20.6%	18.0%
PAYE	19,319.2	17,258.9	18.7%	19.0%
Withholding tax & others	9,911.9	8,622.6	9.6%	9.5%
Mineral Royalty	8,986.2	12,839.0	8.7%	14.1%
Customs and Export duty (Including Motor Vehicle Fees)	7,116.8	6,566.4	6.9%	7.2%
Excise duty	6,930.5	6,184.5	6.7%	6.8%
Skills Development Levy	220.8	199.8	0.2%	0.2%
Insurance Levy	210.7	48.6	0.2%	0.1%
Tourism Levy	24.6	17.7	0.0%	0.0%
Total	**103,126.04**	**91,035.00**	**100.00%**	**100.00%**

Source: Zambia Revenue Authority

i. Corporate Income Tax

The Committee was informed that the increase in revenue projections was largely hinged on increased Company Income Tax (CIT) collections which were proposed to increase by 29.3 percent in 2023, from the K16.3 billion projected in 2022 to 21.2 billion in 2023. The increase in CIT collections was based on the higher collections from the mining and non-mining firms through increased compliance. Stakeholders noted, however, that some risks seemed to loom on the horizon of CIT collections, mainly from mining, due to the continued fall and fluctuations in copper prices on the international market.

ii. Pay-As -You-Earn

Although Pay-As-You-Earn (PAYE) had seen significant reforms, including a rise in the exempt threshold and adjustments in tax rates and bands, stakeholders submitted that collections were projected to increase by12.2 per cent from K17.2 billion in 2022 to K19.3 billion in 2023. This increase was mainly on account of increased enforcement of compliance measures and the recent recruitments of officers in the agriculture, health and education sectors.

iii. Value Added Tax

The Committee was informed that Value Added Tax (VAT) increased by 27.5 per cent to K29.2 billion in 2023 from the K22.9 billion in the 2022 Budget. The significant increase was premised on the standard rating of VAT on the supply of petrol and diesel. The roll out of Electronic Fiscal Devices (EFD) was also proposed to improve VAT compliance.

iv. Mineral Royalty Tax

The Committee was informed that the estimation of mineral royalty was based on gross value or norm value of the minerals. Until 2022, Zambia applied a sliding-scale mineral royalty regime for copper on an aggregate basis. In order to minimise the distortion in the effective tax rate, the 2023 Budget had proposed to restructure the mineral royalty regime with respect to copper, as the tax would, going forward, apply on the incremental value of each adjusted price band.

6.0 EXPENDITURE SIDE OF THE 2023 BUDGET

In 2023, the Zambian Government proposed to spend a total of ZMW167.3 billion representing 31.4 per cent of GDP compared to ZMW173.0 billion spent in 2022. Thus, the 2023 national budget was less than the 2022 national budget by ZMW5.7

billion, a reduction equivalent to 3.3 per cent of the 2022 budget. The Committee was informed that the 2023 public expenditure policy and strategy would focus on attaining economic transformation, bridging the rural urban gap through fiscal decentralisation and protecting the poor and vulnerable through increased social spending. This would be achieved by channelling resources to programmes and projects with a direct impact on improving individuals' quality of life. The following are some of the proposed areas of spending for Government in the year 2023.

6.1 General Public Services

The Committee was informed that the major departure in terms of expenditure was the reduction in general public services which had reduced from K86.4 billion in 2022 to K66.2 billion in2022 translating to a 23 per cent reduction. Under general public services, the allocation to debt service (domestic and external debt) declined from ZMW78.7 billion in 2022 to ZMW48.8 billion in 2023. The decline was on account of the US750 million Eurobond payment which was due on 20th September, 2022 and was included in the 2022 Budget. On the contrary, the 2023 Budget only took into account scheduled debt service costs.

6.2 Economic Affairs

The Committee was informed that Government planned to spend a total of K35.0 billion of this amount, K11.2 billion would go towards various interventions in the agriculture, fisheries and livestock sub-sectors in line with the Comprehensive Agriculture Support Programme while K4.4 billion would be channelled towards the Constituency Development Fund (CDF) had been allocated a total of K4.4 billion, representing an increase of K401 million from this year's allocation. This meant that each constituency would be entitled to K28.3 million, an increment of K2.6 million. The Government would work to streamline bottlenecks in access these funds by simplifying CDF guidelines and building capacity and awareness in communities. Further K5.2 billion was earmarked for road infrastructure. This will include the continuation of ongoing road projects as well as opening up strategic economic routes. The Government would further undertake significant works to rehabilitate and upgrade feeder roads across the country. In this regard, the Government would aggressively pursue Public Private Partnerships as a sustainable mode of financing.

6.3 Health

The Committee was informed that the Government had in the 2023 Budget increased allocation of funds to the sector from 13.9 billion in 2022 to 17.4 billion from 13.9 billion in 2022, representing an increase of 25 percent in nominal terms. The increase also represented an upward adjustment as a percentage of the budget from 8 per cent to 10 per cent in 2023. The Committee was further informed that while Zambia had over the past years failed to meet the aspirations of the Abuja Declaration, the 2023 Budget pointed to a reversal in the previously downward trend in allocations towards to the sector. Some of the key highlights of the Budget included recruitment of 3,000 health personnel in addition to the 11,200 recruited in 2022; and completion of construction of a specialised women and children's hospital in Lusaka.

6.4 Education

The Committee was informed that the 2023 education budget registered significant gains continuing on the path of 2022 Budget that was characterised by significant pronouncements in the sector such as the recruitment of 30,000 teachers. Key pronouncements included recruitment of an additional 4,500 teachers, completion and construction of secondary schools as well as commitment to reintroduce meal allowance for students on Government bursary. With regard to allocation, a total of K23 billion would be allocated towards the education sector representing a 28 per cent increase from the 2022 allocation. In terms of the share of the total Budget, the allocation had increased from 10.4 per cent to 13.9 per cent. Regrettably, the share of the sector budget fell short of the recommended 20 per cent.

6.5 Social Protection

The Committee was informed that the amount allocated to social protection had increased by 29 per cent from K6.2 billion in 2022 to K8.1 billion in 2023. As a percentage of the total Budget, the share had arisen from 3.6 per cent in 2022 to 4.9 per cent in 2023. The Committee was further informed that all major social protection programmes had seen a considerable rise in allocation with social cash transfer recording the biggest increase from K3.1 billion in 2022 to K3.7 billion in 2023. Other notable increases included food security packs which increased from K1.1billion in 2022 to K1.2 billion in 2023 while Public Service Pension Fund rose from K2.0 billion in 202 to K2.3 billion in 2023.

PART III

7.0 Submissions by Selected Government Ministries

In line with the four key strategic development area outlined in the 8NDP and also reiterated in the 2023 Budget Address by the Minister of Finance and National Planning, the Expanded Planning and Budgeting Committee interacted with selected ministries whose sectors had been identified as key drivers and enablers of the Economic Transformation and Job Creation strategic development area of the 8NDP. The rationale was to appreciate the strategies earmarked to contribute to the realisation of the growth target. The summary of submissions received from the sampled Ministries is as outlined below.

7.1. Ministry of Mines and Minerals Development

To ensure that the Ministry of Mines and Minerals Development contributed significantly to the economic transformation agenda under the 8NDP and make positive impact, the Committee was informed that the Ministry had prioritised various interventions in the 2023 Budget as well as in the medium-term framework. Some of the key strategic issues to be undertaken for the mining sector to become a hub of the economic transformation agenda included strategies geological mapping and mineral exploration; formalisation of the gold mining and artisanal and small scale mining; and efficient and effective mining licensing system; among others. A key measure for the sector was the establishment of an independent mining regulator to ensure effective and efficient regulation of the growing mining sector

7.2 Ministry of Commerce, Trade and Industry

The Committee was informed that the move to continue promoting the Multi-Facility Economic Zones (MFEZ) as a means of broadening the country's industrial and manufacturing base was a positive move. The Lusaka South MFEZ was one of the success stories having attracted more than thirty companies with a total pledged investment of US $230 million and 4,000 jobs in 2021 and could be used as a benchmark for other MFEZs in the country. The Committee was further informed the plan to establish an MFEZ in Kalumbila aimed at promoting mining and non-mining linked manufacturing for both the Zambian and the Congolese markets would stimulate production, create jobs and improve Zambia's non-traditional exports.

7.3 Ministry of Small and Medium and Enterprise Development

The Committee was informed that Medium, Small and Medium Enterprises (MSMEs) continued to make significant contributions to employment and income generation for the majority of the people. MSMEs represented over 90 per cent of all businesses in the country and were the largest employer. The Committee learnt that the Ministerial Budget allocation for 2023 increased by 28 per cent. In order for the impact of the MSMEs to be enhanced, the Committee noted that there was need to address the various constraints such as lack of affordable financing; limited access to and/or irregular supply of energy; limited access to skilled human resource and new technologies; and limited access to business and market information, among others. To address some of the constraints, the Ministry would ensure that the targeted MSMEs across different sectors were empowered with financial capital using the Citizens Economic Empowerment (CEEC) and CDF, support to artisanal and small-scale miners would enable them access the necessary equipment and training leading to an increase in the participation of SMEs in the mining sector.

PART IV

8.0 STAKEHOLDERS'CONCERNS

Most of the stakeholders that appeared before the Expanded Planning and Budgeting welcomed the 2023 Budget. They described it as a progressive Budget as it set out a foundation for economic recovery. However, the stakeholders raised various concerns on the 2023 Budget, some of which are as summarised below. The Concerns are grouped into strategic development areas as reflected in the 8NDP and the Budget.

8.1 Economic Transformation and Job Creation

General Concerns

i. Low growth target

Stakeholders noted that the long term-development plan envisaged a higher rate of growth as the panacea for attaining most of the country's development goals. However, the 8NDP and the 2023 Budget had projected far much lower growth rates. With the down grading of the country to a low-income status from the lower middle-income status, they expressed fear that the growth rates may not be sufficient enough to propel the country to the levels needed to sustain middle income status.

ii. Job Creation Agenda

Despite many economic measures proposed in the Budget, some stakeholders argued that the Budget lacked a very strong resolve for a clear job creation agenda. It was proposed that the Government should develop a robust and specific job creation agenda which would provide the specific interventions needed to stimulate job creation.

a) Agriculture, Livestock and Fisheries Sector

i. Recruitment of Extension Officers

Stakeholders applauded the Government for the pronouncement to address the human resource deficit in the agriculture sector by committing to recruit 500 agriculture extension officers in addition to the recruitment of 256 extension staff pronounced in the 2022 Budget. However, stakeholders expressed concern that the existing ratio of officer to farmer which stood at 1 to 1,136 compromised support to farmers due to limited officers. They proposed that Government should make strides to meet the recommended ratio by the Food and Agriculture Organisation ratio of one extension officer to four hundred farmers (1 to 400).

ii. Reform of Farmer Input Support Programme

Stakeholders expressed concern that despite addressing the well known challenges under the Farmer Input Support Programme (FISP) such as poor targeting, wasteful expenditure and late delivery of inputs, the Government had increased allocation towards FISP from K5.4billion in 2022 to K9.1 billion in the 2023 Budget. It was proposed that the Government should clearly outline the proposed transition from FISP to Comprehensive Agriculture Support Programme (CASP), the graduation cycle for beneficiaries, and the complete benefits package of CASP. The Government must also clearly stipulate how it planned to address the bottlenecks associated with the e-voucher system before the implementation of the CASP commenced. For purposes of implementing, it was proposed that CASP should be piloted in few selected districts.

iii. Monitor progress on farm blocks

While the increase in budget allocation towards farm blocks was commendable, stakeholders proposed that the Government must take stock of the progress on the ongoing farm blocks and refocus its spending on a few pilot farm blocks. Other stakeholders were of the view that Government should put in place a policy that would ensure adequate local investor participation as well as small holder farmers' participation especially women and youths in the farming blocks beyond just providing labour.

iv. Limited access to Finance

Stakeholders noted that in addition to the FISP and irrigation constraint, the sector was also characterised by lack of access to affordable finance. They proposed that access to finance should be prioritised as well reforms that would promote technological adoption and change the agricultural practices.

b) Tourism Sector

While appreciating the numerous incentives given to the tourism sector in the 2023 Budget, the Committee regretted that Budget has provided insufficient measures to stimulate domestic tourism. With domestic tourism contributing about 46 per cent of total receipts in the sector in 2021, making it a viable alternative to foreign arrivals, they proposed that measures such as a two-tier pricing system to promote domestic tourism should be implemented to enhance domestic tourism.

c) Manufacturing Sector

Stakeholders noted that the country had over the years been providing fiscal as well as non-fiscal incentives to businesses in the MFEZs although monitoring and evaluation of their performance to inform future policy decisions when awarding incentives remained weak. They proposed that the Government must develop monitoring and evaluation mechanisms to evaluate the performance of various incentives given so that future incentives are evidence-informed and tied to performance.

d) Mining Sector

i. Continued tax concessions

Most stakeholders commended Government's for maintain consistency in policy and tax measures for the mining sector as it would bring stability in the mining industry with respect to future investment plans. This was critical for increasing mining exploration and investment, leading to mining expansion, in pursuit of the three million metric tonnes production of copper in the next nine years.

On the contrary, other stakeholders condemned the continued tax concessions granted to the mining sector with the hope of increasing investment. One thing to note was the underperformance of mineral royalty tax largely due to the fall in copper prices. Cognisant that performance of the mining sector was to some extent determined by external factors, it was proposed that future additional incentives should focus on value addition within the sector.

ii. Skills mismatch

Stakeholders expressed concern at the skills mismatch in the mining sector which had led to investors relying on expatriates. In the job creation agenda, they proposed that Government should be deliberate about skills transfer for the technical expertise to reduce the reliance on expatriates.

iii. Unresolved matters at Konkola and Mopani Copper Mines

Stakeholders expressed concern at the ongoing challenges at Konkola and Mopani Copper Mines. To stimulate production in view of the 3 million metric tonnes target to be attained in 10 years effective 2022, stakeholders proposed that the Government expedite the process of resolve, especially considering the legal constraints surrounding these cases.

iv. Informality of the small-scale mining subsector

Stakeholders expressed disappointment at the informality and lack of transparency around small-scale mining in different parts of the country. They argued that this was a likely major source of revenue leakage.

8.2 Human and Social Development

a) Social Protection

Stakeholders welcomed the increase in the number of beneficiaries under the Social Cash Transfer from 1,021,000 at the end of 2022 to 1,374,500 in 2023 as well as the Budget allocation beneficiaries. They, however, proposed that that the transfer value be further considered and increased considering the high cost of living and socioeconomic vulnerabilities of the target populations.

b) Education and Skills Development

i. Inadequate human resource and infrastructure

Despite the notable measures pronounced in the 2023 Budget, stakeholders noted that the education sector was still grappling with inadequate human resource, inadequate and poor infrastructure, high pupil/teacher ratio, especially in rural areas. With the free education school policy, stakeholders proposed that the Government should direct more investment in the sector in order to secure quality education.

With regard to the teacher recruitment in the 2023 national Budget, stakeholders recommended that the Government should prioritise recruiting more early child education teachers as these set a strong foundation for the learners.

ii. No allocation for construction of new student hostels

With regard to hostels, stakeholders expressed concern that the Budget did not provide for the construction of more hostels to improve student accommodation, as this posed a risk on the female students who were usually victims of sexual abuse. They proposed that the Government should prioritise student accommodation in addition to securing bursaries and meal allowance.

8.3 Good Governance

i. Constituency Development Fund

While the intent to gravitate more resources to the local communities was commendable, stakeholders noted that the basis for the increase in the 2022 was inexplicable especially given that for 2022, only 10 per cent of disbursed funds were utilised. They were of the view that the Government should have considered addressing all impediments to the successful rollout of CDF at the current K25.7 million per constituency before considering upsizing the allocation.

ii. Domestic Resource Mobilisation

Some stakeholders appreciated the strides to manage the fiscal gap, while other stakeholders found the fiscal deficit target of 7.7 per cent of GDP way above the 3 per cent Southern African Development Community target (SADC) convergence target. They proposed that to attain fiscal consolidation, Zambia must mind the fiscal gap, given the nations ambitions to significantly reduce its fiscal deficit in the medium term.

Further, while commending the Government for taking steps to harmonise the CIT rate structure, they were of the view that the piecemeal approach to tax reform could induce perverse incentives among other taxpayers, generate distortions, and contribute to higher tax avoidance. Therefore, it was proposed that the Government should harmonise the CIT rates on all sectors, as outlined in the MTBP.

iii. Economic Empowerment

Beyond empowerment initiatives through CDF and CEEC, stakeholders proposed that the Government should actualise the creation of Micro, Small Medium Enterprises Development Fund.

9.0 ENGAGEMENT WITH THE MINISTER OF FINANCE AND NATIONAL PLANNING

The Minister of Finance and National Planning appeared before the Expanded Planning and Budgeting Committee to clarify matters that had arisen from the interaction with other stakeholders. The Minister informed the Committee that the 2023 Budget was aimed at restoring macroeconomic stability that would support the country's growth prospects. He submitted that the 2023 Budget measures were aimed at creating a conducive business environment for private sector growth and participation, enhance trade and investment and create employment opportunities for the citizenry and economic agents, which would in turn grow the economy, create jobs and better the livelihoods of the people.

The Minister also apprised the Committee that the Government was committed to actualising the aspirations of the 8NDP through the 2023 Budget as well as the subsequent ones.
The Minister provided clarification on the following matters:

i. Shortage of drugs and other medical supplies in health facilities

The Minister acknowledged the prevailing shortage of drugs and medical supplies in most health facilities and described it as unfortunate. The Minister confirmed that the challenge of shortage of medicines was not due to lack of financial resources but rather as a result of procurement and supply chain factors. The Committee was informed that the *Zambia Medicines and Medical Supplies Agency Act, No. 9 of 2019* placed the responsibility to procure, store distribute medicines and medical supplies, and commodities on the Zambia Medicines and Medical Supplies Agency while the Ministry of Health was limited to needs assessment of the required commodities. The Minister assured the Committee that the Ministry of Health would be engaged on the matter so that the people of Zambia could be well served.

ii. Resolution of the impasse at Mopani and Konkola Copper Mines

The Committee was informed that the ongoing challenges at Konkola and Mopani Copers Mines had a negative impact on Governments target of increasing production of from the paltry 800, 000 metric tonnes to 3million metric tonnes in the next nine years. The Minister informed the Committee that the Government was committed resolving the impasse at the two giant mining companies as soon as possible. He further informed the Committee that the challenges at Konkola Copper mine were more complex, partly due to matters of liquidation. The Government hoped to resolve the challenges by end of 2023.

iii. Monthly adjustment of fuel prices

The Minister informed the Committee that Government opted for the monthly adjustments of fuel to safeguard economic activities especially in an event when the exchange rate was volatile. He explained that quarterly adjustments would more likely cause drastic changes to commodity prices and pose adverse effects on household income.

iv. Amendment of the *Constituency Development Fund Act No. 11 of 2018*

The Minister informed the Committee that the Ministry was alive to the challenges being faced by various beneficiaries of CDF. The Minister assured the Members that the Government would fast track the process to ensure that the *Constituency Development Fund Act No. 11 of 2018* was amended so as to have a seamless process in the utilisation of the CDF. He further informed the Members that the Government would consult widely on the matter and urged Parliamentarians to take an interest in the amendment process of the legislation.

v. Development of the railway sub sector

The Committee learnt that the Government was committed to ensuring that the railway sub sector was revamped to support transportation of copper and other exports to the ports of exit. The Minister admitted that the state of the roads infrastructure would not support transportation of targeted 3million metric tonnes of copper for the next 9 years. The Minister informed the Committee that the Government embarked on a joint initiative with other neighbouring countries in order to have a coordinated railway infrastructure system to facilitate trade.

vi. Tax relief on the Importation of Automated Tailor Machines

The Minister informed the Committee due to technology improvement most of the banks had closed a number of their branches across the country, and also in a bid to reduce operating expenses to remain competitive. Against this background, the Government resolved to incentivise the importation of automated teller machines to reduce the inconvenience caused by closure of some banks on individual and also advance financial inclusion. The Minister clarified to the Committee that the tax relief measure was not permanent and would only be applicable in the short to medium term

10.0 COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

After a detailed analysis of the 2023 Budget and consideration of submissions from the stakeholders, selected ministries and the Minister of Finance and National Planning, the Committee makes its observations and recommendations as set out hereunder.

i. Resolve the Challenges in the Mining Sector

The Committee observes that the collection of revenue from the mining sector is largely premised on increased mineral production, among other factors. The

Committee fears that the tax incentives offered to the mining sector may not culminate into increased growth of the sector if the challenges in Konkola and Mopani Copper mines remain unresolved for the greater part of 2023.

While noting the commitment by the Government to resolve the issues, the Committee urges the Government to expedite the processes aimed at resolving the matter, especially if the target of 3 million metric tonnes of copper production is to be achieved by 2032 and investment is to be unlocked.

ii. Fast Track Development using Constituency Development Fund

While commending the Government for recognising the various needs in many communities and the accompanying Budget commitment as demonstrated by the increase in CDF by K2.6 million to K4.4 billion in 2023, the Committee is of the view that increased Budget allocation without corresponding expenditure performance is a disservice to the Zambian Citizenry. The Committee is dismayed that administrative impediments have cost the Zambian people the much-needed development due to low absorption of CDF, albeit timely release or resources by the Government.

While appreciating that the amendment of the CDF legislation is underway as announced in the Budget address by the Minister and the assurance that resources will not be recalled at the end of the year, the Committee strongly urges the Government to provide oversight on the implementation of projects using CDF and ensure that the implementation process is expedited while achieving value for money.

iii. Enhance Transport Network for Export Transportation

The Committee observes that the current state of road infrastructure cannot be able to support transportation of the targeted 3 million metric tonnes of copper and other non-traditional exports for the estimated period. The Committee appreciates the response by the Minister when he appeared before the Committee that the Government is exploring joint initiatives with other neighbouring countries in order to facilitate movement of various exports to exit points.

In light of this, the Committee urges the Government to expedite the on-going conversations with neighbouring countries in the region with regard to revamping the railway network.

iv. Improve Delivery of Economic Empowerment Programmes

The Committee observes that the Government continues to allocate resources towards the Economic Empowerment Fund under the same mode and design while the impact of the empowerment programmes on women and youths remains unknown. The Committee believes that economic empowerment programmes, when efficiently implemented, are an important tool in broadening the realisation of rights for women and the youth.

In light of this, the Committee urges the Government to urgently evaluate administration of the Economic Empowerment Fund and its impact in order to ensure that the Fund contributes to reducing inequality, promotion of economic participation and improving household productivity, among others.

v. Amendment of the *Zambia Medicines and Medical Supplies Agency Act, No 9 of 2019*

The Committee observes with concern that in as much as the Ministry of Finance and National Planning has consistently funded the health sector, the shortage of drugs and other medical supplies is on the increase. The Committee further observes that the Ministry of Health is limited, to resolve the challenge, as the responsibility to procure drugs and medical supplies is a preserve of the Agency. The Committee observes that the challenges in the supply chain are emanating from among other things, lack of capacity by the Agency; and lack of harmonisation between the *Zambia Medicines and Medical Supplies Agency Act, No.9 of 2019* and the *Zambia Public Procurement Act, No 8 of 2020.*

In light of the above, the Committee recommends that as a matter of urgency, the *Zambia Medicines and Medical Supplies Agency Act of 2019* must be reviewed so as to resolve the prevailing bottlenecks in the supply chain of medicines and medical supplies.

vi. Offer Tax Concessions aimed at Value Addition

The Committee observes that while the copper output target of 3 million metric tonnes to be realised in ten years effective 2022, was clear, the Government has not provided a clear road map on how it intends to meet the set production target. The Committee further notes that most incentives are focussed on production without much consideration on value addition.

In light of this, the Committee urges the Government to undertake a comprehensive review to evaluate effectiveness of tax concessions offered in the mining sector so as to ascertain whether tax incentives indeed lead to increased investments and return. In order to increase returns from the sector, the Committee strongly recommends that the Government should strike a balance between concessions to stimulate production and mineral value addition.

vii. Safeguard Growth in Productive Sectors

The Committee applauds the Government for taking major steps towards supporting growth and addressing the debt challenge in the 2023 Budget. However, while all these measures may appear encouraging in the short to medium term, the Committee believes that building productive and export capacities in important economic sectors like agriculture, manufacturing, mining; along with increased foreign direct investments, and receipts from tourism will be key in achieving sustainable international reserves to cushion the economy against external shocks in the long term. Therefore, the Committee urges the Government to ensure that proposed allocations to the economic sectors such as agriculture and mining actualise growth.

viii. Reform in the Agriculture Sector

Cognisant of the policy shift from FISP to CASP, the Committee finds a misalignment between the policy pronouncement of the reform from FISP to CASP and the Budget commitment. This is in view of the fact that FISP and Food Reserve Agency have taken up about 80 per cent of the sector Budget while the extension services, irrigation and animal disease control, among others share the remaining 20 per cent.

In light of this, the Committee strongly recommends that the Government should ensure that policy aspirations are aligned to Budget allocations, if the desired outcome is to be achieved. The Committee further recommends that the Government should provide policy direction on the graduation process of farmers on FISP.

ix. Strictly Manage Debt Accumulation

While the domestic revenue target as a share of the total Budget has increased by 13 percent, the Committee notes that the fiscal deficit target which reflects Government commitment to reduce debt accumulation has increased to 7.7 per cent from 6.7 per cent in 2021. This state of affairs signals Governments intention to borrow more in the current financial year.

In order to achieve fiscal sustainability, the Committee strongly recommends that the Government should not lose focus on enhancing domestic resource mobilisation if the current debt situation is to be brought to sustainable levels. Further, the Committee reiterates that robust revenue mobilisation measures should be enhanced especially in the informal sector and among small scale miners.

x. Enhance Domestic Resource Mobilisation to Reduce the Fiscal Deficit

The Committee expresses dismay at the reduction of the non-tax revenue target as a share of the total Budget to 10 per cent from 12 per cent in the 2022, which indicates relaxation in revenue mobilisation efforts, which may have a ripple effect on the debt sustainability efforts.

In order for the country to successfully address the debt catastrophe that is prevailing in a sustainable way and meet the fiscal deficit target of 7.7 per cent of GDP, the Committee urges the Government to ensure that both tax and non-tax revenue measures should collectively be enhanced.

xi. Stimulate Domestic Tourism

The Committee notes that the 2023 Budget has not provided adequate measures to stimulate domestic tourism against the backdrop of domestic tourism contributing 46 percent of receipts in the tourism sector. The Committee expresses concern that the unpredictability of the international tourism market due to various factors such as that, as experienced during the COVID-19 pandemic period has adverse effects on the tourism sector and domestic resource mobilisation.

Therefore, the Committee urges the Government to be deliberate about providing measures that are directed at stimulating domestic tourism such as two-tier pricing, among others. This will increase demand from domestic tourism market, boost domestic revenue and create jobs. The Committee further urges the Government to expedite the roll out of single licensing initiative to the whole country in order to reduce the cost of business related to multiple licensing for all payers in the tourism sector.

xii. Tax Amnesty to be well Managed

While appreciating tax amnesty as a viable option for boosting revenue, the Committee regrets that the measure may necessitate expectations from the public and distort compliance levels by tax payers as they may opt to defer payment of tax in anticipation of the amnesty. Further, tax amnesty has the potential to discourage honest tax payers due to the relief given to tax evaders and other tax payers who have accumulated interests.

In view of the numerous tax concessions that the 2023 Budget has granted that will likely lead to revenue loss, the Committee urges the Government to continuously assess the extent of the impact of tax amnesty on revenue and increase enforcement to intensify tax compliance.

xiii. Absence of Key Strategic Framework in the Education Sector

Despite the education sector receiving an increased share of the total Budget from 10.4 per cent to 13.9 per cent, the Committee observes with concern that the Ministry of Education has no updated strategic plan following the expiration of the 2003 to 2007 Strategic Plan as well as the Education and Skills Sector Plan (2017 to 2021). The Committee further notes that the National Policy on Education of 1996 is outdated and does not adequately address the needs of the sector due to changing dynamics.

While noting that the National Implementation Framework and the Master Plan are in place, the Committee urges the Ministry to undertake a holistic approach and develop a strategic plan anchored on the 8NDP in line with section 26(1) of the *National Planning and Budgeting Act, No.1 of 2020* as opposed to piece-meal approach.

11.0 Conclusion

The Committee observes that the 2023 Budget has set a strong foundation for economic growth, increasing job creation and stabilising the macroeconomic framework. This has been demonstrated by the increased allocation and provision of incentive to key economic drivers. The Committee remains optimistic that the debt sustainability measures pronounced in the Budget will influence macroeconomic stability, significantly contribute to growth, transform socio-economic development landscape, as demonstrated by the significant increase towards the social sector spending and social protection.

It is the expectation of the Committee that the observations and recommendation contained in its Report will receive favourable consideration from the Government in order to achieve the set targets for the 2023 financial year.

Mr Fred C Chaatila, MP
CHAIRPERSON

October, 2022
LUSAKA

APPENDIX I – List of Witnesses

Ministry of Finance and National Planning
Ministry of Mines and Minerals Development
Ministry of Education
Ministry of Commerce, Trade and Labour Matters
Ministry of Small and Medium Enterprise
Ministry of Local Government and Rural Development
Ministry of Health
Zambia Revenue Authority
Zambia Institute of Chartered Accountant
Bank of Zambia
Zambia Institute for Policy Analysis and Research
Policy Monitoring and Research Centre
Zambia Council for Social Development
Civil Society Organisations Scaling Up Nutrition
Engineering Institute of Zambia
Zambia Association of Manufacturers
Non-Governmental Gender Organisations' Coordination Council
University of Zambia
Centre for Trade Policy and Development
WaterAid Zambia
NGO Wash Forum
Jesuit Centre for Theological Reflection
Civil Society and Poverty Reduction
Zambia Congress for Trade Union
ActionAid Zambia
Zambia Federation of Employers
Oxfam
Zambia Statistics Agency
Economic Association of Zambia
Zambia Council for Social Development
Zambia Climate Change Network
First Quantum Mine
Mopani Copper Mines
Chamber of Mines
Zambia Chamber of Commerce and Industry
Zambia Civic Education Association
Local Government Association of Zambia
Zambia National Education Coalition
Crushers and Edible Oil Refiners Association/Member of the Public
Zambia Union of Nurses Organisation

APPENDIX II – List of National Assembly Officials

Mr Charles Haambote, Principal Clerk of Committees (FC)
Mrs Doreen N C Mukwanka, Deputy Principal Clerk of Committees (FC)
Mr Charles Chishimba, Senior Committee Clerk (FC)
Mr Elijah I C Chilimboyi, Committee Clerk
Mrs Edna k Zgambo, Budget Analyst
Ms Luyando N Chilala, Administrative Assistant
Mr Daniel Lupiya, Committee Assistant