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ANALYTICAL BRIEF ON THE 2021 SOCIAL SECTOR BUDGET

Coping with the dual effects of a recession and a pandemic: Safeguarding lives and livelihoods

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Coping with the dual effects of a recession and a pandemic: Safeguarding lives and livelihoods

This Social Sector budget brief explores the extent to which the Government of the Republic of Zambia (GRZ) will support Social Sector needs in the country in 2021. The brief analyses the size and composition of budget allocations to the social sector for the fiscal year 2021, as well as spending trends for the past few years, in order to inform policy, strategies and legislation with the potential to save lives and sustain livelihoods. The budget brief aims to synthesise complex budget information and offer recommendations to support budget execution to help bring about improvements for the wellbeing of the Zambian people.

Key Messages

- The Social Sector Budget is expected to increase by 10% in nominal terms from K27.7 billion in 2020 to K30.4 billion in 2021. This is largely due to a K2.2 billion increase in the Social Protection budget. However, expressed in relation to the overall budget, the Social Sector Budget is expected to decline to 25.4% in 2021 from 26.1% in 2020.
- Social protection has emerged as a big winner of the 2021 Budget, receiving an 87% increase in budgetary allocation in comparison to the 2020 Budget. Key programmes within Social Protection such as Social Cash Transfers (SCT) and the Food Security Pack (FSP) received significant increases in allocations of 128% and 801% respectively. Given Zambia's young population, the increased allocation to the Social Protection budget is likely to allow the Government to reach more vulnerable children and young people who live in deprived households balanced across rural and urban areas.
- With the increase in the allocation to the SCT programme, this is now larger than the Public Service Pension Fund, which has traditionally received the largest allocation under the Social Protection budget. The 2021 allocation to the Pension Fund remained largely unchanged. In 2019, the Pensions Fund was underfunded by 85%. However, in 2020, efforts had been made to reverse the arrears resulting in increased disbursements which were 43% above the approved 2020 Budget by August 2020.
- The health sector budget increased nominally by 3%. But the allocation as a share of total expenditure declined from 8.8% of the total budget in 2020 to 8.1% in 2021. The reduction poses significant risks to the functioning of the health system to deal with, not just a second wave of COVID-19, but also other epidemics and diseases that occur and recur in the country.
- The Government, in the 2021 Budget, has shown

commitment to improving the education sector by increasing the nominal allocation from K13.1 billion in 2020 to K13.8 billion in 2021, an increase of 5%. Although this increase is notable, as with the health sector, this equates to a reduction in the proportion of the overall budget spent on education. Another concern is the allocation to Early Child Education which accounts for 0.1% of the education budget, which is inadequate to address the challenges of poor infrastructure and the lack of qualified teachers.

- Demand for clean water, sanitation and hygiene (WASH) services has become more pronounced due to the COVID-19 pandemic. However, the WASH sector not only remains the least funded of the social sectors, but the budget allocation which has been declining since 2018, is further expected to decline both in nominal terms and as a share of the total budget. This decline is a matter of concern especially given the COVID-19 pandemic and the fact that clean water and sanitation are key factors in determining/contributing to nutrition and health outcomes.
- To consolidate the gains made in improving nutrition of children, the Government has scaled up the Home-Grown School Meals programme to 18 additional districts from the current 39 and allocated K5.6 million towards Nutrition Supplements under Primary Health Services in the 2021 Budget. Given the heightened food insecurity risks due to the COVID-19 pandemic and climate variability, the Government will need to do more by actualising the commitments made at the 2018 National Food and Nutrition Summit and the K400 per under-five child approved by the

Special Committee of Permanent Secretaries on Nutrition.

- Urban areas are disproportionately benefitting from available WASH resources compared to rural areas. Given the budget imbalance, that the Zambian population is 57% rural, and that access to WASH services is lower in rural areas, there have been efforts by the Government to rebalance the WASH sector budget to improve WASH outcomes in rural areas through the National Rural Sanitation Programme. As a result, more funds have been directed to rural areas in the last few years. However, other components of WASH such as menstrual management strategies aimed at reducing the disadvantages that the majority of vulnerable girls experience in rural areas remain elusive.
- The heightened demand on the Treasury to fund the social sector budget requires increasing fiscal space which has dwindled drastically due to declines in revenue collection and increases in debt servicing expenditure in the last five years. It is therefore imperative that the Government aggressively explores all possible alternatives to expand fiscal space to raise funds to support the social sectors. The measures to explore alternative funding sources include revisiting the tax on rental income which has eluded the tax authorities for a number of years now; rationalising excise duty in the ICT sector to partially fund social protection; curbing illicit financial flows; and rationalising expenditures of agriculture subsidies by, among other things, fully implementing the relatively cost-effective e-voucher FISP system.

Introduction

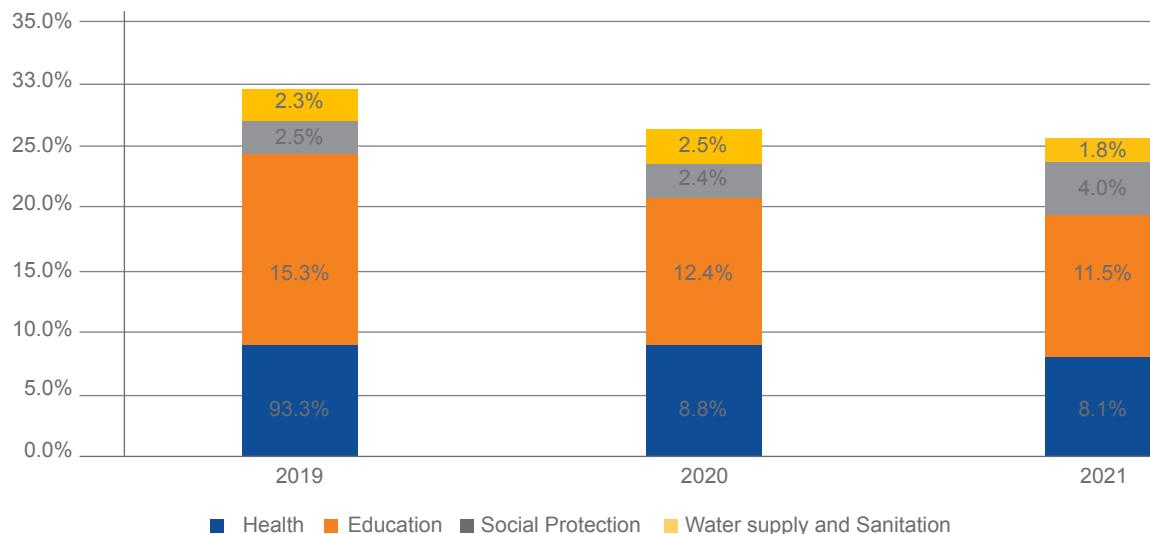
Social sector public spending is crucial for alleviating poverty and inequality and for saving lives and sustaining livelihoods. It is arguably the most important instrument for ensuring that no one is left behind in the development process, in good and in bad times, irrespective of economic fortunes.

The Social Sector Budget is expected to increase by 10% in 2021 from K27.7 billion in 2020 to K30.4 billion. This is largely due to a K2.2 billion increase in the Social Protection budget. However, expressed in relation to the total Budget, the Social Sector Budget is expected to decline to 25.4% in 2021 from 26.1% in 2020. The declining allocation to the social sectors risks

making it more difficult to tackle social development challenges and could limit the effectiveness of overall poverty reduction efforts. Given the limited fiscal space, it is understandable that the Government has prioritised Social Protection to mitigate the adverse socioeconomic effects and safeguard the lives and livelihoods of the most vulnerable of its citizens.

Despite the decreases as a share of the total Budget, education (11.5% of the Budget) will take up the largest share of the Social Sector budget, followed by Health (8.1% of the Budget) and Social Protection (4.0%). Water Supply and Sanitation (1.8%) takes up the lowest share of the Social Sector budget (Figure 1).

Figure 1: Budget allocation to the Social Sectors, 2019-2021 (Share of National Budget)



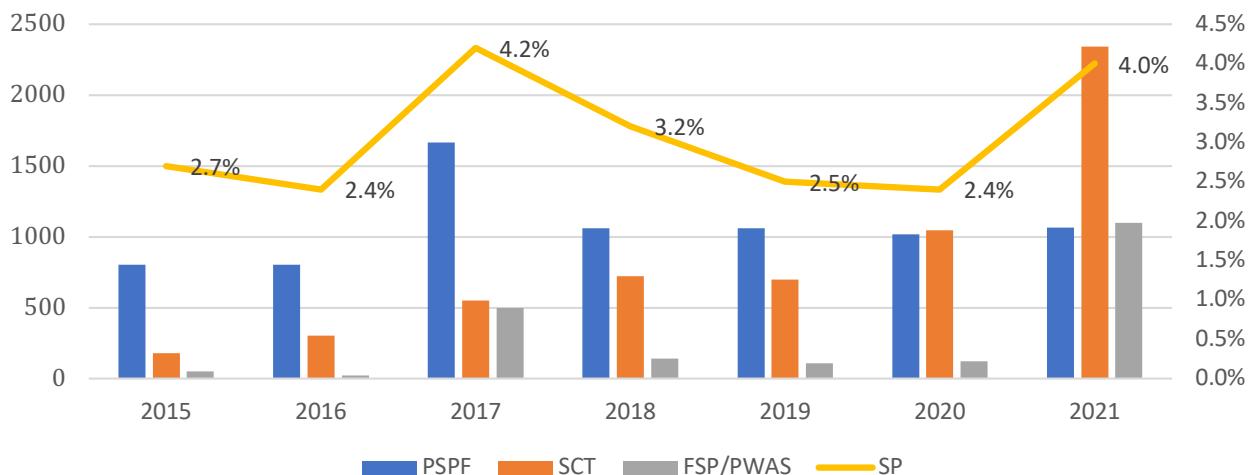
Source: Author's own construction from the Ministry of Finance Budget Speeches

Zambia has a young population with about 80% of its citizens aged below 35 years. Nearly half of the population (46%) is aged below 15, while 18% are under age 5¹. The size and age structure of the population influences the demand for public services, particularly in the areas of education, healthcare and additional investment in basic infrastructure. The increased allocation to the Social Cash Transfer programme, which provides unconditional cash transfers to the disabled, poor and vulnerable, is likely to confer benefits to poor and vulnerable children and young people who live in deprived households. The increased allocation and scaling up of the Food Security Pack will empower and improve the livelihoods of vulnerable but viable female-, disabled- or child-headed households as well as households with orphans or children.

Social Protection: A Big Winner

Social Protection has emerged as a big winner of the 2021 Budget receiving an 87% increase in budgetary allocation in comparison to the 2020 Budget. In absolute Kwacha terms, the Budget allocation has increased to K4.8 billion in 2021 from K2.6 billion in 2020. As shown in Figure 2, key programmes within Social Protection such as the Social Cash Transfers (SCT) and the Food Security Pack (FSP) received significant increases in allocations of 124% and 801%, respectively. These increases in allocations to Social Protection are justified as allocations had been declining before 2021; between 2017 and 2020 allocation to Social Protection declined by 4.2% from K2.7 billion in

Figure 2: Budget Allocations to Social Protection 2015-2021 (in millions Kwacha)



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

2017 to K2.6 billion in 2020. This increase in allocations in 2021 is indicative of the Government's willingness to respond to the deteriorating economic conditions which have resulted in the Zambian economy slipping into recession.

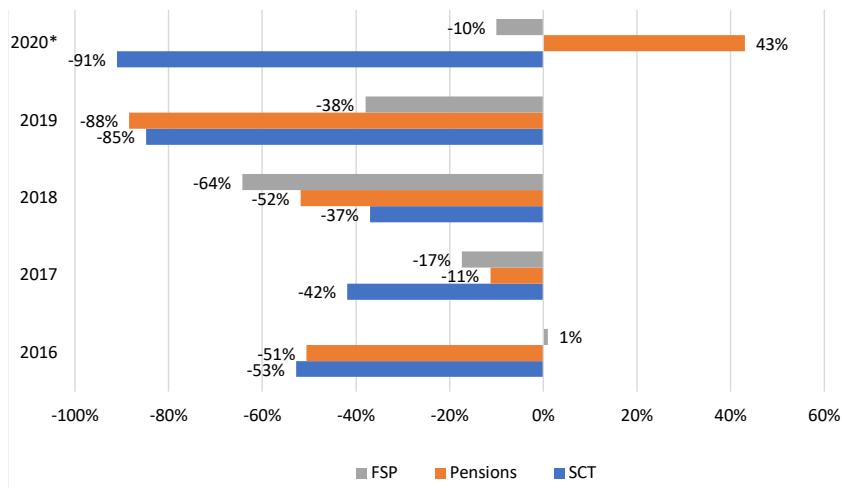
The 2021 Budget commits to increasing the number of SCT beneficiaries from the current 700,000 households to 994,000 and further commits to increasing the transfer amount from the current K90 per month to K110. The move to increase the number of households is commendable as the new target is close to the number of extremely poor households estimated at 1 million. The revision on the transfer amount is long overdue as the last revision was done in 2017. Between the last quarter of 2017 and the first half of 2020, inflation has increased by 150%. The failure to adjust the transfer amount has over the years

eroded the real value of cash receipts reaching the beneficiaries.

The Pensions Fund has traditionally accounted for the largest allocation of the Social Protection Budget in the past five years. However, in the 2021 budget, it received a minimal increment (4%) leaving the allocation largely unchanged at K1 Billion. In 2019, the Pensions Fund was underfunded by 85%. However, in 2020, efforts had been made to reverse the arrears – this resulted in increased disbursements which were 43% above the approved 2020 Budget by August 2020 as shown in Figure 3. The effort to address pension arrears is commendable and must be sustained to ensure that retirees are provided with adequate support.

The FSP received a tenfold increase in its budgetary allocation from K122 million in 2020 to over K1 billion in

Figure 3: Social Protection Budget Outturn 2015-2020



*2020 – Outturn for the year is January-August 2020

Source: Author's construction from MOF Fiscal Tables 2015-2020

2021. The FSP also commits to increase the number of beneficiaries from the current 80,000 to over 280,000 in 2021. This increase is indicative of the anticipation in the increase of food-insecure households in 2021 even though rains improved in the 2019/2020 season. The recurring adverse effects of Climate Change have left many more households at risk of hunger. In 2019, an estimated 1.7 million people in rural areas were assessed to be in need of urgent action to protect their livelihoods and reduce food consumption gaps.² The COVID-19 pandemic will also exert added pressure on households further heightening the risk of food insecurity. Thus, a tenfold increase in the allocation to the FSP is an appropriate response to the heightened risk of food insecurity.

Social Protection has received significant increases in the budget allocation in 2021. While this is encouraging, past disbursements reveal a worrying trend. These past trends reveal that the significant allocation in the budget speech have not translated into actual disbursements of committed funds. As shown in Figure 4, between 2015 and August 2020, the Government on average underspent on the SCT programme by 62%. During the same period, the Government underspent on Pensions Fund by 32% and by 26% on the FSP. The consistency in the failure to actualise budgets is a threat to the various social protection programmes the Government has been implementing. If this trend continues in 2021, the Government risks failing to live up to its mantra of safeguarding livelihoods and protecting the vulnerable.

Health: Coping with a Pandemic

In 2020, Zambia's health sector like the rest of the globe was rocked by the COVID-19 pandemic. Despite early

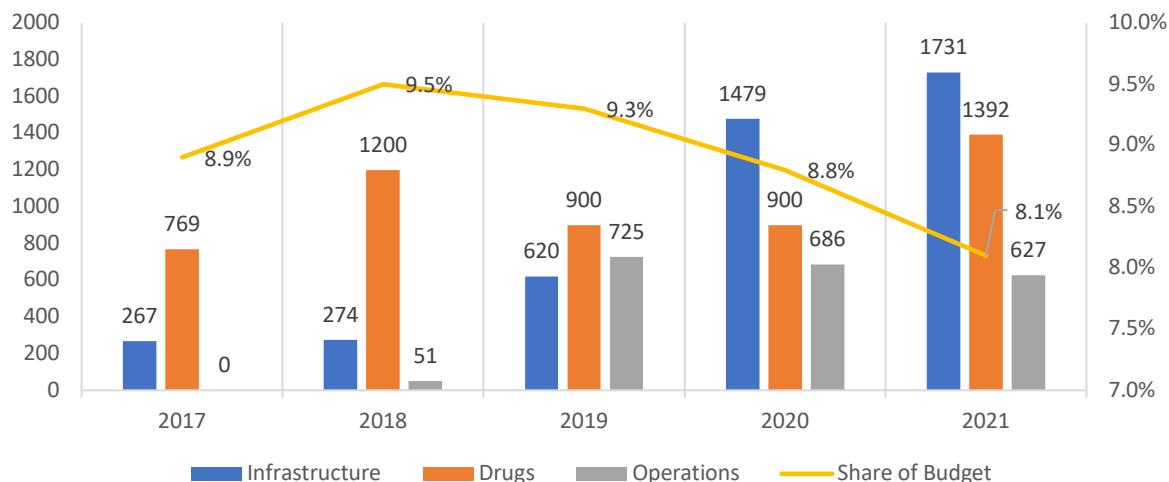
fears that the pandemic would overwhelm an already constrained health sector, Zambia seems to have fared relatively well in managing the pandemic. As of 28 August 2020, Zambia had recorded 11,779 COVID cases and saw a high recovery rate of 93%. Similarly, only 2.4% of those identified as infected succumbed to COVID-19. In spite of the moderated health implications of COVID-19, significant and continuing costs were incurred in managing the pandemic. The costs associated with testing were estimated at K158 million between March and August 2020.³ This was equivalent to 18% of the 2020 allocation for drugs and medical supplies. In addition, 2,232 health workers were recruited and deployed in 2020 as part of the COVID-19 response of strengthening the healthcare system.

In 2021, the Government has committed to spending a total of K9.7 billion on the health sector representing a nominal 3% increment from the 2020 allocation. As shown in Figure 4, the 2021 allocation represents a 0.7 percentage point decrease for the health sector as a share of the total budget. Significant increases are made to the allocations for infrastructure, drugs and medical supplies while allocations to hospital operations decreased by 8%.

The general decline in the health sector budget as a share of the total budget is a source of concern and risks harming the good progress made in the fight against COVID-19. It was expected that the Government would adopt a similar approach exhibited with Social Protection and similarly increase allocations to ensure that the health sector is adequately equipped to face a second wave of the COVID-19 pandemic and manage care for those with various pre-existing

³ ZIPAR 2020, Rapid Assessment of Effects of COVID-19 on Education, Health, Food & Nutrition and Social Welfare in Zambia

Figure 4: Budget Allocations to the Health Sector (in millions Kwacha)



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

health conditions. In light of the uncertainties related to the future course of the COVID-19 pandemic and the recent resurgences in cases in other countries, it is prudent for the Government to suspend all **new** infrastructure projects within the health sector and reallocate it to drugs, medical supplies and hospital operations. Currently, the healthcare system already faces challenges of inadequate medical supplies and drugs. Thus, the need to ensure that the currently operational health facilities are fully equipped.

The onset of the COVID-19 pandemic is also expected to increase the demand for health services, translating into significant out-of-pocket expenditures for households facing various constraints. This makes the National Health Insurance Scheme (NHIS), established in 2019, a critical mechanism for cushioning the cost of healthcare services for households. There has been progress in rolling out the scheme, though

access to the health insurance remains low. In 2020, the scheme which started by capturing formal sector workers managed to register 540,000 beneficiaries representing 60% of formal employed persons. However, access for the general population remains low as the total number of beneficiaries registered in 2020 only represents 3% of the population. The Government must enhance efforts to increase the number of beneficiaries registered if Zambia is to make headways in achieving the goal of universal health coverage.

Education and Skills Development: Substantial Investments Required to Make Further Improvements in Access, Quality and Equity

Education is the bedrock of long-term economic growth and structural transformation, and thus an important pre-requisite to the attainment of Vision 2030. This

is because education facilitates the upgrading of the quality and thus productivity of human capital which is required to drive economic growth. Investing in education therefore assures a country of a better and qualified workforce and entrepreneurs.

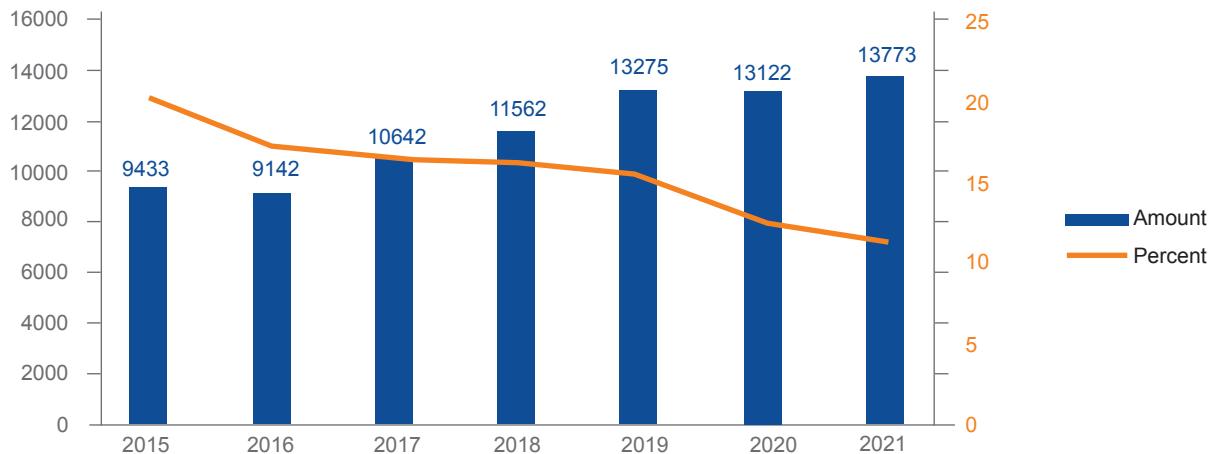
The Government, in the 2021 Budget, has shown commitment to improving the education sector by increasing the nominal allocation from K13.1 billion in 2020 to K13.8 billion in 2021, an increase of 5%. Although this increase is notable, this does represent a reduction in the proportion of the overall budget spent on education. This continues to show a downward trend, falling from 20%, 12.4% to 11.5% in 2014, 2020 and 2021, respectively (Figure 5). Additionally, the Government allocation to the skills development fund is a paltry 1.3% of the education budget compared

to, for example, the 8.8% allocated to infrastructure projects.

While the education sector budget has been increased, substantial investment is still required in order to maintain the gains made so far and make further improvements in terms of access, quality and equity.

In the last two years, the education budget has been the third largest allocation by government function. However, even though the budget has been increasing nominally, disbursements have been inconsistent and below the approved budget. As at 28 September 2020, only 38% of the 2019 approved education budget had been released⁴. Bearing in mind the economic recession and the subsequent tight fiscal space in 2021, a similar situation of low disbursements is likely to occur.

Figure 5: Education Budget (Values in ZMW million and percentage share of Budget, 2015-2021)



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

This will have a negative effect on provision

⁴ MoGE Joint Annual Review. 2020. Budget Performance

of quality education, particularly at pre-primary, primary and secondary school levels.

Early Childhood Education (ECE) has been allocated a paltry K13.0 million in the 2021, representing just about 0.1% of the entire education budget, from K10.9 million in 2020 (0.1% of the education budget). Given the importance of ECE, this allocation is insignificant. Substantial investments are required given that poor infrastructure and lack of qualified teachers remain key challenges in ECE.

At primary school level, the quality of education, measured by learner outcomes, remains a source of concern. The Zambia Education Enhancement Project (ZEEP) baseline and midline data shows that learner performance among primary school pupils have deteriorated in both mathematics and science.

Water Supply and Sanitation: A Sector Left Behind

WASH is critical for preventing various contagious diseases and COVID-19 is the starkest reminder of this in recent times. WASH services are a public good whose supply will be far lower than demand if left to the private sector; hence the importance of adequate public sector resourcing in the Budget. If anything, demand for clean water, sanitation and hygiene services has become more pronounced even in areas that previously did not focus on WASH services given the demands for sanitation and hygiene due to COVID-19. Schools and public institutions in rural and urban areas alike are now mandated to have facilities for WASH. Hence, the need for WASH services and increased financing cannot be overemphasised.

National water supply and sanitation coverage has slightly improved since 2015. According to the 2018 Zambia Demographic and Health Survey, 72% of households in Zambia now have access to safe drinking water compared to 68% in 2015. However, nearly half of the population in rural areas remain without access to safe drinking water. Access to improved sanitation facilities had gone up from 31% in 2015 to about 54% in 2018. This was an important milestone. However, rural areas remain disadvantaged as only 37% of the population has access to improved sanitation. Only 25% of the population have a fixed place for handwashing. Considering the current demands for this service due to the COVID-19 pandemic, this is a worrying trend that needs to be addressed quickly.

Given that the rural areas account for about 57% of the population, there is a clear imbalance in the provision of WASH services. Recognising these gaps, the Government has been implementing the National Urban and Rural Water Supply and Sanitation programmes. Major projects under these programmes include Kafue, Nakonde, Chinsali and Chongwe water supply projects as well as the Lusaka Water Supply Sanitation and Drainage programme which is expected to benefit an additional 90,000 residents. Further, with regard to the Rural Water and Sanitation Programme, six piped water schemes in Central, Southern and Western provinces have been completed benefiting more than 155,000 people.

Despite these efforts, the national budget allocation to the WASH sector has been declining since 2018 and is further expected to decline by 17% in nominal terms from K2.6 billion in 2020 to K2.2 billion in 2021. As a share of the national budget, the WASH sector is expected to decline from 2.5% in 2020 to

1.8% in 2021. Given this decline in the budget, these programmes are likely to stall.

Additionally, government efforts have focused on enhancing access and coverage of water supply to households whilst other aspects of sanitation and hygiene such as handwashing facilities and menstrual hygiene have not been prioritised. Menstrual hygiene which was mentioned in the 2017 Budget has largely remained ignored and underfunded. In the wake of the COVID-19 pandemic, menstrual hygiene requires special consideration due to the complications it presents for girls attending primary and secondary education especially in rural areas. The lack or limited availability of facilities for girls will likely affect the dropout and school attendance rates with an eventual effect on human development.

The importance of increasing and enhancing the delivery of WASH services cannot be overemphasised. WHO has demonstrated that washing hands saves lives, and WASH services are the first line of defence against waterborne diseases and COVID-19-related illnesses. The current decline in the national budget demonstrates the lack of prioritisation of WASH services and risks harming the mitigation of waterborne diseases such as cholera.

Climate Change: Protecting the Vulnerable through Climate Change Mitigation and Adaptation

Climate Change mitigation and adaptation mechanisms play a significant role in safeguarding and protecting vulnerable groups in Zambia. The adverse effects of climate change and variability disproportionality affects vulnerable groups. In the last

three years, Zambia has experienced extreme weather events such as floods, droughts and heavy rainfall that have led to the worsening of the vulnerability level of thousands. These events are expected to increase in intensity and frequency further threatening the livelihoods of many Zambians⁵.

In 2021, the Government has allocated K995 million for environmental protection. This represents an increase of 56% in nominal terms in comparison with the 2020 allocation of K612 million. As a share of the total Budget, this is an increase of 0.2 percentage-points from 0.6% in 2020 to 0.8% in 2021. This reiterates the Government resolve to achieve sustainable development by implementing climate change mitigation and adaptation measures thereby improving the management of natural resources. Similarly, on-going programmes such as the Transforming Landscapes for Resilience and Development programme and the Climate Change Resilience programme are instrumental to facilitate remedial actions to: firstly, provide immediate and effective response to crisis emergency; and secondly, support the Government to mainstream climate resilience in development planning. These and other programmes aid the vulnerable to adapt to climate-change related shocks across sectors.

The effects on vulnerability are already being felt given that the country has experienced an increase of severe droughts and reduced rainfall patterns in parts of Eastern, Southern and Western regions of Zambia. This is an important threat to the livelihoods of Zambians especially rural households, 90% of whom depend on rain-fed agriculture as their main

⁵ Tembo, B., Sihubwa, S., Masilokwa, I., & Nyambe-Mubanga, M. (2020). Economic Implications of Climate Change in Zambia

economic activity. It is therefore commendable that the Government is keen on strengthening the national response to climate change shocks and particularly enhance resilience among communities.

Combating Inequality by Joining the Grid

Access to electricity is critical in reducing the developmental inequalities that exist between rural and urban households. Accessing electricity enables households to use clean and efficient energy sources for cooking and lighting, and improves the quality of social services such as health care and education whose quality is enhanced by access to electricity. The benefits also extend to rural businesses that can be more productive, as well as school children that can benefit from extra hours of light to enhance school performance. However, access to electricity remains low with only 4% of rural households connected to the grid compared to 67% of urban households as of 2015.

The Government's response to reducing this inequality is through the Rural Electrification Fund (REF). In 2021, K 307 million has been allocated to the Fund representing a 45% increment on the 2020 allocation. This increment is commendable and is critical in reducing the enormous divide that exists between the urban and rural areas regarding access to electricity. The increase in access to electricity for rural areas has the potential to enhance rural household resilience to climate-related shocks such as the unavailability of water. Access to electricity will enable greater use of water for purposes of irrigation and access to clean pumped water. Additionally, connecting rural households to the grid has the potential to extend benefits to other elements of human development.

Walking the Talk for Nutrition

Zambia has made considerable progress in improving the nutrition status of children. Between 2014 and 2018, stunting decreased from 40% to 35% while wasting decreased from 6% to 4%, and the proportion of underweight children decreased from 15% to 12%. However, the onset of the COVID-19 pandemic, compounded by the increasing frequency of climate variations which affect food availability, has heightened food insecurity risks in 2021. The risks have been clearly demonstrated by the closure of schools due to the COVID-19 pandemic which resulted in more than one million school children who are on the Home-Grown School Meals (HGSM) programme being deprived of the much-needed macro and micro-nutrients that they obtain from the school meals. While the scaling up of the HGSM programme to 18 additional districts from the current 39 and the allocation of K5.6 million towards Nutrition Supplements under Primary Health Services in the 2021 Budget are commendable, more needs to be done. Given that allocations to nutrition-specific interventions remain below the US\$30 per under-five child per annum recommended by the World Health Organisation, the Government should actualise the commitments made at the 2018 National Food and Nutrition Summit and the K400 per under-five child approved by the Special Committee of Permanent Secretaries on Nutrition⁶.

6 UNICEF (2019). Zambia Nutrition Budget Brief.

Table 1: Shrinking Fiscal Space

	2019	2020	2021
Domestic revenue	56,087	71,927	65,983
Non-discretionary expense	48,818	59,353	73,380
Debt service [Principal & Interest payments on debt]	23,573	33,726	46,084
Personal emoluments	25,244	25,628	27,296*
Surplus (+)/Deficit (-) from domestic revenues	7,269	12,574	- 7,398
Surplus (+)/Deficit (-) as % of domestic revenues	13.0%	17.5%	-11.2%

*2021 estimate for personal emoluments based on the average disbursements up to August 2021

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

Sustainably Financing Social Sector Expenditure

The Social Sectors can only be sustainably financed through domestic resources. However, this has been a challenge in the past, and 2021 will be no exception. This is largely due to the shrinking fiscal space for discretionary spending as a result of increased debt servicing costs and low economic growth which has translated into reduced domestic revenues, as well as low budget execution rates. The 2021 Budget shows that debt servicing costs and the wage bill alone will be higher than the total domestic revenues (Table 1). At the very least, the Government would have to borrow to cover these expenditures as they cannot not entirely be covered by domestic revenues. However, the unpredictability of foreign grants and concessional loans which are premised on fulfilling certain conditionalities usually pertaining to fiscal governance and borrowing, and the limited market access for commercial loans, makes the financing of

the discretionary budget in general, and the Social Sector budget in particular, a big challenge going into 2021.

Fiscal space has become strained because of declines in revenue collection and increases in debt servicing expenditure. With many people losing jobs or livelihoods, there is an increased need for supporting the vulnerable sections of the population.

Given this state of affairs, it is unlikely that the non-wage components of the Social Sector budget will be adequately funded. So, the question is: “How do we ensure that the allocation to Social Sector spending is actualised in order to safeguard the lives and livelihoods of people who have become even more vulnerable due to the COVID-19 pandemic?”

At this time of slow growth, high risk of debt distress and the COVID-19 pandemic, the need to create fiscal space has never been greater. It is imperative that the Government aggressively explores all possible financing alternatives to expand fiscal space to raise

funds to support the social sectors. With the global economy registering minimal growth, there is a likelihood that donor investment in the Social Sectors will decline, so investment needs to be inward looking. Some inward-looking financing options are explored below:

Revisiting rental income taxation: The tax on rental income has eluded the tax authorities for a number of years now. A ZIPAR study found that only 5% of households in Zambia were registered for rental income tax in 2015. The appointing of local authorities as tax agents to collect turnover tax, base tax and withholding tax should be extended to withholding tax on rental income. Further, the tax authorities should revert to landlords paying the tax. This will increase administrative feasibility as landlords are easier to locate and follow up. Moreover, other strategies can be employed on landlords to strengthen enforcement, such as the use of third-party information. ZRA can leverage on information from commercial banks, including the mandatory Tax Payer Identification Number (TPIN) registration for all bank account holders, to identify landlords and enforce registration of these TPINs for payment of withholding tax on rental income. This will increase the number of taxpayers registered and aid voluntary compliance as well as enforcement.

Rationalising excise duty for mobile phone subscribers: Despite negative growth in most sectors, the information and communication technology sector is one of the two sectors projected to register positive growth; the other being agriculture. According to the Information and Communication Technologies Sector mid-year market report, the total number of active mobile network subscriptions increased from 16.3

million subscriptions at the end of June 2019 to 17.9 million subscriptions at the end of June 2020 reflecting an improvement of 10.0%. Charging every subscriber K0.20 per day could generate K1.3 billion in the year, enough to cover the Social Cash Transfer scheme. However, this sector is already loaded with a number of taxes. So, this could come as part of the 17.5% excise duty, but mechanisms should be found to ensure that the sector is not tax-burdened any further.

Curbing illicit financial flows: Illicit financial flows, largely driven by trade mis-invoicing, through deliberate mis-reporting of values of commercial transactions on invoices submitted to Zambia Revenue Authority (ZRA) Customs, as well as unaccounted for balance of payment movements, continue to be a serious issue for Zambia. Addressing illicit financial flows would require the country to strengthen institutions and legislation, and leverage on the use of technology.

Rationalising expenditures in order to increase the provision of social services within a given limited fiscal envelope: Good candidates for this is rationalising subsidies to the agriculture sector which can bring about sufficient savings. Despite increased production of staple food commodities and enhanced food security, the Farmer Input Support Programme and the Food Reserve Agency have not had a visible impact on the livelihoods of rural farmers and therefore requires reform. The Minister mentioned the phasing out of the conventional FISP which exerts a lot of funding pressure on the Treasury due to the Government's direct involvement in the purchase and distribution of agriculture inputs. Completely moving to the FISP e-voucher system, among other things, encourages private sector participation, thereby easing pressure on the Treasury.

Conclusion

Zambia is facing the dual effects of a recession and having to deal with the COVID-19 pandemic. To protect its most vulnerable citizens, the Government has increased allocation to social protection and climate change issues. However, there have been notable declines in the share of education, health and water and sanitation due, in part, to the ever-decreasing fiscal space as a result of increased debt servicing costs and reduced revenues. This is a source of concern given the health pandemic that the country is facing. In order to safeguard the allocation and sustainably finance the social sectors, it is imperative that the Government devises some domestic resource mobilisation measures to sustainably fund the 2021 budget.

ZIPAR in partnership with the UN System in Zambia (UNICEF and UNDP)



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