



ANALYSIS OF THE 2023 NATIONAL BUDGET

October 2022



**REINFORCING THE FOUNDATION FOR INCLUSIVE
GROWTH AND DEVELOPMENT**

Reader's Digest

Zambia's 2023 National Budget, presented on 30th September 2022, marks the end of the first budget of the New Dawn Government and therefore presents an opportunity to test the success of the Government's policy agenda in realising its mandate and advancing the welfare of the Zambian people.

Armed with a more stable macroeconomic environment and an expanded fiscal space, made possible by the recently-clinched IMF Extended Credit Facility (ECF) worth US\$1.3 billion, the 2023 National Budget navigates a delicate balance between stimulating economic growth and ensuring fiscal sustainability, while cushioning the vulnerable groups from the austerity measures.

Key takeaways from our analysis of the 2023 budget and accompanying commentary are highlighted below:

A good governance environment is essential for achieving macroeconomic stability and restoring fiscal and debt sustainability. Accordingly, the 2023 Budget highlights various governance pronouncements centering on prudent expenditure practices, including curtailing the accumulation of arrears, streamlining inefficient subsidy programmes, and improving public procurement systems. Other notable moves with efficiency implications include the removal of tax waivers on petroleum products and reforming the Farmer Input Subsidy Programme (FISP).

Resource scarcity calls for efficient use of resources. In 2022, the Government gave the Constituency Development Fund (CDF), a critical tool for decentralization, a significant boost by increasing it by 1500 percent, from ZMW 1.6 million per constituency to ZMW 25.7 million - a move ZIPAR acclaimed. However, the proposal to increase CDF allocation by 10 percent from ZMW25.7 million to ZMW28.3 million per constituency in 2023 amidst unresolved implementation challenges is worrying, given Zambia's tight fiscal space. We urge the Government to accelerate the review of relevant frameworks such as the CDF Act No. 11 of 2018 and the CDF guidelines to address the implementation bottlenecks.

The 2023 Budget takes a more austere stance compared to 2022. To narrow the fiscal deficit from the projected 9.8 percent of GDP in 2022 to 7.7 percent in 2023 and attain fiscal and debt sustainability, the Government has taken a contractionary fiscal stance. In 2023, the Government proposes to decrease its expenditure by 3.2 percent from ZMW172.9 billion in 2022 to ZMW167.3 billion in 2023, in nominal terms. Expressed as a share of GDP, the 2023 National Budget has decreased from 37.1 percent in 2022 to 31.4 percent in 2023. The reduction in expenditure is attributed to a fall in debt-servicing costs facilitated by the IMF programme. Government must take advantage of the windfalls from the IMF program by increasing investments in key growth sectors.

Tax concessions to the mining sector cost Zambia in forgone revenues. Despite limited evidence on the effectiveness of fiscal incentives in boosting mining investments, the 2023 Budget has proposed additional tax incentives for the sector. ZIPAR urges the Government to reconsider these incentives and stabilise the mining fiscal regime.

The Government is committed to stimulating economic growth. The allocations to economic affairs have marginally increased by 3.9 percent, to ZMW35.0 billion in the 2023 budget from ZMW33.7 billion in 2022, in line with Government's resolved economic recovery plan. Policy consistency in key growth sectors such as mining will be crucial to economic recovery.

Attainment of the 4 percent projected growth in 2023 will require effective implementation of proposed measures in the real sector. The 2023 National Budget includes measures and incentives to boost productivity in agriculture, mining, tourism, manufacturing, infrastructure, and energy sectors. However, the delay in resolving operational challenges in the mining sector, Zambia's major foreign exchange earner, could dampen the growth prospects. Therefore, the Government must expedite the resolution process to further curb economic and revenue losses from the mining sector.

Increased allocations to social and economic sectors such as agriculture indicate expanded fiscal room made possible by the recently secured IMF bailout package. Despite the budget cut, the share of social sector spending in the total budget has increased to 30.5 percent in 2023 from 23.5 percent in 2022. This is partly due to the IMF package extending Zambia's fiscal lifeline. Additionally, the increased investment in the social sectors is in line with the Government's recognition of the critical role human capital plays in economic development and its need to cushion its most vulnerable citizens from the possible adverse ramifications of fiscal adjustments.

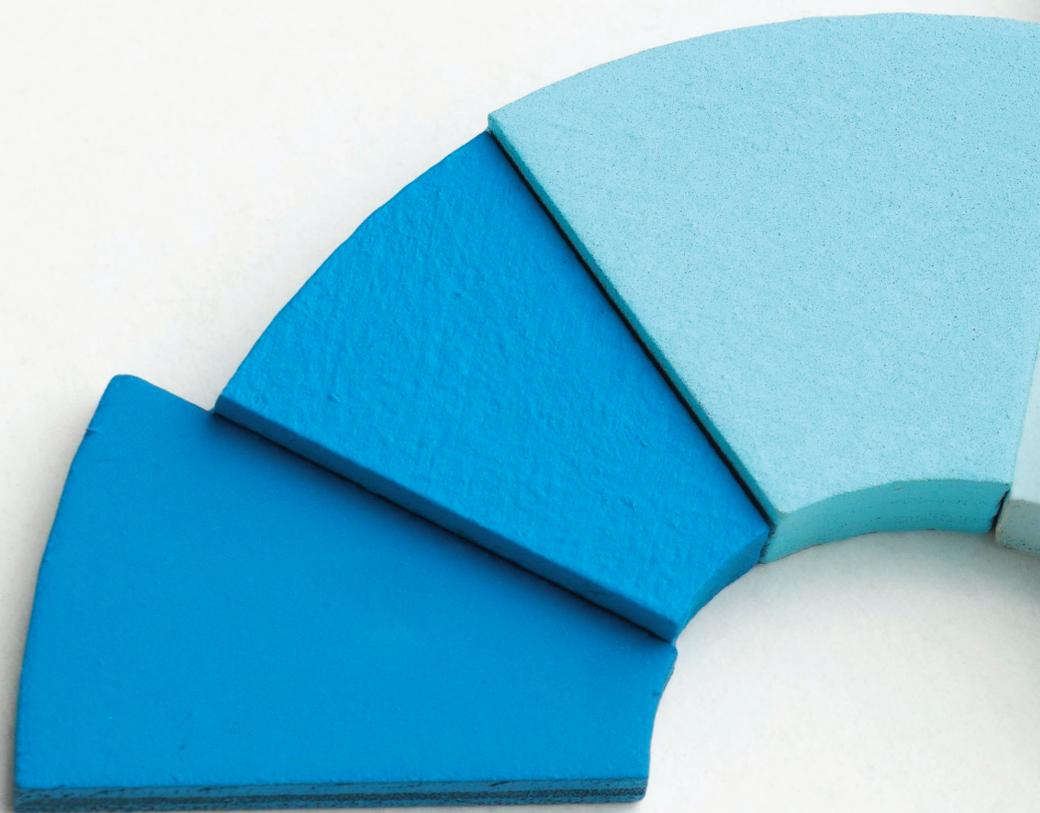
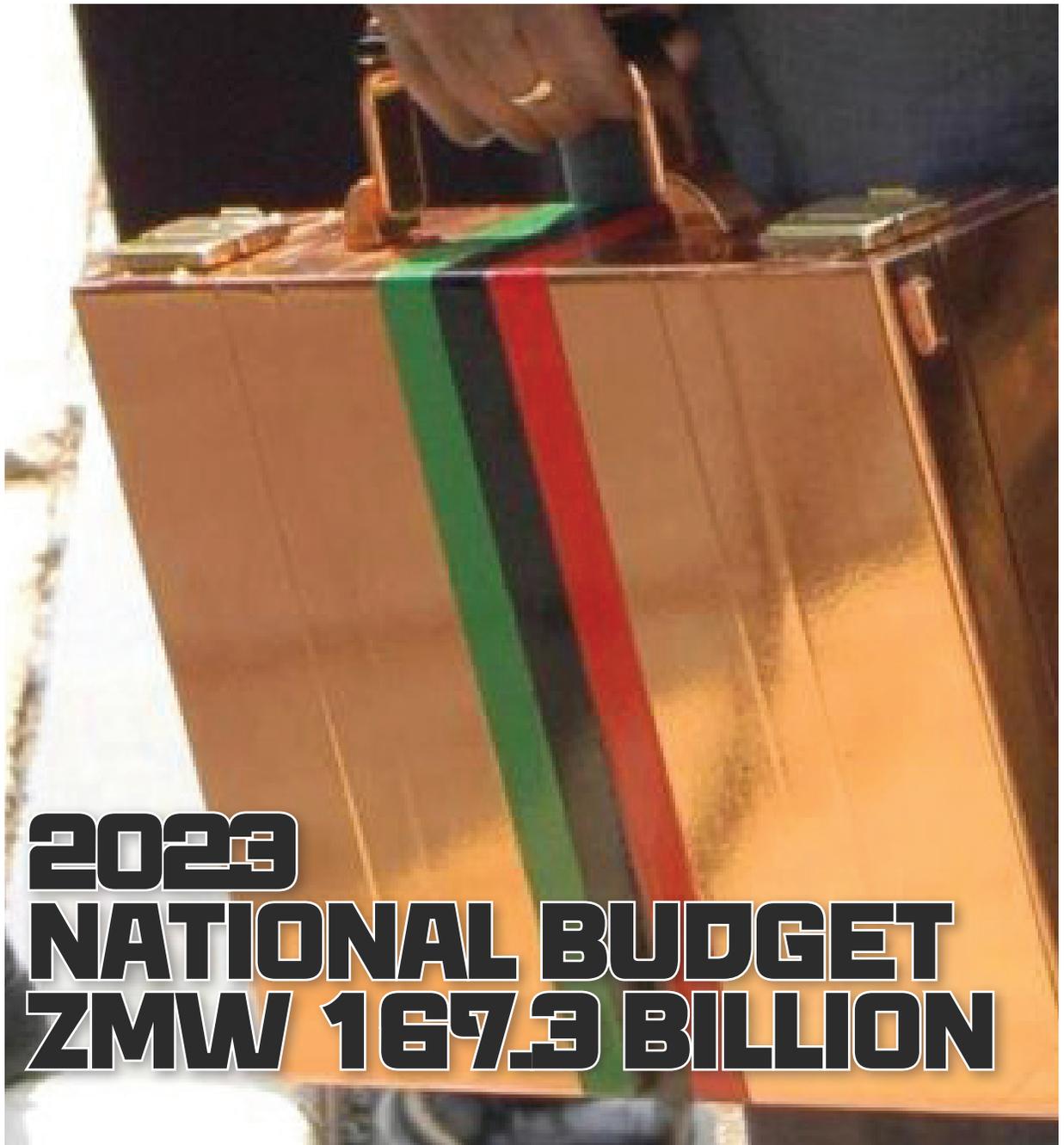


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2023 NATIONAL BUDGET ZMW 167.3 BILLION

1 Introduction

On 30th September 2022, the Minister of Finance and National Planning, Honourable Dr. Situmbeko Musokotwane, unveiled the highly anticipated 2023 National Budget. The National Budget themed “Stimulating Economic Growth for Improved Livelihoods” is largely consistent with the 2023-2025 Medium Term Budget Plan (MTBP), which links the 2023 National Budget with the Eighth National Development Plan (8NDP). Nevertheless, the Minister announced a **budget of ZMW167.3 billion, which is 3 percent (ZMW5.7 billion) lower than the previous budget of ZMW173.0 billion, signalling the Government’s commitment to fiscal consolidation by reining-in spending and restructuring the debt.** The 2023 Budget also takes concrete steps to narrow the fiscal deficit from 9.8 percent of GDP to 7.7 percent in 2023 a significant move to narrow the deficit is the removal of tax waivers on petroleum products, resulting in upward fuel price revisions.

The Budget was formulated on the back of a year of clear resolve to restore fiscal prudence and macroeconomic stability, having accessed the 38-month US\$1.3 billion International Monetary Fund (IMF) bailout package which anchors the country's debt restructuring efforts. Further, the Budget was formulated amidst public concerns over the increasing cost of living and high unemployment levels.

In some sections of the population, the IMF deal raised anxiety about re-experiencing the misery of the 1990s IMF structural adjustment programmes. However, the 2023 Budget eases that anxiety by significantly increasing allocations to the social sectors to lessen the economic pressures of the various economic reforms pronounced. In sustaining the agenda of bringing development closer to the people, the Government proposes to increase the Constituency Development Fund (CDF) by 10 percent, from ZMW25.7million in 2022 to ZMW 28.3 million in 2023 per constituency, amidst concerns of meagre absorption rates on the released funds in 2022.

The 2023 Budget is centered on growing the economy. In that sense, the Budget sustains the highly contestable fiscal incentives extended to the mining sector and expands subsidies to the agricultural sector. There are a few other generous incentives and policy pronouncements to promote the other economic sectors; with the agriculture and tourism sectors taking pre-eminence.

What is certain is, the 2023 Budget builds on the bases of the 2022 Budget. It is also important to note that the areas of caution that applied to the 2022 Budget are still compelling for the 2023 Budget. To strengthen the governance framework, the Budget emphasizes reining-in on unproductive spending, plugging financial leakages, and strengthening debt management. The Budget bears many forward-looking measures which, if not well supported by key governance and fiscal reforms and approached with caution, can lead to an adverse impact on strategic outcomes of the 8NDP.

This report analyses some of the pronouncements of the 2023 National Budget. It provides insights on key areas where the Government needs to take heed, and their impact on the economy. Under the theme: 'Reinforcing the Foundation for Inclusive Growth and Development', this paper analyses the pronouncements on strengthening governance systems first, followed by the macroeconomic objectives, and then fiscal measures. The paper then considers how the Budget is positioned to promote the growth sectors and then the social sectors. The paper also analyses how the Budget addresses environmental sustainability, and then makes critical suggestions for future improvements, caution for effective budget execution, and for navigating and avoiding the moral hazards of populism in the ambition to decentralise and take development closer to the people. Finally, the paper wraps up with a conclusion.

2 Stimulating Growth Through Good Governance

2.1 When it Comes to Prudent Fiscal Management, Sound Governance Systems Are Critical

The Government recognises that it can only finance its bold agenda of “stimulating growth for improved livelihoods” by strengthening the policy and governance environment, as well as promoting adherence to the rule of law, in accordance with the objectives of the 2023-2025 MTBP. Years of uncontrolled expenditure and debt accumulation have severely strained the Government’s ability to finance its development goals, as exemplified in the deterioration in socioeconomic, fiscal, and macroeconomic indicators highlighted in other sections of this report. As such, the Government has committed to improving its fiscal position by narrowing the financing gap from the projected 9.8 percent of GDP in 2022, to 7.7 percent in 2023, pursuant to its medium-term objective of reducing the deficit to the 8NDP target of 3.6 percent by 2026. To achieve this, the 2023 Budget promises several much-needed reforms for stemming leakages in the revenue collection systems, embracing transparency, accountability, and efficiency in public spending, as well as improving the Government’s ability to manage debt. These reforms are further elaborated as follows:

- i. **Plugging Government Revenue Leakages** – Zambia continues to face challenges in domestic revenue mobilization as seen in the huge revenue losses the country has suffered from tax evasion, corruption, fraud, money laundering, illegal mining activities and other forms of Illicit Financial Flows (IFFs). For instance, the Financial Intelligence Centre’s (FIC) 2021 Trends Report reveals that IFFs increased from the tune of ZMW3.7 billion in 2020 to ZMW4.4 billion in 2021, with tax evasion recording the largest increase of 48.4 percent.

To minimise these and other leakages in revenue, the 2023 National Budget proposes reforms to strengthen tax compliance and administrative capabilities by expanding the use of Electronic Fiscal Devices; interfacing ZRA’s Tax Online System with the Integrated Financial Management Information System (IFMIS) and Land Management System; accelerating the linking of border authorities to the Electronic Single Window; and implementing electronic tracking of cargo, among others. Plans to introduce an additional 100 services on the Government’s Service Bus Platform is commendable, as it will improve service delivery and the efficiency of non-tax revenue collection.

For the most part, these initiatives hold a lot of promise for improving compliance and reducing administration costs, although, the true measure of success will be in how quickly they can be implemented. Further, while the Government has made strides in introducing a range of informal sector taxes, including the presumptive tax for artisanal and small-scale mining planned for introduction in 2023, the 2023 Budget largely lacks specific measures to improve tax compliance in the sector.

- ii. **Reining in Unproductive Spending** – Beyond optimising revenue collections, fiscal policy should aim to rationalise public spending and limit wasteful expenditure. Here, the Government plans to develop a 4-year Public Financial Management (PFM) Strategy, no-

doubt to operationalise the implementation of the PFM Act. Since effecting the PFM Act in 2018, the Government has made little progress in curbing abuse of public resources, as evidenced by the continuing incidences of unproductive spending, including recently, when over ZMW700 million was lost in salaries to “ghost workers.” The Government’s plans to introduce work flows on the Payroll Management and Establishment Control System and to decentralise management of the payroll to respective controlling officers should be applauded, as it stands to strengthen internal controls in the management of payroll and thus allay public concerns.

The move to further review and amend the Public Procurement Act is also forward-looking as it will complement the PFM strategy in efforts to manage public finances. However, the Government needs to put in place measures to strengthen the institutions responsible for managing public finances and ensure that all the key legislations for PFM are adhered to. The PFM strategy is also critical to improving IFMIS, a tool the Government views necessary for curtailing the accumulation of arrears and achieving its medium-term objective of dismantling arrears set out in the MTBP. However, this will only be successful if ministries are compelled to promptly register their purchase orders and other financial commitments in IFMIS.

- iii. Curtailing Debt Accumulation** – On debt, the Government reiterates its commitment to prudent debt management amidst debt-restructuring negotiations. The enactment of the Public Debt Management (PDM) Act No. 15 of 2022 which provides for the establishment of a sinking fund and Debt Management Office, in addition to repealing the Loans and Guarantees (Authorisation) Act and the General Loan and Stock Act, augur well for managing debt. The Act promises to strengthen public debt management and enhance transparency and accountability and more importantly Parliament’s oversight on public debt contraction, among other things. The PDM Act mandatorily requires that all borrowings by the Central Government and external borrowing by public bodies be approved by Parliament through an annual borrowing plan. This laudable. The Government should take caution to ensure the PDM Act does not fall prey to poor implementation that characterises most legislative reforms. Moreover, the strengthening of other legislative reforms including the Public Financial Management (PFM) Act, the Public Procurement (PP) Act and the Public-Private Partnership (PPP) Act are critical to further putting a lid on incessant debt accumulation.

2.2 CDF remains Government’s Biggest Decentralisation Initiative Yet...

The massive increase in the allocation to CDF in the 2022 National Budget remains one of the most striking decentralisation reforms in recent times. The Government should be commended for attaching continued importance to CDF even in the 2023 National Budget. Decentralisation is a critical component of the Government’s plan to bring development to the people, as laid out in its 2023-2025 MTBP. The allocation of ZMW1.3 billion to the Local Government Equalisation Fund (LGEF), albeit similar to the 2022 allocation, is also evidence of the Government’s commitment to bringing development closer to the people, given that the LGEF supports the functioning of local authorities, which are critical to the success of CDF.

In our analysis of the 2022 National Budget, we urged caution in implementing CDF to allow policy review and strengthening regulatory institutions. Although so far, the central government has released ZMW3 billion, representing 75 percent of the 2022 allocation, the absorption rates are remarkably low, estimated at less than 10 percent of the released amounts. The underutilisation can be attributed to several factors, notably the limited capacity of community members to develop acceptable proposals, lengthy screening and appraisal processes, and highly centralised approval processes, among other things. In light of this, ZIPAR urges the Government to unblock bottlenecks in the implementation and administration of CDF before effecting further increases.

3 Macroeconomic Fundamentals

3.1 Towards Economic Stability and Eventual Growth

Zambia's economy is regaining momentum after undergoing a period of severely weak macroeconomic fundamentals, manifesting in high inflation, depressed output, high fiscal deficits, unsustainable debt levels, and unstable and weakening Kwacha. Having clinched the US\$1.3 billion IMF ECF in August 2022, Zambia is well-positioned to attain its projected growth of 4 percent. The growth will be anchored on increased productivity and production¹ in the mining, agriculture, tourism, energy and manufacturing sectors with an export-oriented agenda as articulated in the 8NDP and the MTBP.

The IMF programme provides additional benefits including technical support, expanded fiscal room and enhanced credibility on the international stage, all of which are crucial for safeguarding macroeconomic stability, and achieving sustainable economic growth. The programme will also anchor the country's debt restructuring programme, freeing up resources for both social and economic spending.

Nonetheless, key risks to the macroeconomic stability outlook continue lurking. Volatility in copper prices and production, climate shocks, spillovers from the war in Ukraine, delayed debt restructuring, obstructed implementation of policy reforms and global economic contraction, will pose precarious economic headwinds. In this regard, economic reforms, policy consistency and debt restructuring processes must be expedited if the country is to attain the projected growth rates.

3.2 Price Stability Key in Economic Stabilization

Following a prolonged inflationary regime, Zambia's inflation dropped to a single digit of 9.9 percent in September 2022 from over 23 percent in 2021. The general decline in inflation was mainly attributed to the reduced deficit financing, reduced debt contraction, favourable performance of the exchange rate and improved supply of some food items.

Inflation is projected to remain on a downward trajectory and towards the targeted bound of 6-8 percent in 2023. The downward projection in inflation is underpinned by recent monetary

1. 2023 Budget Speech.

restraint by the Bank of Zambia, stable exchange rate, sustained implementation of fiscal consolidation and structural reform measures backed by the secured IMF ECF. Constrained food supply has been one of main drivers of inflation in Zambia, hence, securing food security by promoting growth in agriculture will be crucial for keeping inflation within the 6–8 percent band and maintaining price stability. Other upside inflationary risks include the removal of implicit fuel subsidies, persistently rising global commodity prices, ongoing global monetary tightening exacerbated by the Ukraine–Russia conflict, failure to achieve growth targets and short supply of the staple grain in neighbouring countries.

3.3 Minding the Fiscal Deficit Gaps

The 2023 National Budget will focus on “Stimulating Economic Growth for Improved Livelihoods”. But this will require sturdiness in staying the course of fiscal fitness. This includes strengthening PFM systems, sealing revenue leakages, curtailing wasteful spending, containing debt contraction, and enhancing domestic revenue mobilisation.

The 2023 Budget projects a fiscal deficit of 7.7 percent of GDP, from the projected 9.8 percent in 2022. In order to bridge this financing gap, the Government proposes to contract net domestic debt of ZMW15.6 billion and external debt of US\$1.4 billion.² The 2023 borrowing plans indicate that the loans to be contracted will be earmarked largely to finance investments in agriculture so as to ensure food security, tourism development, capital investment grants to Local Authorities and social protection programmes. Furthermore, the loans are also planned to finance investments in the energy and water supply and sanitation sectors as well as for general budget support. To attain debt sustainability, the Government has committed to concessionary borrowing, mainly from the World Bank Group and the African Development Bank. The low-cost financing sources, and the earmarked sectors for financing are both commendable.

However, to attain fiscal consolidation, Zambia must mind the fiscal gaps, as a fiscal deficit target of 7.7 percent of GDP is way above the 3 percent SADC convergence target, and remains worrisome, given the nations ambitions to significantly reduce its fiscal deficit in the medium term. It is well documented that the rise in the stock of Zambia’s debt and inflationary spirals are partly attributed to the persistent widening fiscal deficits in the previous decade. Going forward, there’s need to strengthen fiscal consolidation measures through fiscal prudence and enhanced domestic revenue mobilisation. Narrowing fiscal deficits will be an important signal of the Government’s commitment to fiscal and debt sustainability, crucial for successful implementation of both the 8NDP and the IMF-supported economic recovery programme. Further, reductions in borrowing, especially domestic borrowing, will ease pressure on the domestic financial markets, creating an enabling climate private sector, a necessary pre-condition in bringing a turnaround to the Zambian economy.

3.4 Pilling Up the Reserves

The 2023 Budget aspires to maintain gross international reserves (GIR) of above 3 months of import 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. The increase in GIR, was as a result of the SDRs equivalent to US\$1.33 billion from the IMF received in 2021.

2. BoZ Monetary Policy Statement August 2022

The 2023 Budget is consistent with the medium-term target of achieving above 3 months of import cover, a positive and realistic target. In the past, the persistent pressure on Zambia's gross international reserve position was largely on account of external debt service payments, compounded by volatilities in the Balance of Payments (BOP). However, with a reduction in external debt service payments, coupled with the U.S. dollar-denominated tax obligations from the mining companies and favourable copper prices, international reserves have gone up.

While all these may appear encouraging in the short to medium term, building productive and export capacities in important economic sectors like agriculture, manufacturing, mining, along with increased foreign direct investments, and receipts from international visitors/tourists, will be key in achieving sustainable international reserves to cushion the economy against external shocks in the long term. Therefore, the Government needs to actualise the proposed allocations to the consequential growth sectors such as agriculture and mining.

4 Fiscal Concessions Amidst Debt Restructuring

4.1 Scaling Back Tax Concessions to Promote Fiscal Sustainability

The 2023 Budget projects that total domestic revenue will increase by 12.8 percent, from ZMW98.9 billion in the 2022 Budget to ZMW111.6 billion in 2023 in nominal terms. However, as a percentage of GDP, total domestic revenues are projected to decrease to 20.9 percent of GDP in 2023 from the 21.2 percent projected in the 2022 Budget, suggesting a slack in revenue mobilization efforts. The projected target of 20.9 percent of GDP is below the MTBP target of 22.0 percent of GDP, posing a threat to the attainment of fiscal sustainability.

The increase in revenue is largely hinged on increased Company Income Tax (CIT) collections which are proposed to increase by 29.3 percent in 2023, from the ZMW16.3 billion projected in 2022. The increase in CIT collections is based on the higher collections from the mining and non-mining firms through increased compliance. However, some risks seem to loom on the horizon on CIT collections, mainly from mining, due to the continued fall and fluctuations in copper prices on the international market.

Although Pay-As-You-Earn (PAYE) has seen significant reforms, including a rise in the exempt threshold and adjustments in tax rates and bands, collections are projected to increase by 12.2 percent from ZMW17.2 billion in 2022 to ZMW19.3 billion in 2023. This increase is mainly on account of increased enforcement of compliance measures and the recent recruitments in the agriculture, health, and education sectors.

A closer look at Value Added Tax (VAT), shows an increase in collections by 27.5 percent to ZMW29.2 billion in 2023 from the K22.9 billion in the 2022 Budget. The significant increase is premised on the standard rating of VAT on the supply of petrol and diesel. The roll out of Electronic Fiscal Devices (EFDs) is also proposed to improve VAT compliance.

Unlike the 2022 Budget where tax concessions resulted in a net reduction of 5.9 percent in tax revenues, the cocktail of fiscal measures in the 2023 Budget are likely to yield a net gain of 5.2 percent (ZMW4.9 billion) in total revenues.

Notable fiscal reforms include adjustments to the PAYE rate structure, changes in the mineral royalty regime, simplification of CIT in the ICT sector and the surprise reduction in the withholding taxes on gaming and betting.

Adjustment to the PAYE Rate Structure

The 2023 Budget has proposed to increase the Pay-As-You-Earn (PAYE) exempt threshold from ZMW4,500 to ZMW4,800 and raise the top taxable band to ZMW8,900 from ZMW6,900. Further, the marginal tax rate for the second band has reduced from 25 percent to 20 percent. The PAYE reforms aims to provide relief to taxpayers. While this move is commendable, it shows that the income tax payments are reliant on a small group of taxpayers, who are in the higher tax bands of PAYE. Therefore, we urge the Government to overhaul the PAYE structure and tax system to make it more equitable.

Changes in the Mineral Royalty Regime

The estimation of mineral royalty is based on gross value or norm value of the minerals. The gross value is applicable on industrial minerals, energy minerals and gemstones, while norm values are applicable on base metals (including copper) and precious metals. Until 2022, Zambia applies a sliding-scale mineral royalty regime for copper on an aggregate basis. However, applying the variable rate for copper on an aggregate basis increases the distortive impact and adds significant uncertainty to taxpayers. This means that a minor change in the price of the commodity price, say US\$1 change from US\$7,499 to US\$7,500 would consequently lead to an increase in the effective tax rate from 7.5 percent to 8.5 percent based on the current royalty regime. In order to minimise the distortion in the effective tax rate, the 2023 Budget has proposed to restructure the mineral royalty regime with respect to copper, as the tax will now apply on the incremental value of each adjusted price band.

Simplification of CIT in the ICT Sector

The 2023 Budget has proposed to abolish the two-tier taxation system in the telecommunication subsector, which provided for 30 percent tax on profit of up to ZMW250,000 and 40 percent on profit above ZMW250,000 and replace it with a single tax rate of 35 percent. While we commend the Government for taking steps to harmonise the CIT rate structure, the piecemeal approach to tax reform could induce perverse incentives among other taxpayers. Therefore, ZIPAR urges the Government to harmonise the CIT rates on all sectors, as outlined in the MTBP. The multiple CIT rates generate distortions, and contribute to higher tax avoidance.

Reduction in Withholding Taxes on Gaming and Betting

Although the gaming and betting sector is relatively young and only makes a marginal contribution to overall tax revenues and employment, the sector has experienced exponential growth over the last 10 years. For example, between 2014 and 2020, the gross winnings grew by over 248 percent and employment increased from less than 100 to over 3,000 employees as at the end of 2020. Despite the phenomenal growth, the sector is beset by significant challenges

including a weak and fragmented regulatory framework which may be ineffective in monitoring the tax and regulatory compliance in the sector. The 2023 National Budget pronouncement to strengthen the regulatory environment for the sector is therefore highly commendable given the need to properly monitor and ensure tax and regulatory compliance in the sector.

However, the proposed reduction in withholding tax on winnings from 20 percent to 15 percent and proposed reduction in presumptive tax from 25 percent to 15 percent for land-based betting companies was unexpected. World over, gaming and betting is usually taxed at relatively high rates to manage the risk of addiction and discourage entry of young underage punters into the sector. Secondly, gaming and betting is also a relatively tax inelastic sector, and so Government should have used the opportunity to raise rather than reduce potential revenue collections from the sector. Thirdly, the reduction in the tax rates jeopardises Government's effort of achieving its own outlined revenue targets prescribed in the MTBP.

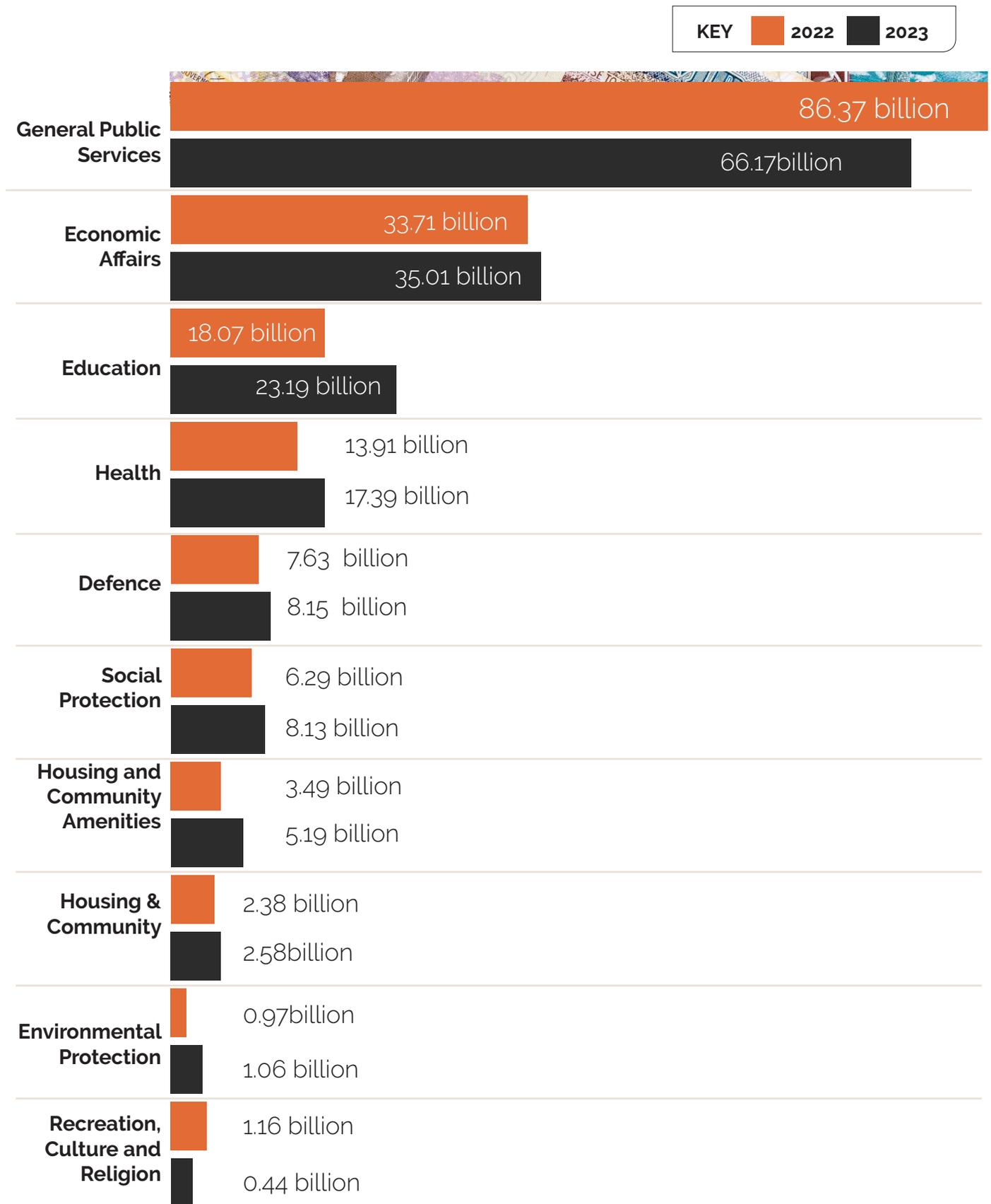
5 Shifting Resources to the People

While the 2023 Budget seems slightly contractionary at face value, it includes bold and calculated social spending positions. The 2023 Budget has allocated ZMW167.3 to finance Central Government operations. In nominal terms, the Budget has decreased from ZMW172.9 billion in 2022 to ZMW167.3 billion in 2023 representing a -3.2 percent change (Figure 1). In terms of GDP, the Budget has decreased from 37.1 percent of GDP in 2022 to 31.4 percent of GDP.

Spending by Function of
Government, 2022 – 2023
(ZMW Billion)

On next page

Figure 1: Proposed Spending by Function of Government, 2022 – 2023 (ZMW Billion)



Source: Annual Budget Speeches

The major departure in terms of expenditure is the reduction in general public services which has reduced from ZMW86.4 billion in 2022 to ZMW66.2 billion in 2022 translating to a 23 percent reduction. Under general public services, the allocation to debt service (domestic and external) declined from ZMW78.7 billion in 2022 to ZMW48.8 billion in 2023. The decline is on account of the US\$750 million Eurobond payment which was due on 20th September, 2022, and was included in the 2022 Budget. However, the 2023 Budget only takes into account scheduled debt service costs for 2023 and not arrears on debt service costs, thereby assuming the Eurobond bullet payment has been settled.

Zeroing on economic affairs shows an increase from ZMW7.6 billion in 2022 to ZMW8.1 billion in 2023. Notable increases include the FISP (ZMW9.2 billion) which has rose substantially by 70.4 percent from the 2022 approved figure of ZMW5.3 billion. The increase is meant to accommodate the physical delivery of inputs. Shockingly, the significant increase in the FISP does not conform to the Government's commitment of rationalising wasteful expenditures and doing away with subsidies.

Allocations to the health and education sector have increased in the 2023 Budget from ZMW13.9 billion to ZMW17.4 billion and ZMW18.1 billion to ZMW23.2 billion respectively. The significant increase in both sectors is as a result of the recent recruitments which have significantly increased the wage bill. Further, the allocation to drugs and medical supplies have increased by 35.3 percent in 2023.

6 Looking For Growth in The Right Places

6.1 Stimulating Growth in the Agriculture Sector: A Closer Look

The pronouncements of the 2023 Budget make critical linkages with the 8NDP strategy "to improve agriculture production and productivity" under the "Industrialized and Diversified Economy" development outcome of "Economic Transformation and Job Creation" strategic development area. The Budget links with the 8NDP and shows strong commitment to successfully implementing measures such as enhanced farmer support, farm block development, irrigation development and extension services support. These measures are expected to uphold the 8NDP agricultural sector target of 10 percent annual growth rate from an average 0.4 percent attained during the 7NDP.³

By increasing allocations to the agriculture sector, the 2023 National Budget reaffirms the Government's recognition of the importance of agriculture in stimulating the country's economic growth for improved livelihoods. Not only does the sector provide food, foreign exchange, and raw materials, it is also the main source of livelihood for 70 percent of Zambia's population.⁴ However, attempts by successive governments to boost agriculture productivity have not yielded significant GDP gains. For instance, the contribution of agriculture to real GDP growth averaged a meagre 0.1 percent between 2017 and 2021.

To this effect, the Budget proposes to spend ZMW11.2 billion (6.7 percent of the Budget) on Agriculture in the 2023 budget. While this is an improvement compared to the 2022 allocation of 3.7 percent of the Budget, the overall expenditure on agriculture still falls short of the Maputo Declaration of at least 10 percent of the national budget. Nevertheless, the increased allocations to the agriculture sector are in line with the Government's economic objectives, espoused in the 8NDP of boosting agriculture productivity and its contribution to GDP.

3. BoZ Monetary Policy Statement August, 2022

4. 2023 Annual Borrowing Plans (MoFNP GRZ)

Further, the 2023 Budget discloses intentions to address human resource deficits by allocating ZMW52.7 million for the recruitment of 500 agriculture extension officers. This is a continuation of the 2022 recruitment drive involving 256 extension staff. This is commendable as farmers will have more access to extension services. Beyond this, we recommend a mix of professional qualifications in each district in the planned recruitment of agronomists, water engineers, livestock and soil scientists to augment the services available to the farmers. In the 2022 budget, the Government announced that the Farmer Input Support Programme (FISP) would be transformed into the Comprehensive Agriculture Support Programme (CASP), an expanded form of support which, in addition to inputs, would include irrigation development, financing services, storage and logistics, and value addition support. This expansion is despite the well-acknowledged implementation challenges in FISP such as poor targeting, wasteful expenditure, late delivery of inputs, and insufficient inputs. Despite these unresolved challenges, the 2023 Budget has proposed to increase the allocation towards FISP by 68.5 percent from ZMW5.4 billion in 2022 to ZMW9.1 billion in 2023. We expected the Government to pilot CASP in a few districts before expanding the programme. Further, there is a need for the Government to clearly outline the proposed transition from FISP to CASP, the graduation cycle for beneficiaries, and the complete benefits package of CASP. The Government must also clearly stipulate how it plans to address the bottlenecks associated with the e-voucher system before the implementation of the CASP commences.

The Government has continued to rely on the farm block model to boost agriculture productivity and enhance its contribution to economic growth. While the 2022 National Budget allocated ZMW110 million, the 2023 budget proposes to source an additional US\$300 million from the World Bank for the development of farm blocks in 2023. While this move is commendable, Government must take stock of the progress on the ongoing farm blocks and refocus its spending on a few pilot farm blocks.

Over the years, the agriculture sector has been impeded by climate-related shocks such as droughts and floods. Despite acknowledging the risks associated with dependency on rain-fed agriculture, little has been done to resolve the challenges, causing significant loss of GDP for Zambia. With renewed efforts to accelerate agricultural growth, the 2023 National Budget builds on the irrigation investments made in 2022 through the construction of 40 dams across the country to enhance irrigation capacity. While this is a commendable move, ZIPAR urges the Government to allocate resources towards the improvement of small dams at local level to more permanent structures.

Moreover, the 2023 budget highlights a number of tax changes aimed at stimulating growth in the agricultural sector. In line with the Government's agenda on value addition as stipulated in the 8NDP, the budget proposes to extend the two percent local content allowance to income earned from value addition to fruits. The budget has also harmonised VAT exemptions to include feed for quails and guinea fowls. This measure will lessen costs associated with rearing these birds and thereby promote diversification in the poultry sub-sector.

6.2 Positioning the Tourism Sector for Growth

Tourism is one of Zambia's priority sectors in its quest to attain economic diversification. The sector contributed 6.1 percent⁵ to GDP and grew by 7 percent in 2021, signaling recovery from the negative effects of Covid-19.

5. (GRZ, 2022)

To catalyse the recovery process in the sector, the 2023 Budget proposes several measures, including investments in the Kasaba Bay and Liuwa National Park in the northern and southern circuits, respectively. If implemented, these investments should address the infrastructure-related challenges that impede access to these sites. Through the inclusion of 26 tourism services on the Government Services Bus (GSB), the 2023 National Budget has demonstrated the importance it attaches to ICTs as an enabler of tourism sector growth. The measures to increase efficiency in processing applications are positive strides towards spurring tourism growth. Further, the piloting of the Single Licensing System in Livingstone, as pronounced in the budget, should streamline the licensing process as advocated for by ZIPAR in the 2022 National Budget analysis report. While this reform signifies a pivotal move towards streamlining the regulatory framework, we urge the Government to expedite the roll out of the programme across the country as it is essential in reducing the cost of doing business in the sector.

The proposed waiver on visa requirements for tourists from nine countries and the European Union is a measure that we have previously recommended for Zambia to be able to compete with countries such as Tanzania, Kenya, South Africa, and Botswana, among others, in attracting foreign tourists. However, the Government must devise measures to address the potential loopholes in waiver arrangements.

Notably, the suspension of customs duty on imports of selected fixtures and fittings, capital equipment, machinery, and safari game viewing vehicles is welcome as the tourism sector is still recovering from the effects of the Covid-19 pandemic.

The above positive measures notwithstanding, we note the silence in the budget regarding domestic tourism which accounted for 46 percent⁶ of tourism spending in 2021, making it a viable alternative to foreign arrivals. In that regard, measures such as a two-tier pricing system to promote domestic tourism will be essential.

Further, Auditor General's report on the performance of the tourism sector in ensuring an increase in the length of stay of international tourists showed that tourism packages in the southern circuit are not linked to the northern circuit. We urge the Government to plug in measures to link tourism activities across our main circuits with the view to increase the average length of stay of foreign tourists from the current 4.7 days benchmarking South Africa's 7 days. Finally, Government is urged to increase the uptake of suggestions informed by research and studies⁷ on making Zambia a regionally competitive tourism destination.⁸

6.3 More Concessions in A Bid To Revive The Mining Sector

The mining sector remains the backbone of Zambia's economy. In 2021, mining accounted for just under 20 percent of GDP; 75 percent of total exports; over 33 percent of tax revenues; and over 50 percent of the stock of FDI. Despite its importance, the sector experienced an average growth of only 1.4 percent between 2011 and 2021. This stagnation is mainly attributed to unfavorable copper production due to long standing operational challenges arising from lack

6. Eighth National Development Plan (8NDP) 2022-2026

7. Data obtained from World Travel and Tourism Council 2021 Report on Zambia

8. Based on UNWTO estimates

of recapitalisation largely because of an unattractive mining fiscal regime, low ore grades and depleting ore reserves⁹, among others. As a result, Zambia's copper production has stagnated in recent years, averaging about 800, 000 metric tonnes annually between 2017 and 2020 compared to the DRC which averaged about 1.4 million metric tonnes annually over the same period.

To address some of these challenges, the 2023 Budget reiterates the Government's commitment to create tax and policy consistency with the aim of increasing production to 3 million metric tonnes by 2030 a rather ambitious goal given the investments required to achieve this level of output. Specifically, 2023 will see a restructuring of the mineral royalty regime for copper with the tax now applying on the incremental value in each adjusted price band as opposed to the aggregate value when the price crosses the respective price threshold. As intended, this measure will reduce the cost structure for mining firms, attracting FDI and boosting output in the sector. While concerns have been raised about these changes in relation to policy consistency, it is worth noting that the measures are partly a result of resolutions made during the 2021 Mining Indaba at which the Government and the mining sector agreed on specific reforms that were to be implemented over a period of time.

Following the concessions provided to the sector in 2022, some mining investments have been recorded including the US\$1.5 billion FQM expansion project, reopening of Chibuluma Mine and the Moxico Resources' copper leach facility at Mimbula. For a country that seeks to more than double its copper output, more investments are required. In addition, the poor performance of Mineral Royalty which recorded a negative variance of -6.6 percent in the first half of 2022, largely due to the fall in copper prices, indicates that despite the provision of incentives, some factors are outside the country's control. Granted, company income tax receipts from mining performed above target with a positive variance of 46.5 percent during the same period. Further, no significant expansion in mining activity can be attained without complementary measures to develop requisite infrastructure. That stated, we urge the Government to begin evaluating the effectiveness of tax concessions provided so far to the mining sector given that the jury is still out on whether tax incentives lead to increased capital investments.

Other than the tax concessions with the hope of attaining increased investment, the budget does not provide a clear roadmap towards attaining the 3 million metric tonnes target. As such, the Government must create an enabling environment for securing reliable sources of energy, mainly electricity, improved and reliable transport systems and networks such as roads and railway systems that support smoother, reliable and cost-effective importation of goods and services for the mining sector, including the transportation of copper exports to the sea. Therefore, Government must take a far-sighted approach as it undertakes various productivity-enhancing reforms in the mining sector.

The Government has also committed to urgently resolve the challenges at Konkola and Mopani Copper Mines, a highly commendable move that could unlock investment with additional economy-wide multiplier effects. Therefore, it is paramount that the Government expedites this process, especially considering the legal constraints surrounding these cases.

9. Cheelo C. and Banda B., (2012): The costs and pricing of tourism in Zambia - The case of Livingstone. Zambia Institute for Policy Analysis and Research

On a similar note, Zambia has abundant mineral resources that remain unexploited, and statistics show that only 55 percent of the country has been geologically mapped. This means that more effort is required to attract exploration activities in the sector. The 2023 Budget proposes a reduction in the Property Transfer Tax rate to 7.5 percent from 10 percent on mining rights held by exploration companies to encourage mining exploration. In submissions made to the National Assembly, ZIPAR has previously recommended the need for incentives to mining exploration activities to attract private sector capital; therefore, this is a commendable move.

The Government also seeks to establish a mining regulatory institution to enhance regulatory oversight in the sector. This is laudable as it will enhance reporting of production, costs and mineral content among others. The measure will also help to resolve recurrent wrangles in the mining sector that have significantly contributed to Zambia's economic growth and poor revenue performance. This reform will also assist in policing incidences of adverse international transfer pricing and mitigating the potential and identified losses from this sector. Given the reported incidences of such practices worldwide and our own reports, this is an institution that requires urgent establishment, capacitation and operationalisation.

The measures in the 2023 Budget aimed at supporting artisanal miners through formalisation, provision of equipment and training, access to affordable capital and joint ventures as well as empowerment with mining licences could go a long way in addressing the challenges of informality among artisanal miners. These measures can also help the Government to collect more revenue from the sector. Notably, the proposed simplified and lower rate tax regime that shall apply to artisanal and small-scale miners is in line with ZIPAR's proposals in the past on the need for a simplified fiscal regime for artisanal miners.

The proposal to alter the mining sector ownership structure through empowering Zambians with licences is a step in the right direction as it will contribute to increased output and poverty reduction. Further, the Government's intentions to formalise trade in precious metals will help curb the illicit financial flows that continue to plague the sector.

Overall, some of the measures in the budget with respect to mining could prove to be game changing initiatives. However, the measures should be augmented with the enactment of a local content Act to enable participation of local firms in the mining value chain. Finally, future additional incentives should focus on value addition within the sector. While the production targets set are essential, what is even more important is to add value to local minerals which stands to benefit the country more.

6.4 In Pursuit of an Industrialised Growth Agenda

Traditionally, the manufacturing sector has been viewed as an engine for economic growth and structural transformation. As the manufacturing sector grows, it spurs investment and growth in other sectors such as the service and agricultural sectors among others, due to its strong backward and forward linkages. For this reason, Zambia has recognised the sector's importance in achieving the country's long-term vision of becoming a prosperous middle-income country by 2030. This has been outlined in various policy documents, with the most recent being the 8NDP. While the share of the manufacturing sectors contribution to GDP for the country has

been declining over time, dropping from 23.8 percent in the early 1980s to 8.8 percent in 2021, the sector is still considered to be an important driver of economic growth, diversification and job creation.

The proposed 2023 National Budget re-affirms the importance of the manufacturing sector to the country and aims to promote its growth. For instance, the Government has shown commitment to promoting the establishment of Multi-Facility Economic Zones (MFEZ), coming-up with fifteen-year tax concessions on income generated from local sales of corn starch by agro-processing businesses operating in MFEZ, industrial parks or rural areas; providing relief on customs duty for a 3 year period on selected machinery, equipment and articles used in agriculture; extending the local content allowance at the rate of 2 percent, for income tax purposes to encourage value addition of tomato, mango, pineapple and cassava, among other incentives.

However, despite the progressive measures highlighted in the budget, we noted a number of issues that may need to be addressed if the Government is to achieve its goals towards the sector. Firstly, while the Government aims to promote the growth of the Manufacturing sector, the budget does not tackle a key ingredient to this process i.e., research and development (R & D). R&D is vital for enhancing competitiveness of the sector. As such, the Government needs to develop a clear operational and funding strategy for R & D. To achieve this, the Government must establish think-tanks to spearhead research and development. The human capital investment (social sector spending) the country has aggressively embarked on will be crucial to the development of the manufacturing sector.

Secondly, the country has over the years provided and continues to offer fiscal as well as non-fiscal incentives to businesses in the MFEZs. However, monitoring and evaluation of their performance to inform future policy decisions when awarding incentives remains weak. Therefore, 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

Thirdly, while the Government is committed to promoting the establishment and operationalization of MFEZs, there is need to anchor the MFEZ on existing industries in the location. ZIPAR recommended that Zambia should identify strategic industries with extensive supply chains that could equally serve as anchors for suppliers and buyers in backward and forward linkages; for instance, Chambishi MFEZ on the Copperbelt leverages mining.¹⁰

Finally, with the soon to be enacted Investment, Trade and Business Development Bill, N.A.B. No. 20 of 2022, the Government must close the gaps with respect to monitoring and evaluation frameworks for investment, linking incentives to expropriation of profits, efficiently implementing the Trade and Investment Development Fund, and seamlessly promoting international trade and licensing of companies.

6.5 Supporting Economic Growth with a Vibrant and Sustainable Energy Sector

The energy sector plays a crucial role as an enabler of economic transformation. The 2023 National Budget proposes to undertake key reforms with the view of improving the sector. In this

10. Cheelo C. and Banda B., (2012): The costs and pricing of tourism in Zambia - The case of Livingstone. Zambia Institute for Policy Analysis and Research

regard, the Government affirmed its position of ‘withdrawing from the importation and supply of petroleum products’. This decision is intended to contain budgetary pressures brought on by the accumulation of fuel arrears over the years¹¹, thereby allowing Government to reinvest these resources in other key priority sectors such as education and health.

While the move to limit the Government’s role to regulatory oversight and ensuring strategic fuel reserves is commendable, there is need to enhance transparency and competitiveness to promote fair pricing and revenue generation. Higher participation by Zambian firms should also be encouraged using supply quota systems via competitive open-bidding processes.

In the electricity subsector, the Government’s drive to promote large investments in electricity generation and clean renewable technologies is key to ensuring just, inclusive and resilient energy transition. Zambia’s electricity supply still largely depends on hydropower, which is susceptible to climate variability. Thus, the Budget call to diversify the country’s energy mix by supporting and scaling up investments in renewable energies such as solar and wind will help actualize the diversification and limit further use of fossil fuels.

Additionally, the 2023 National Budget proposes to increase allocation to the Rural Electrification Authority (REA)- (ZMW743.6 million)¹² to increase access to electricity, especially for the rural communities. Rural electrification remains dramatically low, about 8 percent as of 2021, against a target of 51 percent by 2030. While the immediate concern is to meet the energy demand for cooking and lighting, the Government should also encourage the productive use of energy to stimulate economic activities. This has the potential to create jobs and improve standards of living in most rural areas.

Finally, the 2023 National Budget proposes to remove 15 percent customs duty on gas cylinders to make the cost of LPG lower and accessible. This measure is in tandem with efforts aimed at broadening the energy-mix agenda while addressing environmental pressure resulting from the use of biomass such as firewood and charcoal.

6.6 An integrated approach to MSME Development

The 8NDP recognises Micro, Small and Medium Enterprises (MSMEs) as crucial to economic transformation and employment creation in Zambia. MSMEs constitute about 90 percent of all businesses in the country, account for 88 percent of employment and over 70 percent of the country’s GDP.¹³

The 2023 Budget includes several commendable propositions towards supporting MSMEs, including regulatory reforms and improved access to affordable financing. Through the Zambia Development Agency (ZDA) Act of 2022 which replaces the ZDA Act of 2006, there is increased focus on the Government’s intention to advance strategic oversight on private sector led growth and investment.

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11. Saasa, O., & Nalishebo S (2022). Evaluation of Economic Impact of Planned First Quantum Minerals Investments in Zambia. Premier Consult Limited. Lusaka
 12. Phiri and Shimukunku (2020). Special Economic zones in Southern Africa: White Elephants or Latent Drivers of Growth and Employment? The case of Zambia and South Africa. UNU-WIDER
 13. As at end-December 2021, the total stock of accumulated fuel arrears amounted to US\$597 million, according to the ZAMBIA-IMF Report submitted to the IMF Executive Board on August 31, 2022.

The provision of approximately ZMW365 million within the Citizen's Economic Empowerment Commission (CEEC) and the Constituency Development Fund (CDF) mitigates access to affordable finance challenges experienced by MSMEs. Additionally, an estimated US\$ 20 million loan from Cooperating Partners, the piloting of the Zambia Credit Guarantee Scheme and the Government and World Bank partnership to create the Zambia Agribusiness and Trade Project are all commendable efforts that aim to support growth of MSMEs and enable access to regional and international markets. Moreover, the Government has also provided additional incentives to boost access to affordable finance and promote financial inclusion by zero rating interest earned on savings from cooperatives and village banks from 15 percent in the previous year.

Despite these constructive efforts, it is necessary for the Government through the Ministry of Small and Medium Enterprise Development to devise a strategy for an integrated empowerment fund specifically for MSMEs. This will help in avoiding conflicting and divergent financing demands of community development priorities in the CDF and small business needs. To allow for effective institutional support in MSME financing, there is need for the Government to increase the CEEC's capacity to evaluate and support growth of MSMEs as highlighted in the 2015-2020 Auditor's General report on the performance of the CEEC in supporting MSMEs in Zambia.

Furthermore, there is still an urgent need to address the informality of MSMEs which is often a stumbling block to their financing. The Government needs to reduce transaction costs associated with business registration and licensing procedures that increase the cost of formalisation and ease the requirements for formalisation of these businesses. The Government needs to address the facilitation of an improved and contemporary SME policy and taxation within the MSME sector as current rates may de-incentivise MSMEs in the sector.

6.7 Transport Infrastructure for Better Economic Returns and Improved Accessibility

The importance of efficient infrastructure as an enabler of economic growth and development cannot be overstated. In the 2023 National Budget, the allocation for road infrastructure has increased by 6.1 percent from ZMW4.9 billion in 2022 to ZMW5.2 billion. Over the recent past, Zambia has embarked on massive infrastructure investments that left the country saddled with unsustainable debt, and little fiscal space. To get the most out of constrained fiscal space and enhance fiscal prudence, the Government will in 2023 prioritise the construction and upgrading of roads with high economic and social returns, and use of alternative methods of financing such as PPPs. Under the PPP arrangements, private partners are poised to recoup their investments through road tolling. Prioritised economic roads in the 2023 National Budget include Lusaka-Ndola dual carriageway, Chingola-Solwezi, and Ndola-Mufulira, among others.

That stated, we urge the Government to be tactful as they enter into these PPP agreements to maximise value for money in the long term. In addition, the plan to maintain, rehabilitate and upgrade other critical economic roads in the country is applaudable as it will reduce travel times for both freight and passengers, lowering costs of production and stimulating economic activity. In this regard, we also urge the Government to ensure that roads on the southern corridor such as T2, Lusaka-Mongu, and Senanga-Sesheke-Katima-Mulilo are also included on the agenda as they facilitate trade and logistics with neighbouring countries.

Further, the construction and upgrading of infrastructure at key border posts such as Katima-Mulilo, Mpulungu and Nakonde will help strengthen regional integration and boost trade, and thereby contributing to GDP. The Government's plan to improve and upgrade the rail network in the country must be prioritised to promote regional trade. The development of the transport sector must be linked to international trade and investment in such a way that there is a seamless multimodal transport system integrated into the international trade routes. This linkage will give the transport system greater viability by supporting the country's trade regime.

Finally, the upgrading of aerodromes countrywide should be realised to improve accessibilities to these areas, thereby promoting local tourism and trade. To complement these efforts, roads leading to strategic tourism sites and production centres in the vicinity must also be upgraded to allow for all-weather accessibility.

6.8 Digitalisation for Improved Productivity and Service Delivery

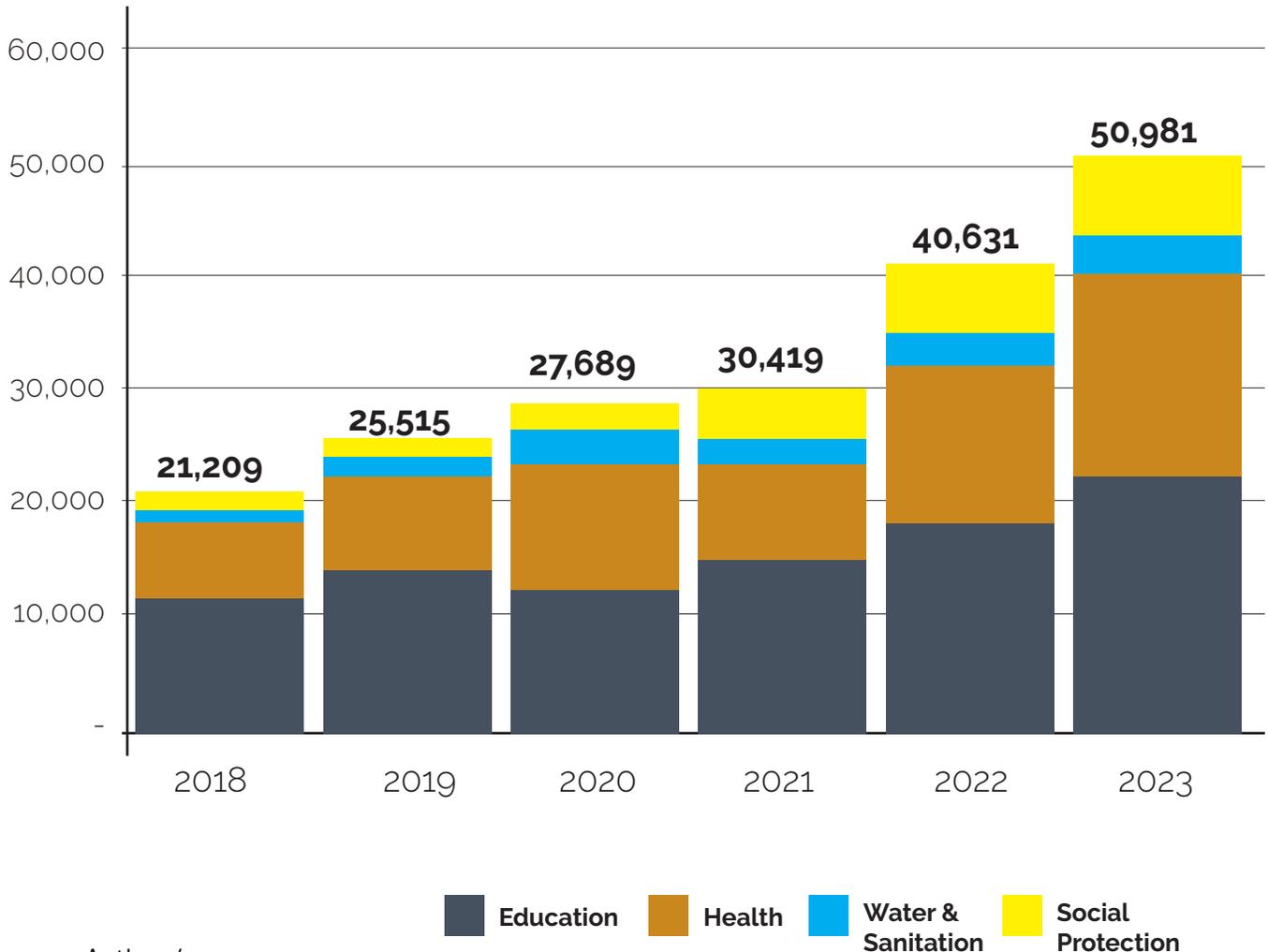
Information Communication Technologies (ICTs) play a vital role in accelerating growth and productivity in all sectors of the economy by promoting online trade through e-commerce and digital financial services. For Zambia, ICTs' role in the attainment of fiscal sustainability has become significantly important as the country leans on the sector to improve revenue collections. In the 2023 National Budget, the Government has proposed several inclusive strategies such as implementation of the National Digital Transformation Strategy and review of the Information and Communication Technology Act No. 15 of 2009 to accelerate the uptake of digitalisation in the country emanating from challenges such as low internet access which stood at 52.9 percent in 2020. Implementation of the National Digital Transformation Strategy will create a major landmark that will accelerate electronic government services and processes and provide the necessary policy guidance in fostering a digital economy in Zambia.

The fiscal concessions targeted at the ICT sector indicate the Government's resolve to maximise the sector's economic potential. Particularly, the removal of customs duty on selected ICT equipment will accelerate digital transformation through increased imports of ICT equipment, which is expected to improve accessibility and usage of various ICT platforms.

7 Consolidating the Gains in the Social Sectors

The Government continues to increase allocations to the social sectors in order to safeguard the lives and livelihoods the most vulnerable citizens. The increased fiscal space from the IMF package has translated into increased social sector spending, to ZMW 51.0 billion from ZMW 40.6 billion in the 2022 Budget (Figure 3). As a share of the total budget, social sector spending has increased to 30.5 percent in 2023 from 23.5 percent in 2022. In terms of GDP, the social sector budget has increased to 9.6 percent from 8.7 percent.

Figure 2: Budget allocations to the social sectors, 2018-2023 (K'million)



Source: Authors' own construction from the Ministry of Finance Budget Speeches

Education

The Government has scored a number of successes in the provision of education and skills development. These include free education up to Grade 12; recruitment of over 30,000 teachers; and provision of bursaries to vulnerable learners. To sustain these gains, the Government, in 2023, plans to significantly increase the budget allocation to the sector in order to, among other things, recruit an additional 4,500 teachers to be mostly deployed in rural areas, change the education curriculum to include financial literacy and anti-corruption; invest in ICT infrastructure which has the highest deprivation and use of innovative methods of delivering education; and increase the supervision and inspection of schools to ensure adherence to standards. Other measures include the construction and rehabilitation of schools and introduction of meal allowances in public universities.

The continued recruitment will be critical in reducing the teacher-pupil ratio which stood at 1:60 in primary schools against the recommended 1:40. Worryingly, both 2022 and 2023 recruitments are silent about the recruitment of teachers for Learners with Special Needs (LSEN). The current pupil teacher for LSEN is 1:80. This is alarmingly high as it is above the Ministry of Education recommendation of 1:15, and above the pupil-teacher ratio for ordinary learners at both primary and secondary levels.

Further, the continued investment in infrastructure is critical especially as the free education policy has increased demand for school places. In 2022, several schools across the country reported that the free education policy had put pressure on the schools' limited infrastructure.

The Government also commits to re-instating meal allowances for government-supported students in public universities. The move stands to improve the welfare of vulnerable university students. This commitment is also consistent with the objective set under the education chapter in the 2023-2025 MTBP.¹⁴ However, the MTBP also commits to reducing the loan repayment amounts and increase the payment period for working graduates. This is missing from the 2023 Budget and must be actualised to provide relief to graduates and students who will have to make repayments in the future.

Health

As with the education sector, the Government plans to recruit an additional **3,000 health personnel in 2023**. Other measures in the health sector include increased allocation for the purchase of drugs and other medical supplies, equipping and re-equipping health facilities with modern medical equipment, complete the construction of a specialised hospital in Lusaka for women and children, complete the construction of 36 district hospitals, 16 mini-hospitals and 83 health posts, and undertake the rehabilitation and maintenance of health facilities across the country.

While the upward adjustment of the allocation to the health sector is commendable, and a step in the right direction, incremental allocation to the sector is still necessary for building a resilient health system as envisioned by the Abuja Declaration which Zambia is signatory to, which recommends allocations of 15 percent of annual national budgets to healthcare. The necessity for this needs no emphasis, more so given the lessons learnt from the COVID-19 outbreak which exposed the healthcare systems' unpreparedness in African countries (including Zambia) to respond adequately to shocks such as pandemic.

The Government proposed to recruit an additional 3,000 health personnel from the 11,200 recruited in 2022. This is commendable as it will help address the high patient-health personnel ratio which as at 2020 stood at 6,750 per health personnel¹⁵. It should however, be noted that as at 2021, **the health sector had a staff compliment of 63, 000 against an approved structure**

14. 2023 National Budget Speech

15. Financial Sector Deepening Zambia, 2021. "Unlocking-Financial-Opportunities-for-Micro-and-Small-Enterprises" Available at: <https://www.fsdzambia.org/wp-content/uploads/2021/02/Unlocking-Financial-Opportunities-for-Micro-and-Small-Enterprises.pdf>

16. The 2023-2025 Medium Term Budget Plan and the 2023 Annual Budget Green Paper

of **139,590** – this entails a need for continuous health personnel recruitment drive to close the staffing gap of more than 50 percent.¹⁶

Water & Sanitation

To increase access to water and sanitation services, the Government plans to accelerate the completion of construction and rehabilitation of water supply and sanitation infrastructure, including the Kafulafuta Dam project on the Copperbelt to connect water supply to over 1 million households. To enhance hygiene in public places, such as, markets and bus stations, the Government will commence the construction of water borne sanitation infrastructure across the country. The Government also launched the Zambia Water Investment Programme to increase access to clean water and sanitation services especially in the rural areas.

In nominal terms, the budget declined by 5 percent from ZMW2.4 billion in 2022 to ZMW2.3 billion in 2023. However, the share of the WASH budget to the total budget slightly increased from 1.4 percent in 2022 to 1.5 percent as share of the total budget as shown in Figure 6. The declining trend over the recent years indicates low priority in the allocation of financial resources towards the sector.

Given the limited resources allocated to the sector, it is critical to develop a sustainable financing mechanism for the sector. As such, the Government will embark on the Zambia Water Investment Programme to increase access to clean water and sanitation that will equally service the rural as well as the urban population. The programme, supported by external funding, includes the leveraging of over US\$5 billion dollars for water security investments that will ensure that the social and economic aspect of water are taken into consideration. This will effectively contribute to sealing existing water investment gaps in Zambia while also providing 200, 000 formal jobs by 2030.¹⁷

Social Protection

The Government will continue to scale up and enhance social protection programmes with improved targeting and selection mechanisms to uplift the wellbeing of the vulnerable. This includes increasing the number of beneficiaries on the Social Cash Transfer scheme to 1.3 million by the end of 2023, provision of education grants under the Keeping Girls in School programme and extending the reduction of waiting time for pensions from the Local Authorities Superannuation Fund.

The amount allocated to social protection has increased. In nominal terms, it increased by 29 percent from ZMW 6.2 billion in 2022 to ZMW 8.1 billion in 2023. As a percentage of the total budget, the allocation has risen from 3.6 percent in 2022 to 4.9 percent in 2023. As a share of GDP, it increased from 1.3 percent in 2022 to 1.5 percent in 2023.

17. Eighth National Development Plan (8NDP)

Social Cash Transfer

Nearly half of the social protection budget has been allocated to Social Cash Transfer. The allocation towards the Social Cash Transfer programme, which increased by 20 percent from ZMW3.1 billion in 2022 to ZMW3.7 billion in 2023, accounts for 45.8 percent of the proposed social protection budget. With this increase, the Government commits to scale up the number of beneficiaries by 37 percent from the current 973,323 households to 1,374,500 and further commits to increasing the transfer amount (but has not yet indicated the value of the transfer increment).

Pensions

The allocation to pensions increased by 16 percent from ZMW2 billion in 2022 to ZMW2.3 billion in 2023. The increase is largely attributed to the Government's commitment to dismantling arrears that are owed to pensioners as well as reducing the waiting period for pensioners. Additionally, the Government has pledged to avoid the accumulation of pension arrears in 2023 and beyond by paying off the backlog of arrears up to December 2021, since they currently date back to December 2018.

Food Security Pack

In 2023, the Government has allocated ZMW1.2 billion to the Food Security Pack scheme which translates into a 10 percent increase from the ZMW1.1 billion allocated in 2022. The programme is meant for the benefit of vulnerable but viable farming households. As of August 2022, the Government had released a total of ZMW903.3 million towards FSP or 75 percent of the total budget amount allocated to FSP.

Constituency Development Fund

The Government will continue to empower women, youths and other vulnerable populations and providing bursaries to vulnerable learners through the Constituency Development Fund. To this end, the allocation to the CDF has been increased.

Of the total CDF allocation, ZMW3 billion or 75 percent has been released in 2022. However, utilisation has been unsatisfactory as less than 10 percent of the released amount has been utilised. The underutilisation has been due to administrative challenges such as highly centralised approval processes required under the law; cumbersome procurement procedures; and limited capacity in project preparation, among others. Government must expedite the CDF reforms to address the implementation bottlenecks.

Financing

In order to sustainably pay for these critical social services, the Government has put in place several measures to increase fiscal space. These include instituting debt restructuring to reduce interest and principal payments on debt and eliminating costly and poorly-targeted fuel subsidies. Public resources freed up from the removal of subsidies and debt restructuring will be invested in socioeconomic development.

8 Environmental Sustainability Towards Inclusive Growth

8.1 Development of Climate Resilient Infrastructure

Over the years, climate change impacts continue to be felt in climate-sensitive sectors such as agriculture and energy. As Zambia transitions to a green economy, the Government has, in 2023 committed to strengthening climate change mitigation and adaptation measures. Through the amendment of the CDF Act, the Government could consider earmarking a percentage of the CDF allocation to facilitate low carbon development initiatives at sub-national level.

8.2 Legislation of the Carbon Market

The Government intends to promote innovative financing and resource mobilisation to fund climate change mitigation and adaptation initiatives in the country. In advancing this cause, the Government is exploring the use of green bonds and carbon trading. The 2023 National Budget has indicated that the Government is in the process of developing legislation to regulate the carbon market in Zambia as this will allow the Government to access this promising source of financing and reduce GHG emissions. Therefore, the Government should consider the changes in the rules as portrayed in the Paris Agreement as it designs its legislation to avoid having to play catch-up in the future.

8.3 Holistic Approaches to Forest Management

The GDP potential of the direct and indirect values of forests is estimated at about 4.7 per cent if well managed. This potential is however threatened by unsustainable charcoal and fuel wood production, and unsustainable clearance of forest land for agriculture and settlement expansion. With the country's deforestation rate estimated at about 276,021 hectares per year the Government, the 2023 National Budget's proposal to address the challenges in the forestry sector through the establishment of timber exchanges is commendable. However, the Government did not outline steps in dealing with the other half of the problem: unsustainable charcoal production.

8.4 Targets and Standards for Plastic Management

The 2023 National Budget has added to the need to control the use of plastics by proposing an excise duty of 15 percent on various plastic articles. This a commendable stance given that plastic waste contributes to the blockage of water drainages which leads to outbreaks of waterborne diseases like cholera

9 Conclusion

The presentation of the 2023 National Budget marks the end of the first budget of the New Dawn government, and therefore presents an opportunity to test the success of new governments policy agenda in realizing its mandate and advancing the welfare of the Zambian people. The first budget of new government was presented on 27th September 2021 against a background of a mixture of anxiety and euphoria riding on the back of economic crisis and drastic political change.

The year 2021 had been characterized by deteriorating economic conditions with rising inflation, deteriorating and unstable exchange rate and weak economic activity. This had arisen from the poor balance of payments performance, mounting and unsustainable debt and poor fiscal management. This was accentuated by the onset of the Covid 19 Pandemic which wrought economic and social havoc on Zambia and the wider world,

The economic situation was therefore precarious. In the previous year 2020, the country had just experienced its first default on its sovereign debt and had fallen foul of its relationship with its international creditors. This included official and private creditors as well as bilateral and multilateral lenders. The local debt had also piled up with a significant backlog which was chocking the private sector creditors.

The challenge of the first government was therefor to restore economic stability, revive economic activity and to restore the ruptured relationship with its international partners.

The first budget therefore reflected an austere economic policy with very tight economic measures, strict adherence to fiscal targets and enforcement of prudent monetary policy. The government also embarked on a damage management exercise by reopening negotiations with the International Monetary Fund and other international creditors to assist the country deal with the debt challenges.

In order to achieve rapprochement with the international financial community, the government had to demonstrate prudence in economic management as reflected in the statement and execution of its budget.

The results of the first term economic management showed rapidly declining inflation from a high of 24 percent in September 2021 to a single digit rate in June 2022, while the exchange rate had appreciated from ZMW23 per dollar to stabilize at between ZMW15.00-16.00 per dollar. International confidence also rose as international partners also expressed willingness to invest in the country.

It can be therefore stated that implementation of the 2021 budget and the underpinning economic policy has been successful. However, full stability has not been achieved and there are headwinds which need to be confronted. In particular, inflation is still targeted to reach 6-8% by end of 2022, and the exchange rate to be stable at a rate consistent with its economic partners. The government also has to achieve debt sustainability by renegotiating debt restructuring and/or refinancing with its international creditors.

The attainment of the ECF with the IMF is important for the country in that it signals to the international community that the country is serious about economic reform. The economic policy regime of the government will now be supervised by the IMF who will monitor compliance with agreed benchmarks and targets .

The 2023 budget therefore is a reflection of the continuation of 2022 economic policy of achieving and maintaining stability of economic indicators. In addition, there is also the need to address the unemployment crisis by facilitating the creation of employment opportunities through expansionary policies. However, such employment can only be created in a sustainable manner by promoting private participation through creation of an enabling business climate. Accordingly, a significant pillar of the government's economic policy is to stimulate private sector activity in mining, agriculture, tourism, and manufacturing, among others. An enabling policy framework is being developed which encourages private foreign direct investment as well as SMEs to enhance their investments in the county.

Government will also seek to cut back on inefficient subsidies, and to take decisive measures to eliminate wasteful and fraudulent public expenditure. This approach will also be underpinned by an adherence to the rule of law so as to reduce the cost of doing business for both local and international partners

As the people are key beneficiaries and also the shoulders upon which the success of IMF-backed programme will rest, it is also important that the people are supported and protected from the economic hardships that may be occasioned by the process of economic adjustment. The Government has therefore, in collaboration with cooperating partners, evolved a mechanism to provide protection to the most vulnerable of the society.



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ZAMBIA



ANALYSIS OF THE 2023 NATIONAL BUDGET

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