

2019 NATIONAL BUDGET ANALYSIS

“DELIVERING FISCAL CONSOLIDATION FOR SUSTAINABLE AND INCLUSIVE GROWTH”

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PMRC 2019 NATIONAL BUDGET ANALYSIS

**“DELIVERING FISCAL CONSOLIDATION FOR SUSTAINABLE AND
INCLUSIVE GROWTH”**

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ABBREVIATIONS

7NDP	Seventh National Development Plan
AfDB	African Development Bank
DWCP	Decent Work Country Programme
GCF	Green Climate Fund
GDP	Gross Domestic Product
IFIMIS	Integrated Financial Management Information System
ILO	International Labour Organisation
LIAZ	Leather and Industries Association of Zambia
MP	Member of Parliament
PMRC	Policy Monitoring Research Centre
VAT	Value Added Tax
WB	World Bank
ZESCO	Zambia Electricity Supply Corporation

INTRODUCTION

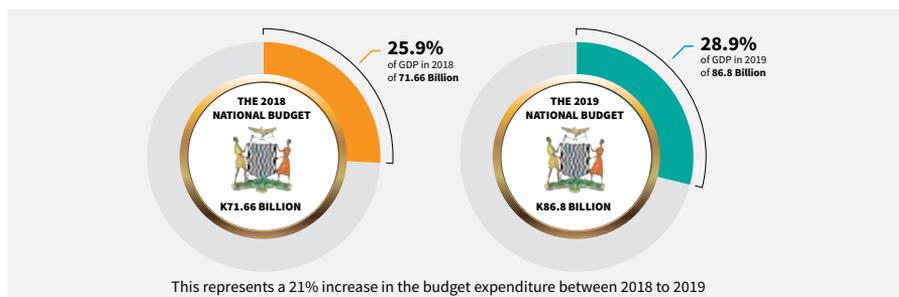
On Friday 28th September 2018, the Minister of Finance, Honourable Margaret D. Mwanakatwe, MP delivered the 2019 Budget address to the National Assembly under the theme “Delivering Fiscal Consolidation for Sustainable and Inclusive Growth”.

KEY MESSAGES

- The 2019 National Budget was formulated against the backdrop of the austerity measures being implemented by Government to deliver fiscal consolidation. It provides a firm foundation for the country to return to moderate debt levels, entrench overall macroeconomic stability and promote sustained and inclusive growth.
- The budget proposes bold and substantial changes in revenue mobilisation and spending strategies in support of the goal for fiscal consolidation. The proposed measures aim to ensure that domestic revenue as a proportion of GDP increases to 18.7 % from 17.7 % in 2018. The 2019 Budget aims to achieve a fiscal deficit of no more than 6.5 % of GDP from the projected 7.4 % in 2018.
- The focus of the budget is to promote not only broad-based sustainable and inclusive growth, but also address the high unemployment and poverty levels among the people. To achieve this, the creation of space for private sector growth and entrenching macroeconomic stability through fiscal consolidation is central to this process.
- The budget is aligned to the Economic Stabilisation and Growth Programme, the Seventh National Development Plan (7NDP), and the vision of becoming a **prosperous middle-income country by 2030**. The national budget intends to actualise poverty reduction through proportional investments to sectors as outlined in the 7NDP. The Economic Stabilisation and Growth Programme is aimed at fiscal consolidation, reduction of the budget deficit and management of debt while stimulating growth.

BUDGET REVENUES

In the **2019 Budget**, Government proposes to spend **K86.8 billion or 28.9 % of GDP in 2019 compared to K 71.66 billion or 25.9% of GDP in 2018**.

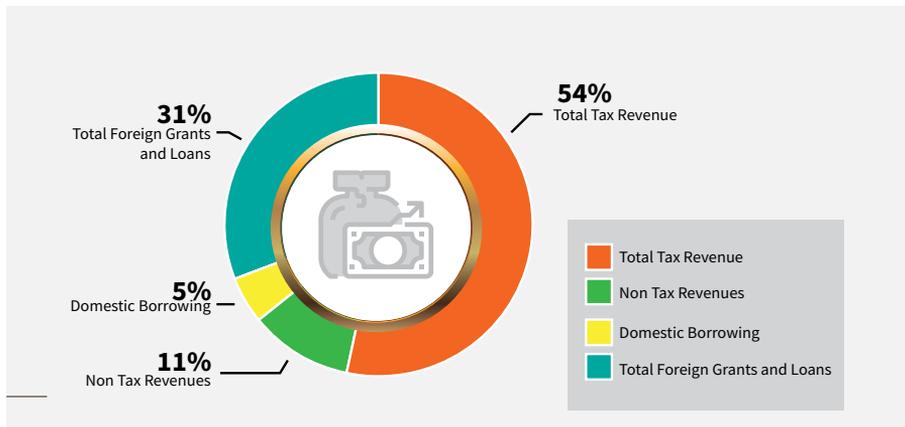


The Revenue is broken down as follows:

- Domestic revenues amounting to K56.1 billion or 64.6% of the total budget.
- Grants from various cooperating partners amounting to 1.9 billion or 2.2% of the total budget.
- Debt financing, both domestic and external, amounting to K28.8 billion or 33.2% of the total budget expenditure.

The **2019 Budget** proposes bold and substantial changes in revenue mobilisation and spending strategies in support of fiscal consolidation goals. The proposed measures will ensure that domestic revenue as a proportion of **GDP increases to 18.7 % from 17.7 % in 2018.**

Figure 1: The 2019 Revenue and Financing



Source: Adapted from 2019 budget.

BUDGET EXPENDITURE BY FUNCTION

The expenditure allocations presented in the budget are aligned to the sector policies as outlined in the 7NDP. The details on how resources were allocated across the broad functions of Government are indicated in Table 1 on next page.

TABLE 1
ON NEXT PAGE

Table 1: Government Expenditure by FunctionAll Currency is In **Zambian Kwacha**

2019 Expenditure by Function

Functions	2019 Budget		2018 Budget		2017 Budget	
	ZMW 'Million	Percentage of Budget	ZMW 'Million	Percentage of Budget	ZMW 'Million	Percentage of Budget
General Public Services	31,27706	36.03%	25,898.0	36.10%	17,970.34	27.90%
Defence	5,072.43	5.84%	3,498.22	4.90%	3,204.45	5.00%
Public Order & Safety	2,865.51	3.30%	2,144.57	3.00%	2,342.97	3.60%
Economic Affairs	20,651.09	23.79%	17,258.33	24.10%	20,132.60	31.10%
Environmental Protection	875.10	1.01%	951.35	1.30%	616.47	1.00%
Housing & Community Amenities	2,238.70	2.58%	816.26	1.10%	822.81	1.30%
Health	8,069.13	9.30%	6,781.56	9.50%	5,762.03	8.90%
Recreation, Culture & Religion	297.27	0.34%	451.16	0.60%	323.5	0.50%
Education	13,274.55	15.29%	11,561.64	16.10%	10,641	16.50%
Social Protection	2,187.06	2.52%	2,3001.26	3.20%	2,693.21	4.20%
Total	86,807.89	100.00%	71,662.39	100.00%	64,510.30	100%

Source: adapted from the budgets

The health sector allocation at 9.3% of the total budget fall short of the 15% Abuja declaration. This underspending has over the years resulted in an inadequate provision of quality health services to all.

The education sector allocations in the 2019 budget is 15.2% which is less than 20% global threshold. The highest allocations were in 2014 and 2015, with the sector budget reaching 20.2% in both years.

Macroeconomic Objectives, Policies and Strategies for 2019

The specific macroeconomic objectives for 2019 will be to:



- i. **Attain annual GDP growth rate** of at least 4 percent;
- ii. **Sustain inflation** within the range of 6 to 8 percent;
- iii. **Raise international reserves** to at least 3 months of import cover;
- iv. **Increase domestic revenue** to not less than 18 percent of GDP;
- v. **Reduce the fiscal deficit** to 6.5 percent of GDP;
- vi. **Prioritise the dismantling of arrears** and curtail accumulation; and
- vii. **Reduce the pace of debt accumulation** and ensure sustainability

PILLAR ONE: ECONOMIC DIVERSIFICATION AND JOB CREATION

Economic diversification still remains unattained. We have been submitting that **Agriculture, Tourism, Energy and Manufacturing** present major opportunities for diversification reform and we shall provide comments herein.

The agriculture sector remains the largest employer and coveted diversification torchbearer. After more than 50 years of independence agricultural productivity remains low especially among small scale farmers largely due to high dependence on rainfed agriculture, poor mechanisation and low value addition. To address some of these challenges the 2019 Budget seeks to promote all year-round agriculture production as well as climate smart agricultural practices through the development of irrigation infrastructure with a 2019 target of 3,000 additional hectares.

Government in the 2018 Budget announced plans to set up a tractor assembly in the Lusaka South Multi Facility Economic and has in the 2019 Budget re-echoed the same pronouncement with a promise of access to cheaper equipment to improve mechanisation and productivity. We continue monitoring why the assembly plant was not established in 2018 as planned.

Government also announced plans to revise the Food Reserve Act in 2019 to enhance sustainability and efficient management of national strategic food reserves. However, it must be noted that PMRC made submissions regarding revisions to the Food Reserve Act urging the Zambian government to resist the temptation to get involved in maize marketing through the Food Reserve Agency but focus on investments in key drivers of growth in the agriculture sector that include **extension services, disease control, livestock management, research and development.**

TOURISM

Tourism policy focus in 2019 will be centred on the diversification of tourism products and promoting domestic tourism. The diversification efforts will be achieved by, among other things, integrating the country's rich cultural heritage into tourism packages beyond traditional ceremonies. It must be noted that Zambia has in the past grappled to package sellable tourism products thereby underutilising the potential for wealth creation in the tourism sector. PMRC has in the recent past urged Government to focus on improving access to tourism sites through maintenance of road infrastructure and upgrading of accommodation facilities; some of which are being attended to in the 2019 Budget.

MINING

Government has made significant progress in the implementation of the Mineral Production Monitoring Support Project aimed at enhancing monitoring of mineral production and exports. Currently, all the large-scale mining companies are on the system with plans to extend this to small and medium mining companies in 2019. PMRC notes with concern the lack of a financial component in this system which would play a significant role in monitoring financial transactions associated mineral production and exports. Further, PMRC notes that the revenue policy adjustments that have been made in the mining sector will improve revenue collection from the mining sector with examples such as:

- I. Increase mineral royalty rates by 1.5 percentage points at all levels of the sliding scale;
- II. Introduction of a fourth tier rate at 10% on the sliding scale mineral royalty regime which would apply when copper prices rise beyond US\$7,500 per metric tonne;
- III. Making mineral royalty tax non- deductible for income tax purposes;
- IV. Introducing an import duty at the rate of 5% on copper and cobalt concentrates;
- V. Introducing an export duty on precious metals including gold, precious stones and gemstones at the rate of 15%; and
- VI. Lifting the suspension of the export duty on manganese ores and concentrates which was put in place in 2012 and increase this duty to 15% from 10%.

We further maintain our calls for mineral revenue sharing mechanisms to be in place. This way, communities within the mines will benefit much more than they are benefiting currently.

ENERGY

In the electricity sub sector, a number of projects are currently being undertaken to increase electricity generation as well as diversify the energy mix. These include, among others, the 300 megawatts of the second phase Maamba coal-fired thermal power plant, 750 megawatts Kafue Gorge Lower Hydro Power Station and upgrading of the Lusiwasi Hydro Power Project. The preparation process towards the construction of the 2,400 megawatts Batoka Hydro Power plant co-financed by Zambia and Zimbabwe will continue in 2019.

With the implementation of the Renewable Feed-in-Tariff Strategy Government aims to bring an addition 200 megawatts to the national grid in an effort to diversify the energy mix. Government intends to construct additional solar plants in 2019. Given the current fiscal constraints *PMRC urges the Government to focus on attracting private investment (Independent Power Producers) in the electricity sector by setting a conducive governance environment in the sector. This includes effective planning, competitive procurement and contracting. Effective planning is very important for minimizing costs for consumers and making the most of Independent Power Producers while procurement should involve tools such as the Least Cost Power Development Plan. In addition to these measures Government must ensure creditworthiness of the off-taker and state utility company Zambia Electricity Supply Corporation (ZESCO) is achieved coupled with high quality independent regulation. These measures have the potential to increase investments in the electricity sector without increasing the financial burden on the Government.*

PILLAR TWO: REDUCING POVERTY AND VULNERABILITY

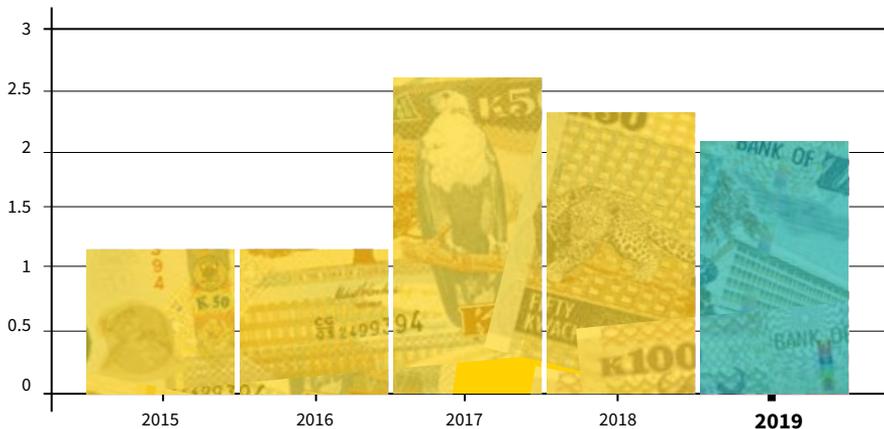
Pillar II of the Seventh National Development Plan (7NDP) aims to reduce poverty by 20% between 2017-2021. The Government has identified two development outcomes aimed to reduce poverty and vulnerability: enhanced welfare and livelihoods of the poor and vulnerable; and climate change and disaster risk reduction.

In the 2019 budget, the Government has planned to continue implementing social protection and climate change programs to ensure poverty and vulnerability reduction in the country. Expenditure towards **social protection** has **reduced from K2.3 billion in 2018 to K2.1 billion in 2019**. In terms of percentages there is also a significant reduction in the percentage of social protection to the total budget from 3.2% in 2018 to 2.5% in 2019.

Next page is a table showing the trends in funding for social protection in the last five years.

TABLE 2 ON NEXT PAGE

Figure 2: Social Protection Funding (Billion Kwacha)



Source: Author's compilation

The 2019 Budget, Government has maintained the number of social cash transfer beneficiaries on the scheme at 700,000 and funding towards pension scheme at K1billion. The reduction in funding is a contradiction to Government's recovery program which aims to upscale social protection as a way of reducing economic shocks resulting from the implementation of the economic recovery program.

Government should be commended on its decision to increase the number of learners on the **school feeding programme** and **women on the empowerment programme from 956,000 to 1,250,000 in 2019 and 22,000 to 41,000 in 2019 respectively**. The increase in beneficiaries' in both the home-grown school feeding program and women empowerment entails an increase in household income for the targeted household and nutrition for school going children. Youths constitute the majority of the population and therefore, empowerment initiatives towards young people should be prioritised.

From 956,000 to
1,250,000

Learners on the school feeding programme in 2019.

From 22,000 to
41,000

Women on the empowerment programme in 2019 respectively.

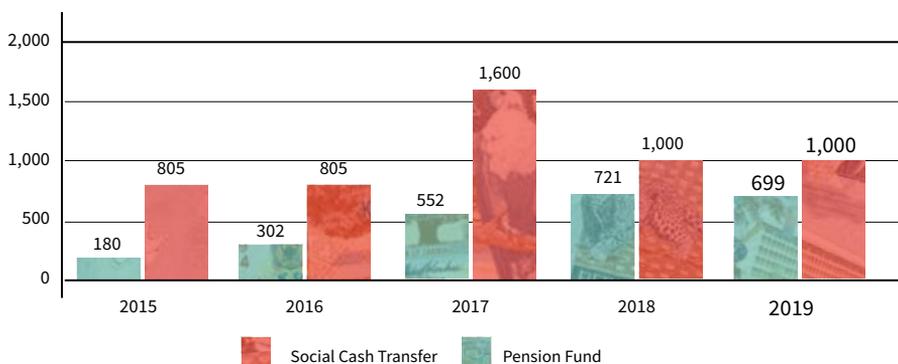
PUBLIC SERVICE PENSION FUND

It should be noted that funding towards public service funding has been maintained at K1 billion in 2019 which was the same figure in 2018. The maintenance of funding towards pension fund will have a long-term impact on Government efforts of dismantling arrears and continued loss of limited finances by keeping retirees on government payroll.

SOCIAL CASH TRANSFER

The Government has maintained the number of beneficiaries on social cash transfer at 700,000 beneficiaries for 2019 but with a marginal decrease in expenditure from K721 million in 2018 to K699 million in the 2019 budget.

Figure 3: Social Cash Transfer and Pension Fund ‘million Kwacha’



Source: Authors' Compilation

EMPOWERMENT

In order to enhance the livelihoods of women in the country, the Government has planned to add 19,000 women to the already 22,000 on the Girls Education and Women Empowerment Livelihood Project funded by the World Bank. In the 2019 Budget Government has planned to **train 3000 youths in vocational and life skills**. Additionally, the Government has planned to resettle **400 youths in the Mwangi and Mufumbwe Youth Resettlement Schemes** where they will be provided with **free land and start-up kits to engage in agriculture and Agro related activities**.

DISASTER RISK REDUCTION

Amidst adverse effects of climate change, funding to environmental protection has reduced from K951 million in 2018 to K875 million in 2019. At the same time funding towards climate change resilience reducing from K457 in 2018 million to K213 million in 2019. The reduction in funding towards climate resilience has negative impacts on the efforts towards achieving sustainable development and disaster risk reduction. Furthermore, the Government has committed continued resource mobilization for disaster risk reduction efforts. As a signatory to

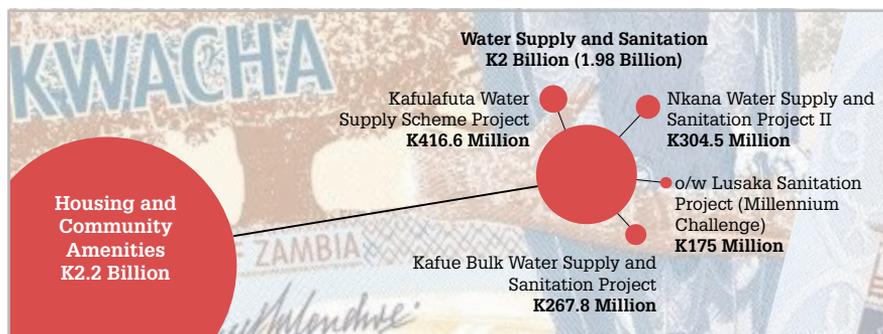
climate change reduction global efforts such as the Paris Agreement and the Sendai Framework of Disaster Risk Reduction, Zambia has a mandate to reduce vulnerability among its citizens through building resilience with the help of all stakeholders. Therefore there is need for Government’s continued resource mobilization from all development partners and international organizations such as the Green Climate Fund (GCF), World Bank (WB) and African Development Bank (AfDB) for investment in climate change sensitive sectors such as agriculture, energy and health, as well as water and sanitation.

PILLAR THREE: REDUCING DEVELOPMENT INEQUALITIES

In the 2019 budget address, Government has reiterated its commitment to reducing development inequalities by highlighting concerns with a the rural- urban divide and the gender and income inequalities that undermine efforts for social justice in Zambia.

Government has committed to continue addressing the disparity between rural and urban areas with continued investment in rural infrastructure development. In the 2019 budget, Government has committed to continue with the construction and rehabilitation of feeder roads under the Rural Connectivity Project, and the construction of basic infrastructure in the newly created districts and the rural electrification programme. It is still unclear how the recently announced austerity measures *[which stated that priority will be given to projects which are 80% complete]* will affect the Rural Connectivity Project and construction of basic infrastructure in newly created districts.

Figure 4: 2019 Expenditure Allocation to Water Supply and Sanitation



In 2018 Government allocated K564,508,860 to water supply and sanitation while in 2019 about K1.98 billion has been allocated to water supply and sanitation programme signifying a 145% increase. The increase in the allocation towards water and sanitation is in line with reducing development inequalities. It is however hoped that the allotment is predominantly towards rural areas and peri urban settlements. Effective and efficient targeting will result in a general improvement in water and sanitation development, which is key prerequisite for a healthy

Government also committed to accelerate the implementation of the Decent Work Country Programme (DWCP). This programme is anchored on the International Labour Organisation (ILO) Decent Work Agenda for Africa. The four priorities of the Programme are;

1. Effective application of fundamental principles and rights at work to support equitable and inclusive economic growth in Zambia.
2. Effective social dialogue contributes to sound industrial relations and sustained economic growth in Zambia.
3. More and better employment opportunities created, with focus on targeted groups.
4. Strengthened social protection systems including enhanced HIV and AIDS work place response.

With these set priority areas, the DWCP aims at ensuring that all workers have decent employment that guarantees social protection and protects their rights at places of work. In order to further improve monitoring, Government has committed to intensify labour inspections to ensure compliance with the labour laws.

Government has committed to utilise the existing deconcentrated structures to channel financial resources to the districts as an interim measure to devolution. In the 2018 budget address, Government committed to repeal and replace the Rating Act to enable councils to collect more revenue from property rates. PMRC recommends for more consultation in the process of the repeal and replacement of the Act. We further urge policy makers to continuously ensure and consider the following as they continue to implement the Decentralisation Policy.

- Provide for consistent monitoring, adequate capacity building and civil society participation to ensure efficiency and effectiveness in the devolved functions.
- Continued political commitment and a positive attitude by personnel assigned to devolve functions.
- Increased citizens participation at the local planning level, to ensure that resource allocation reflects the local needs and national development plans.

PILLAR FOUR: ENHANCING HUMAN DEVELOPMENT

Human Development involves the expansion of human freedoms to live long, healthy and creative lives. This is measured by the Human Development Index, with Zambia standing at 0.58. The Seventh National Development Plan (7NDP) highlights three outcomes aimed at enhancing human development in Zambia which include; health, education and water and sanitation.

EDUCATION

The 2019 budget records a 14.7% increase in the budget allocation for education from the 2018 budget with one of the attributing factors being an increase in colleges and university infrastructure from K321.9 million in 2018 to K601.6 million in 2019. The increase in college and university infrastructure will increase the enrolment of students in colleges and university. The combined K860.4 million allocated for school, universities and colleges infrastructure is also more than the target amount of K360.5 million indicated in the 7NDP implementation plan.

Early Childhood Care, Development and Education is yet to be rolled out in all parts of Zambia. Since its integration in the Zambian education system in 2014, the budget allocation towards this sector is insufficient. Given the increase in the budget allocation towards education, Government must prioritise increasing allocation towards early childhood education to ensure that children aged 3- 6 years have equal access to quality education.

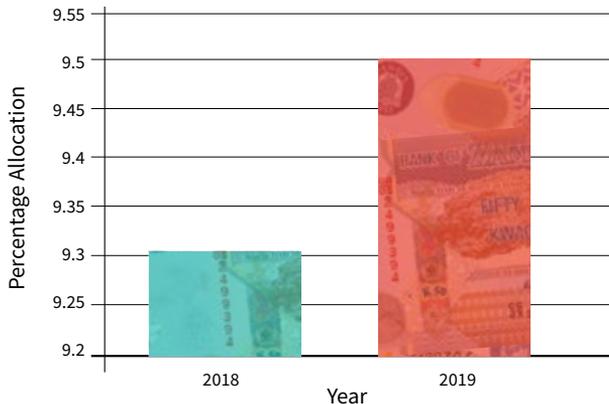
The implementation of the two- tier system which will offer learners an opportunity to either follow an academic or vocational career path is a good initiative as it will provide learners the choice of following their career path rather than spending years acquiring knowledge and skills that has little to do with their career choices.

HEALTH

In as much as the Health sector budget allocation increased from K6.8 billion (9.5%) in 2018 to 8.1 billion (9.3%) in 2019, it falls short of the Abuja Declaration which Zambia is a signatory. Zambia plus other members of the African Union pledged to set a target of allocating at least 15% of their annual budget to improve the health sector. Given this shortfall, there is dire need for an increase in budgetary allocation towards the health sector in order to meet the bare minimum of 15%.

FIGURE 5 ON NEXT PAGE

Figure 5: Expenditure allocation to Health Sector by Percentage

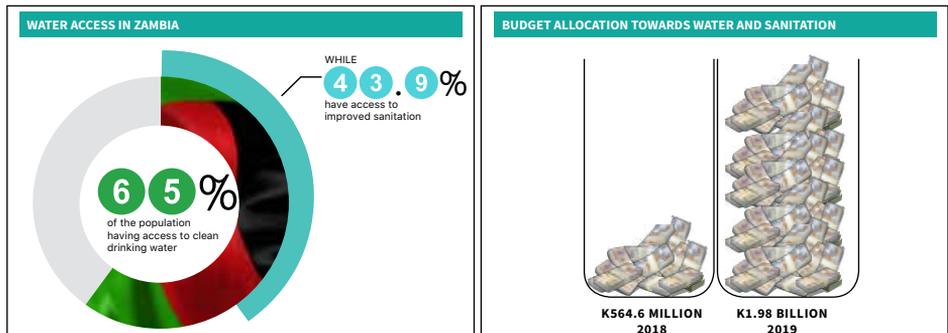


The K10.7 million allocated towards the operationalization of the newly introduced National Health Insurance Scheme is a positive stride towards achieving universal access to quality healthcare services. Prior to the enactment of the National Health Insurance Bill only 3.9% of Zambians had health insurance cover while the remaining 96% of the population depended on out of pocket payments when accessing health services. The budget allocation towards the operationalization will help to eliminate the need for out of pocket payments for health services, improve health infrastructure and equipment. It is imperative that Government sets up a monitoring and evaluation system for the review of operations of the scheme in a manner that will provide accountability and transparency of the funds allocated towards the scheme.

SANITATION

Water and sanitation in Zambia remains a challenge with approximately **65% of the population having access to clean drinking water**, while **only 43.9% have access to improved sanitation**.

With the 250.75% budget allocation increase towards **water and sanitation from K564.5 million in 2018 to K1.98 billion in 2019**, it is expected that the percentage of the Zambian population accessing clean drinking water and improved sanitation will increase. This increase is also expected to reduce on disease outbreaks caused by poor water and sanitation like Cholera.



PILLAR FIVE: CONDUCTIVE GOVERNANCE ENVIRONMENT FOR A DIVERSIFIED AND INCLUSIVE ECONOMY

POLICY, REGULATORY AND STRUCTURAL REFORM

On the fiscal policy side, Government through the 2019 budget has recognized that fiscal consolidation requires that the overall budget deficit is reduced in order to anchor macroeconomic stability and create space for private sector growth by cutting expenditure and increasing domestic resource mobilization strategies. The adverse effects of fiscal deficits on an economy cannot be overemphasized. Budget deficits reduce levels of credit for private sector growth, create higher inflationary pressures and volatility in the exchange rate. The consistence of fiscal deficits over the years is depicted in the table below.

Figure 6: Government Fiscal Deficits



Source: Ministry of Finance, Green Paper 2019 - 2021 Medium Term Expenditure Framework

It is also gratifying that Government is aware of constrained fiscal space as a result of the higher debt obligations as past loans fall due, thereby constraining fiscal space. It has therefore put in some measures to protect the poor in the 2019 budget include as follows:

- I. Significant reduction in expenditure on administrative parts of the public service so as to prioritise allocations to key service delivery expenditures such as drugs;
- II. Controlling the growth in the wage bill by restricting recruitment to only 3,500 frontline personnel;
- III. Scaling down domestically financed capital expenditure by phasing the completion of existing projects by prioritizing projects that are at least 80% complete;
- IV. Increasing domestic resource mobilization to 18.7% of GDP; and
- V. Curtailing domestic borrowing from 4% to 1.4% of GDP.

To broaden the tax base and enhancing compliance levels. Key measures to be undertaken include the following:

- I. Digitalisation of all revenue collection processes for Government services;
- II. Enhancing system interface between Zambia Revenue Authority and other institutions to maximise the use of third-party data in taxpayer compliance management;
- III. Review the Rating Act to facilitate the mass valuation of properties so that appropriate taxes and fees can be collected;
- IV. Establish a Land Management Authority to deal with all matters relating to the land management and titling. This will accord citizen security of land tenure and boost revenue from ground rent;
- V. Establish a public auction mechanism for timber and lift the ban on all timber exports; and
- VI. Undertake a review of all existing tax exemptions. This will involve, among others, stepping-up monitoring of all investors who have accessed the tax exemptions to ensure fulfillment of investment pledges.

LAWS

Government enacted the Public Finance Management Act earlier in 2018. The Act strengthens the punitive actions for cases of abuse and misapplication of funds. This legislation is key in reducing incidences of misuse and theft of public resources. The Act also has positive impact on resource allocation and eventually improve public service delivery.

Further, Public Procurement Act and the Planning and Budgeting Bill are to be tabled in parliament in order to strengthening public financial management. The importance of these two pieces of legislation cannot be overemphasized.

DEBT MANAGEMENT POLICY

The measures undertaken by Government in June 2018, aimed at returning the country to a moderate risk of debt distress in the medium-term and to low risk over the long-term are commendable. The Minister during the budget presentation also emphasized that consultations were ongoing on specific measures to reduce planned and existing debt and to reduce debt service obligations over the medium to long-term. Zambians are anxiously waiting to know the sector measure whose success will primarily hinge on the commitment to implementation. The initiative by the Minister to ensure dissemination of accurate information on debt through quarterly updates on the debt position is also commendable.

ARREARS DISMANTLING STRATEGY

Dismantling of arrears remains key to improving liquidity to the private sector in the domestic economy and to promoting economic activity. This also helps to reduce the risks associated with nonperforming loans in the banking sector. Government has committed itself to continue with the dismantling of arrears and strengthening expenditure commitment control systems in order to curb the accumulation of new arrears. On such expenditure control is the Integrated Financial Management Information system (IFMIS); which prevents unbudgeted for expenditure.

MONETARY AND FINANCIAL SECTOR POLICIES

Monetary policy in 2019 will remain focused on

- Price stability by maintaining the annual inflation rate within the target range of 6-8 percent.
- The Bank of Zambia to enhance the use of the forward-looking monetary policy framework that is anchored on the Policy Rate as the key signal for the monetary policy stance.
- Further, the liberal foreign exchange system will be maintained, with Bank of Zambia interventions limited to smoothing short-term fluctuations in the exchange rate and building international reserves.

The Minister did indicate that to enhance stability of the financial sector, the Deposit Insurance Bill will be tabled in parliament for legislation in 2019. This provides protection to depositors in event of failure of a bank or other deposit-taking financial institutions.

To promote the secondary market for Government securities, increase liquidity and enhance price discovery in the Government bond market, the Bank of Zambia will introduce a Primary Dealership System in 2019. This will create a more vibrant wholesale and retail market for Government securities. Government has further stepped up its sensitization efforts to retail customers to expand the investor base.

REBASING OF THE GROSS DOMESTIC PRODUCT

In 2019 Government will undertake an exercise to rebase the Gross Domestic Product, an exercise last conducted in 2012. The rebasing of the Gross Domestic Product will provide reliable and updated information on the current size and structure of the national economy. This is very important exercise. GDP rebasing refers to revisions of national accounts' size and structure. The accuracy of national accounts estimates and their comparability across countries depend on timely revisions to data on GDP and its components. Based on additional information received during the year about growth of some sectors. This can necessitate GDP weights to be revised. Rebasing is also necessary since it considers informal sector which have now formalized. In some cases, larger revisions are required because of new methodologies and changes to the base year. Comprehensive revisions of GDP data usually results in upward adjustments as improved data sources increase the coverage of the economy with new weights for growing industries. The rebasing will also provide Government with an opportunity to update and develop appropriate social and economic indicators to measure progress in achieving the objectives under the National Development Plans and the Sustainable Development Goals.

REVENUE MEASURES

HIGHLIGHTS: REVENUE MEASURES

- Abolishment of the Value Added Tax (VAT) and replace it with a simpler and non- refundable Sales Tax effective in April 2019.

VAT is a consumption-based tax that is levied in the supply chain at each point where value is added to a good or service. It is incurred by the final person in the chain of supply. Others Persons in the value chain will claim back input VAT incurred in the course of their business, and remit to Zambia Revenue Authority, the Output VAT. This change was prompted because the country lost revenue through VAT Refunds (fraudulent and double claims).

Zambia is not the first country to introduce the sales tax. Malaysia and Canada turned to sales tax recently. Sales Tax is a non-refundable consumption tax imposed by the government on the sale of goods and services.

Depending on how the sales tax is implemented it can bring about the cascading tax effect meaning that the consumer of the goods has to bear the load of tax on tax and the inflationary prices that result from the effect. Sales tax can create higher tax revenues compared to a single stage tax, because tax is



REFUNDS

Country lost revenue through VAT Refunds.



Malaysia and Canada recently turned to Sales Tax. Which is a non-refundable consumption tax



Countries with cascade tax struggle with being competitive in the international markets.

imposed on top of tax. Countries with cascade tax struggle with being competitive in the international markets. This is because the resulting inflationary prices stifle the availability of cheap labour and other factors of production, forcing market prices to be above international prices.

- Increase the penalty for non-compliance with transfer pricing regulations to eighty million penalty units from ten thousand penalty units. Transfer pricing refers to the rules and methods for pricing transactions within and between enterprises under common ownership or control. Because of the potential for cross-border controlled transactions especially among multinationals to distort taxable income,

Tax authorities in many countries have put rules and can adjust intragroup transfer prices that differ from what would have been charged by unrelated enterprises dealing at arm's length. The Regulations contain rules that need to be followed in terms of comparability, choice of transfer pricing method, arm's length range, etc

As PMRC we believe this measure will deter companies from breaking the regulation by trading amongst themselves and distorting the taxable income.

- Interest allowable on debts owed will be limited to 30% of Earnings Before Interest, Tax Depreciation and Amortization (EBITDA) for purposes of company tax*.
- The OECD published recommendations on preventing base erosion through the use of interest expense in October 2015 under Action 4 of the Base Erosion and Profit Shifting (BEPS) Project.
- Base Erosion and Profit Shifting (BEPS) refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations.
- AS PMRC will believe that this new rule will restrict the ability of large businesses to reduce their taxable profits through excessive interest expense.
- Increase the withholding tax rate on dividends, interest



Increase the penalty for non-compliance with transfer pricing regulations to eighty million penalty units from ten thousand penalty units.



Choice of transfer pricing method, arm's length range, etc.



Increase the withholding tax rate on dividends, interest and branch profit remittance.

FLAT RATE



Re-introduce a flat rate of 4% on business turnover below K800,000 per annum.



Introduce an excise duty of 30 ngwee per litre on non-alcoholic beverages.

and branch profit remittance to 20% from 15%. **This is an effort for Government to collect more revenue.**

- Abolish the current turnover tax regime and re-introduce a flat rate of 4% on business turnover below K800,000 per annum. **This measure is expected to streamline the turnover tax system for small and medium enterprises and enhance compliance.**
- Introduce an excise duty of 30 ngwee per litre on non-alcoholic beverages. **The final consumer is likely to bear and push costs of non-alcoholic beverages marginally up.**
- Lift the ban on exports of raw hides and skin and introduce an export duty of 10% on these items. Leather and Industries Association of Zambia (LIAZ) had from time to time requested Government to restrict exports of raw hides. The motivation behind was to increase supply within the country so that local tanneries enjoy a more abundant availability at a lower cost. **We welcome the move because cattle skins were going to waste at the butcheries and abattoirs as farmers could not turn their animal skins into blue leather which could be exported.**
- Increase excise duty on plastic carrier bags to 30% from 20%. We expect that in the long term this will discourage usage of plastic carrier bags. The negative environmental effects of plastic bags to the environment cannot be overemphasised. Tonnes of plastic bags end up in our drainages and other water bodies. This leads to flooding, pollution of water bodies and destruction of aquatic life.
- Increase the customs duty on used and retreaded tyres from 25% or K3.00 per Kg to 40% or K5 per Kg. We expect that in the long-term this will discourage usage of retreaded tyres which sometimes contribute accidents.
- Increase mineral royalty rates by 1.5 percentage points at all levels of the sliding scale.



Lift the ban on exports of raw hides and skin and introduce an export duty.



The negative environmental effect of plastic bags to the environment cannot be overemphasised. Tonnes of plastic bags end up in our drainages and other water bodies.



Duty up on retreaded tyres. The long-term effect will discourage usage of retreaded tyres which sometimes contribute as cause of accidents.



Increase mineral royalty rates by 1.5%

Norm Price Range	Current Rate	Proposed Rate
Less than USD 4,500	4%	6%
USD 4,500 to USD 6,000	5%	7%
USD 6,000 to USD 7,500	6%	8%
Above USD 7,500	—	10%

Introduce a fourth-tier rate at 10% on the sliding scale mineral royalty regime which would apply when copper prices rise beyond US\$7,500 per metric tonne;

Projections indicate that by 2030, demand for copper will be more than three times the current demand and its price is likely to increase. Prices will average US\$8,000 a metric tonne in 2022, passing US\$9,000 a tonne by 2028. Therefore, the introduction of the 4th tier is timely and will enable the country collect maximum revenue when copper prices go up.

- Make mineral royalty tax non-deductible for income tax purposes. This will increase the taxable income.
- Introduce an import duty at the rate of 5% on copper and cobalt concentrates. This measure is aimed at protecting local mining from competition by ensuring investment is upscaled in Zambia in terms of actual mining as opposed to importing concentrates. On other hand, this measure may lead to underutilization of the existing capacity of smelters if affected companies scale down on importation of concentrates. Consequently, such companies will loose some revenue.
- Introduce an export duty on precious metals including gold and precious stones – This will increase the revenue base.
- Increase the customs duty on powdered milk to 15 % from 5%.

10%

On the sliding scale mineral royalty regime which would apply when copper prices rise beyond .



Mineral royalty tax non-deductible for income tax purposes.



Import duty at the rate of 5% on copper and cobalt concentrates.

15%

Customs duty on powdered milk.

RECOMMENDATIONS

- We encourage Government to open consultations with stakeholders to address concerns before the implementations of the Sales Tax in April 2019. The success of change of tax regime has only been successful especially in countries where enough consultations were done to avoid resistance. Enough consultations should also be done on the business accounting and software needs during the transition period and going forward.

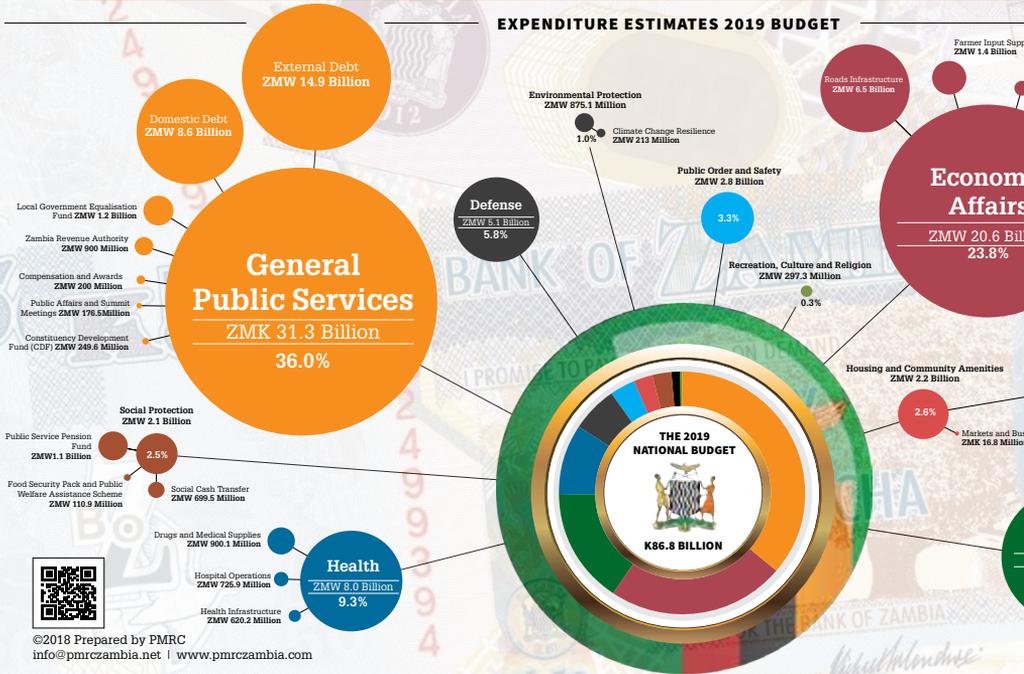
In the same vein we recommend that Government provides a **detailed transition framework for Sales tax** on the following:

1. Transition from VAT to Sales Tax in terms of reporting and compliance.
2. Range of services and goods that will be subject to the new sales tax.
3. Details of Input tax credits or exemptions.
4. Process to de-register from VAT and register for sales tax.
5. How the ongoing VAT audits and enforcement activities will be handled.

- There is need to roll out IFIMIS to all government spending agencies to ensure that no expenditure is done outside the budget. There is need to fully roll out this software suite to all government spending agencies
- We have also been advocating for review of the Public Procurement Act to enable benchmarking of prices for routine goods and services that are procured to ensure uniform prices. This is indeed welcome and long overdue. Government is the most abused by suppliers where overpricing of goods and services is concerned leading to revenue leakages.
- Government must enforce and improve public finance management and curbing the misuse of public resources. All spending agencies must adhere to budget provisions as stipulated and there should be strict financial management at all levels.

THE 2019 NATIONAL BUDGET IN

EXPENDITURE ESTIMATES 2019 BUDGET



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KEY INTERGRATED MULTI-SECTORAL POLICIES AND INTERVENTIONS

ECONOMIC DIVERSIFICATION AND JOB CREATION



- Implementation of the National Local Content Strategy to promote local content.
- An out-grower scheme for palm oil trees to be rolled out to **500 households in Muchinga Province** under the Industrial Development Corporation.
- Implementation of **National Electronic Single Window for trade facilitation**.
- Scaling Solar Initiative being implemented in the **Lusaka South Multi-Facility Economic Zone**, the construction of the **two 50 megawatt projects will be completed in 2019**.
- Government to table in Parliament the **Petroleum Management Bill** to facilitate enhanced participation of the private sector in the procurement and financing of petroleum products.
- A further **300 of the 1009 towers will be erected in 2019** in order to achieve universal access to communication services.

REDUCING POVERTY AND VULNERABILITY



- In 2019, Government will maintain the **target of 700,000 social cash transfer beneficiaries**.
- Target number of **80,000 beneficiaries on Food Security Pack Programme** to continue in the 2019/2020 farming season.
- 1,250,000 children targeted under the **School feeding programme in 2019**
- 19,000 women beneficiaries targeted for 2019 under the **Girls Education and Women Empowerment Livelihood Project**.
- Government targets to train at least 3,000 youths in 2019 compared to 2,500 in 2018. Further, 4 youth resource centers will be completed.

REDUCING DEVELOPMENT INEQUALITIES



- Construction and rehabilitation of feeder roads under the **Rural Connectivity Project**.
- Construction of basic infrastructure in newly created districts.
- Electrification of rural areas under the **Rural Electrification Programme**.
- Provincial Expositions aimed at attracting investment in provinces to continue.
- Government in 2019 to accelerate the implementation of the **Decent Work Country Programme** aimed to guaranteed social protection.

INFOGRAPHIC

ADAPTED BY



OCTOBER 2018



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Input Support Programme (e-voucher)
4 Billion

Economic Fairs

0.6 Billion
3.8%

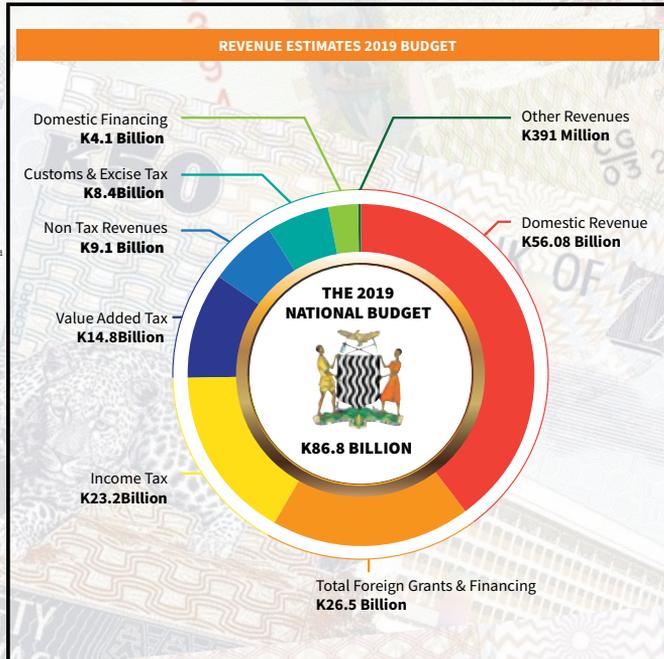
Utilities

Trains and Bus Stations
16.8 Million

Education

ZMW 13.3 Billion
15.3%

CONVENTIONS

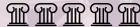


ENHANCING HUMAN DEVELOPMENT



- **Upgrading of 500 existing basic schools** to secondary schools between 2019 to 2022.
- Through Zambia Education Enhancement Project, **construction of 82 high schools across the country.**
- Government to continue with a two-tier system education system to offer learners an opportunity to follow either an academic or vocational career path.
- **Levy Mwanawasa Teaching Hospital** to be upgraded into a regional medical training hub.
- Mongu and Kabompo next districts scheduled to have medical hubs to achieve the last mile distribution of drugs and other essential medical commodities.
- Implementation of the **National Health Insurance Act No 2 of 2018** to commence in 2019.

CREATING A CONDUCIVE ENVIRONMENT FOR A DIVERSIFIED AND INCLUSIVE ECONOMY



- Government to control the growth in the wage bill by restricting recruitment to only 3,500 frontline personnel.
- Ministry of Finance to provide **quarterly updates on the country's debt position.**
- Government to **prioritize the dismantling of arrears remains key to improving liquidity.**
- Government to harmonize various labor laws, by consolidating the **Employment Act, the Employment of Young Persons and Children Act, and the Minimum Wages and Conditions of Service Act into a Single Labor Code.**
- Government to **develop the National Productivity Policy** to improve productivity in the economy.
- In 2019 a multisectoral public investment board will be established to scrutinize investment proposals.
- In 2019 Gross Domestic Product to be rebased in order to provide reliable and updated information on the current size and structure of the economy.

HIGHLIGHTS: REVENUE MEASURES



- **Abolishment of Value Added Tax (VAT)** which is being replaced by a **simpler Sales Tax.**
- **Ban to be lifted on exports of raw hides and skin** and introduction of an export duty of 10 percent on these items.
- **Increase excise duty on plastic carrier bags** to 30 percent from 20 percent.
- **Increase mineral royalty rates** by 1.5 percentage points at all levels of the sliding scale and introduction of a fourth-tier rate at 10 percent when US\$7,500 per metric tonne.
- **Abolish the 20% casino levy and introduce a new tax regime on casino, lottery, betting and gaming** to allow for better regulation of the industry.

2019 NATIONAL BUDGET ANALYSIS

“DELIVERING FISCAL CONSOLIDATION FOR SUSTAINABLE AND INCLUSIVE GROWTH”



Unlocking Zambia's Potential

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