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| **SUBMISSION TO THE PARLIAMENTARY COMMITTE, ON THE 2024 -2026 MEDIUM TERM BUDGET PLAN AND THE 2024 ANNUAL BUDGET****(GREEN PAPER).****29th July, 2023****Contact:** Country Director P.O Box 51407LusakaCell: 0977616899 |

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**INTRODUCTION**

ActionAid Zambia is a national organization working to end poverty and injustice in Zambia. ActionAid Zambia (AAZ) is a member of the ActionAid International Federation which works in 44 countries across the globe. AAZ works on three (3) priority areas namely: Climate Justice and Environmental Sustainability, Civic Participation and State Accountability, and Transformative Youth Led Engagement.

Our vision is a ‘A just, equitable and sustainable Zambia in which every person enjoys the right to a life of dignity’ and the mission is ‘To achieve social justice, gender equality and poverty eradication by working with people living in poverty and exclusion, their communities, people’s organizations, activists, social movements and supporters’.

In line with our vision to fight for social justice and eradicate poverty among vulnerable communities in Zambia, we herein make a submission on the Medium-Term Expenditure Budget Plan (MTBP) with the view to foster accountability in the management of public resources and affairs with the focus on government revenue generation and expenditure across sectors for the period under review as provided for in the 8th National Development Plan (8NDP). Considering our vision to champion social justice and eradicate poverty among vulnerable communities in Zambia, we now present our submission on the Medium-Term Expenditure Budget Plan (MTBP). Our objective is to enhance accountability and effective management of public resources and affairs, particularly focusing on government revenue generation and expenditure across various sectors, as aligned with the 8th National Development Plan (8NDP).

Through this submission, ActionAid Zambia seeks to contribute to the collective effort of fostering transparent and responsible governance in the pursuit of a more prosperous and equitable Zambia for all citizens.)

**OVERVIEW OF THE MEDIUM -TERM BUDGET PLAN AND THE GREEN PAPER**

In fulfilling its mandate, ActionAid Zambia is complimenting the Government’s efforts to eradicate poverty and ensure social justice among Zambians and wish to present a submission on the budget performance and projections in the MTBP. (In pursuit of our mandate and in cooperation with the government's efforts to alleviate poverty and uphold social justice among Zambians, ActionAid Zambia wishes to present a submission on the budget performance and projections outlined in the Medium-Term Budget Plan (MTBP).

The MTBP gives an opportunity to review the performance of the government against our National long-term plans and regional and global commitments. The paper also provides citizens with an opportunity to interface with the plans of government and make recommendations for social and economic development while appreciating Government’s efforts in addressing social and economic challenges.

It is against this background that AAZ commends the Ministry of Finance and National Planning for its timely issuance of the MTBP in accordance with the provisions provided in the National Planning and Budgeting Act No. 1 of 2020. As stipulated in section 37 (1) and (2) of the Act, the Minister responsible for Finance is mandated to submit the Green Paper on the Medium-Term Budget Plan to the appropriate Committee of the National Assembly for consultation. This Green Paper was duly published on the Ministry of Finance and National Planning website on 14th July 2023.

**MACROECONOMIC OVERVIEW AND GROWTH OBJECTIVES**

**Macroeconomic Overview:** The MTBP indicated that the global economy is forecasted to experience a growth rate of 2.8% in 2023, which represents a 0.6% decline from the previous year's growth of 3.4%, This reduction in economic growth can be attributed primarily to the implementation of tighter monetary policies in advanced economies, addressing climate emergencies, and the ongoing Russia – Ukraine war which has contributed to the global food and energy crises.

In the emerging economies and markets, growth is projected at 3.9 percent in 2023 reduction compared to the 4.0 percent recorded in 2022. This is because of increased capital outflows and continued conflict between Russia and Ukraine. In Sub-Saharan Africa's growth is forecasted to decrease from 3.9 percent in 2022 to 3.6 percent in 2023, attributed to factors such as global inflation, tighter monetary policies, a stronger US dollar affecting fiscal and debt vulnerabilities, and rising oil and food prices impacting commodity-importing countries' growth prospects.

Locally, AAZ has noted that Government has prioritized four sectors for economic development namely: mining, agriculture, manufacturing and tourism. While these are key sectors to stimulate growth, it appears there is limited focus around the following fundamental aspects agroecology in the agriculture, fair taxes in the mining sectors, improved technologies to meet production demands in the manufacturing sector.

Therefore, if Zambia is to position itself for global trading, there is need to scale-up sustainable agriculture farming methods such as agroecology which responds to climate change and improves food security both for domestic and trade.

**DOMESTIC ECONOMY:**

Particularly, copper exports declined by 6.7 percent to US $1.67 billion in the first quarter of 2023 from US $1.79 billion in the fourth quarter of 2022. 15. The Gross international reserves position as at end-March 2023 declined to US $2.9 billion, equivalent to 3.3 months of import cover from US $3.1 billion, equivalent to 3.8 months of import cover as at end December 2022.

According the MTBP which highlighted that the Growth in 2023 is projected to slow down to 2.7 percent from 4.7 percent recorded in 2022 representing 2%**.** This is attributed to the expected reduction in output in the mining and electricity sectors which are expected to contract by 8.7 percent and 2.0 percent, respectively.

**Agriculture Sector**

In quest for Government to finalize the Comprehensive Agriculture Transformation Programme (CATSP) to arrest economic shocks and boost the agriculture sector as a source of Gross Domestic Product (GDP), AAZ suggests that government must include agroecology farming methodology.

Once included in the CATSP policy document, this would act as a solution to the sustainable agricultural practice. Scaling-up agroecology has potential to address food security given the impact of climate change which has negatively affected agriculture growth as result of dry spells being experienced across the country. Agro-ecology offers better solutions due to the use of drought tolerant seeds that are favorable to the current climate conditions. Furthermore, agroecology helps to build the soil that has over the years led to increased deforestation, production of synthetic fertilizers, soil loss, livestock emissions, transport, greenhouse heating and food waste. Studies have shown that conventional agriculture contributes 20-30% of Greenhouse Gas (GHG) emissions globally.

studies have shown that Globally the continues use of chemical for Agriculture and food systems is a major source of the world’s Greenhouse Gas (HGs) - 20-30% (some studies say more) continued use of chemical will mean Zambia joining other countries with highly industrialized systems of crop & livestock production producing emissions thus contributing the health Hazards and many health issues being experienced many people across the globe furthermore, there is a need for the Government to give incentives to small holder farmers who are producing organic food with a view to increasing production and further creating markets for trade.

The fisheries and aquaculture sectors are a very important sector for economic growth. Currently, it contributes about 3.2 % to the country’s GDP and is a source of livelihood for over a million small scale fishers[[1]](#footnote-2). With the vast water resources the country is endowed with; the fisheries sector has potential to greatly contribute towards the country’s GDP. Therefore, AAZ is of the view that the sector budget should be increased. The increase in the budgetary allocation will facilitate the recruitment of fisheries and aquaculture extension staff that will support small-scale farmers and fishers to boost their production. An increase in production will reduce the net deficit of 74000 metric. Furthermore, an increase in production will translate into exportation of fish which will bring about the needed forex.

The paper also outlines that inflation in the first six months of 2023 decelerated to an average of 9.8 percent from an average of 12.3 percent recorded in 2022 over the same period. Projections show that the rate will continue trending downwards from 8.2 in 2024, 7.3 in 2025 and 7.0 2026. Zambia since the onset of the COVID –19 pandemic has experienced high inflation level that have translated into increased cost of living subsequently increasing poverty and inequalities – particularly among rural communities.

**OVERVIEW OF REVENUE MOBILISATION AND FINANCING STRATEGIC OBJECTIVES**

**Revenue Mobilization Strategy for 2024-2026**

ActionAid Zambia (AAZ) recognizes the important role of Domestic Resource Mobilization (DRM) in the sustainable financing of national development. Tax revenue has been identified as the most predictable, sustainable, and consistent source of government revenue. Currently, Zambia requires new public funds to meet the sustained costs required to meet SDG 4, over the long term.[[2]](#footnote-3) According to the UN, a minimum of at least 20% tax-to-GDP ratio is needed to deliver on the Sustainable Developments Goals.[[3]](#footnote-4) Encouragingly, the 2024-2026 Medium Term Budget Plan (MTBP) or Green Paper targets to increase domestic revenue to 22.2 percent of GDP by 2026 which is well above the UNs minimum recommendation.

**Streamlining of incentives**

Zambia currently has a plethora of tax incentives that have been issued over several years. The MTBP outlines the streamlining of these incentives in the medium term which would ease the operations of the tax administration and ultimately reduce tax avoidance and evasion. There is however need for the process to be well informed by evidence. As AAZ we therefore urge the government to carry out a much-needed cost-benefit analysis on existing incentives to inform their issuance moving forward and eliminate incentives that don’t benefit Zambia.

Streamlining of incentives should help eliminate tax loopholes that are exploited though aggressive tax planning. Zambia’s [Double Taxation Agreements](https://www.zra.org.zm/wp-content/uploads/2021/09/Amended-Draft-Summary-of-DTA-Rates-2021-final.pdf) (DTAs) have been a major loophole and have facilitated tax avoidance for decades. Research from ActionAid revealed how Zambia’s DTAs were used to shift profits out of Zambia. ActionAid’s investigation found that a Multinational used an array of transactions that saw over a third of the company’s pre-tax profits – over US$13.8 million (Zambian Kwacha 62 billion) a year – paid out of Zambia, into and via tax haven sister companies in Ireland, Mauritius and the Netherlands.[[4]](#footnote-5) The Mauritius agreement was eventually cancelled in 2020[[5]](#footnote-6) and was a huge stride in eliminating the binding yet exploitative avenue for tax planning.

**Tax administrative capacities and progressivity**

The ZRA seeks to improve capacities in order to interrogate transfer pricing matters and other international taxation issues. Engagements with ZRA have revealed that legislation has been put in place to curb tax avoidance through transfer pricing. The newly formed International Taxation Unit therefore needs more investment to ensure that Zambia is adequality skilled and prepared and agile to respond to the global taxation arena.

Fair and equitable taxation must not only focus on the private sector. There is need for progressivity in collection which translates into reduced dependency on indirect taxation that is indiscriminatory in nature.

**FDI and Beneficial Ownership**

Inflows of Foreign Direct Investment FDI are important but in the long term, these investments must transfer skills, jobs, and resources to the Zambian people. FDI tends to be extractive and exploitative in nature leaving very little benefit for Zambians. There is need to integrate FDI with domestic investments.

The latest Financial Intelligence Centre (FIC) report revealed the growing trend of multinational companies facilitating corrupt and financial crimes. As the government seeks to encourage FDI, a balance must be struck to minimize the risks that come with increasing private sector activity. The Companies Act No. 10 of 2017 introduced beneficial ownership disclosure to curb the misuse of corporate bodies for illicit activities such as money laundering, bribery, corruption, insider trading, fronting, tax fraud, and terrorist financing.

**Public Debt and Fiscal Deficits**

Following consistent economic growth, Zambia was reclassified as a lower middle-income country in 2011 which saw a shift in the public debt portfolio from concessional loans to more expensive commercial debt. The poor economic performance in 2021 and sovereign debt default in 2020, saw this classification downgraded by the World Bank in 2022.[[6]](#footnote-7)

The MTBP notes the current debt moratorium for commercial loans until 2025. Zambia needs to ensure debt sustainability in the long term. Additionally, the Public Debt Management Act No 15 of 2022 prescribes a debt ceiling of no more than 65% of GDP (effective in 2027). For this reason, the government must refrain from commercial loans beyond the duration of the IMF Extended Credit Facility (ECF). Experience has shown that these private creditors more expensive to service with their interest rates comparatively higher than concessional lenders, and with little to no grace period. The contraction of commercial debt also increases our susceptibility to fall victim to “vulture funds”[[7]](#footnote-8) that are exploitative and compromise human rights at the expense of profit. Prudency in debt management should not only be applicable to satisfy the conditions of the IMF but should be practiced in the long-term.

**Public Private Partnerships (PPPs) as a Financing Strategy**

PPPs have been identified as a key strategy for financing in the medium term. Research shows that the World Bank, the IMF, regional development banks and all development finance institutions (DFIs) aggressively promote and incentivise PPPs.[[8]](#footnote-9)

Currently Zambia’s PPPs have been in line with infrastructure developments. For social services however, PPP’s are problematic as the right to health, education and water and sanitation cannot be subject to market practices, nor to people’s capacity to pay**.**

The commercialisation and privatisation of public services and the commodification of all aspects of life have driven growing inequalities and entrenched power disparities, giving prominence to profit and corruption over people’s rights and ecological and social well-being. It adversely affects workers, service users, and communities, with the costs and damages falling disproportionately on those who have historically been exploited.[[9]](#footnote-10)

In relation to accounting for public funds, the contract value of a PPP and its long-term fiscal implications for national accounts and project impacts, the public interest must be placed ahead of commercial interests. Contracts and performance reports of social and economic infrastructure projects should be proactively disclosed, and DFIs should not provide support to any projects unless transparency is guaranteed.[[10]](#footnote-11)

**MINING SECTOR STRATEGIC OVERVIEW**

**Mining Sector:** Government should take steps domestically and within the international tax arena to reduce illicit financial flows and tax abuse from multinational companies that have deprived the nation of much needed resources by ensuring review of the double tax agreements (DTAs), issuance of incentives, contract transparency and the investment in technology for improved compliance, information sharing, and state-led mineral exploration.

We note that the allocation to environmental protection is projected to double from 0.6 percent in 2023 to 1.2 percent in 2026. In line with just energy transition and commitment made by the Government during the COP27, there is need for greater support to the Ministry of Green Economy through environmental protection than the average 1.1 percent over the next 3 years. This would enable commitments to halt and reverse deforestation by the year 2030.[[11]](#footnote-12)

There is also urgent need for the Government to address issues surrounding investment in the KCM mine. This will in turn boost revenue generation and create multiple jobs for the mining sector. clearly a 2% projected slowdown in economic growth in the year 2023 could be avoided if we Zambia was operating at full scale in the mining sector and further come up with policies the ensure win- win situation. There is also needed to revise the current tax incentives being offered to the mining especially those related to multinational corporation who continuously avoiding the to pay tax by taking advantages of loopholes in the law and double taxation agreements.

Government on the other hand needs to review the tax incentives being given to mining companies by way of reviewing policies such as double taxation Agreement (DTA’s), tax systems to ensure improved domestic tax revenue collection mechanisms. This will in turn support government efforts to revamp the manufacturing sector for value-addition and job creation, vital in the fight against poverty. This

AAZ notes that the current tax systems have not favoured Zambia as they have been used as the source of illicit financial flaws, thereby reducing resource envelop for Zambia. Given, the debt burden, AAZ recommends that there is need for the government to ensure improved systems use to generate financial resources for key social services.

**OVERVIEW OF THE MIDIUM -TERM FUNCTIONAL ALLOCATIONS**

**General Public Services**

It is admirable that the government gives stakeholders insight into the scope of investment by providing a particular and quantifiable spending projection for general public services over the medium term. Included debt obligations provide a prudent method to managing the nation's debt and upholding financial obligations. Budgeting for administrative expenses is essential for the effective operation of the government and the delivery of numerous programs and services. The government's commitment to decentralization and empowering local authorities to handle community-specific issues is shown by the allocation of transfers to local councils. Over the medium term, Government intends to spend an average of K51.1 billion or 27.7 percent of the total projected expenditures on General Public Services per annum.

ActionAid Zambia, however, noted that the paper does not include a thorough explanation of how the allocated monies would be shared among various General Public Services components, such as debt payments, administrative expenses, and transfers. As a result, determining the allocation's appropriateness and effectiveness is difficult.

* The allocation of General Public Services to the overall estimated expenditure at 27.7% is not explained or justified in the document. Without this background, it is challenging to assess why particular services are prioritized over others.
* The potential financial effects of dedicating a sizeable share of overall spending to general public services are not covered in the document. There are concerns regarding the sustainability and possible repercussions for other industries or government initiatives as a result of this absence.
* Questions regarding the government's emphasis on basic services are raised by the lack of information on how the allocation may affect important sectors, such as healthcare, education, infrastructure, and social welfare.

**Education**

ActionAid has been utilizing the [4S Framework](https://actionaid.org/publications/2022/taxed-alliance#:~:text=The%20TaxEd%20Alliance%20brings%20together,domestic%20financing%20of%20public%20education.) to advocate for improved financing for public education – assessing the size, share, scrutiny, and sensitivity of the national budgets. UNESCO recommends that developing countries allocate at least 20% of their national budgets to education in order to achieve SDG 4. It is therefore important that the Green Paper outlines plans to scale up education financing from the current 13.9 percent in 2023.

It is commendable that the government has projected plans on education by solely investing in teacher recruitment and promotion, skills training, infrastructure development, and investment in education as a wholeas it reflects the government's commitment to improving the nation's human capital and fostering economic growth in the long run. However;

* The government makes no mention of how expenditures will prioritize equality and inclusivity, making sure that underserved or underrepresented populations also profit from these programs.
* How the government plans to track and assess the results of the spending and actions is not mentioned. Effective assessment procedures are essential for identifying winning tactics and problem areas.
* To guarantee that resources are dispersed equitably and effectively, transparency in the allocation of funding is crucial, yet this topic is not covered in the paper.

**Health**

The document provides a clear and measurable spending projection of K20.4 billion or 11.1 percent per annum. This allows stakeholders to understand the scale of investment in the health sector. The government acknowledges important challenges in the healthcare sector, such as a high disease burden and issues related to insufficient health infrastructure, medical staff, equipment, and essential medications and supplies. However, some gaps in the document have been identified, in that;

Zambia is a signatory to regional and internal commitment that gives guidance in term of the allocation of financial resource in the health sector. Abuja declaration state that 15% should be allocated the health sector, therefore, the paper should have demonstrated commitment by Government for the 3 years in terms of how Government plan to meet this target especially with resource be allocated to key services such as Sexual Reproductive Health Right (SRHR) and recruitment of health specialized official to administer the SRHR Service to the Adolescent Young Person ( AYP). It should be mentioned that SRHR is poorly funded with over resilience on donors which is not sustainable.

This intervention is likely to reduce the ever-increasing teenage pregnancy especially in areas such Eastern province where teenage pregnancy has become so ramped. There is need therefore going forward to sustain the gain recorded in the health sector beyond the IMF Program to ensure continuity of provision on quality health care especially in the rural areas.

**Devolution and decentralisation;** The slow uptake of the financial resources devolved to local level is still a source of concerns, it will be good in the next cycle of the MTBP government to clearly outline strategies that are aimed at improving expenditure on the constituency development funds (CDF) among others to enhance service delivery and reduce the ever-increasing inequality in rural areas especially among poor communities.

Government to consider prioritizing the review of the CDF Act of 2022 to further strengthens implementation mechanism program under the CDF for enhance rural development and service delivery.

**Housing and community amenities**

The Green paper has outlined that the expenditure to housing and community amenities will average k3.3 billion over the medium term, an increase from the current k2.6 billion in the 2023 budget. However, the allocation to water and sanitation – a key social sector, is projected to decrease from K2.3 billion to only K1.2 billion. This reduction in the allocation is a cause for concern given the critical role water and sanitation development plays in poverty reduction and combatting inequality.

**EXPENDITURE POLICY AND STRATEGY**

A review of the government's expenditure policy measures and interventions suggests that they hold promising potential for fostering economic growth and development over the medium term 2024 - 2026, as well as reducing rural-urban disparities and safeguarding social spending. Prioritizing social protection programmes and allocating resources to Constituency Development Fund (CDF) with an equitable formula can positively impact vulnerable populations and lead to more targeted development projects across regions.

However, AAZ notes that there is a need for a more explicit focus on inclusive growth and public sector efficiency. Additionally, managing foreign debt obligations prudently and implementing a robust monitoring and evaluation system will be essential to ensure the effectiveness of these measures and maintain long-term economic sustainability. By adopting a comprehensive approach and addressing these gaps, the government can maximize the impact of its expenditure strategy and accelerate the delivery of development for the country.

**Expenses**

* **Personal Emoluments**

In the medium term, the government aims to limit the public service wage bill within 42.0 percent of domestic revenues to create fiscal flexibility for developmental projects and service delivery. The projected figures for personal emoluments in 2024, 2025, and 2026 show a gradual reduction in the GDP share allocated to public service wages, reflecting a cautious approach to managing wage expenditure. To achieve this goal, the government should implement performance-based incentives, optimize workforce recruitment, invest in targeted training, explore Public-Private Partnerships (PPPs), and conduct regular reviews of the wage bill. By following these measures, the government can effectively manage the wage bill while ensuring high-quality public services and promoting economic growth and development.

* **Use of Goods and Services**

The projected expenditure of K53.5 billion on goods and services for Government operations over the medium term indicates the government's commitment to ensuring the smooth functioning of essential services. However, there are some notable gaps in the allocation. While investments in procurement of drugs, compensation funds, and digital identity cards are essential for public health and administrative efficiency, AAZ notes that there is a need for greater clarity on the specific areas covered under "operating expenses for Government institutions, amongst others." Transparent categorization and detailed breakdown of these expenses are necessary to ensure accountability and efficient resource utilization. Additionally, the government should focus on implementing cost-saving measures, exploring opportunities for public-private partnerships, and conducting regular audits to identify areas for optimization and cost efficiency within goods and services spending. By addressing these gaps and adopting prudent financial management practices, the government can enhance the impact of its expenditure on public services and achieve better value for money in its operations.

* **Debt Service Payments**

The debt restructuring agreement will have significant implications for debt service payments, comprising interest payments on both domestic and external debt, as well as debt amortization. Over the medium term, these debt service payments are projected to amount to K117.4 billion, which is equivalent to 16.5 percent of GDP. The allocated amounts for debt service payments in the coming years are K38.9 billion in 2024, K34.8 billion in 2025, and K43.6 billion in 2026. This substantial commitment to debt service raises concerns about the potential impact on the government's fiscal sustainability and its ability to allocate resources to other critical sectors of the economy. Therefore, prudent debt management strategies, such as refinancing opportunities at favourable terms and close monitoring of debt-to-GDP ratio, will be essential to mitigate the risks associated with high debt service payments and ensure long-term economic stability. Moreover, the government should focus on implementing growth-enhancing policies that can bolster revenue generation, thereby reducing reliance on debt financing and promoting sustainable economic development**.**

Government beyond the IMF programme and other Financial Corporation partners supporting Zambia’s Economic debt re-structing programme need to develop mechanisms and strategies aimed at generating resources that will ensure continuity in term of financing the social sectors. While at the same time Government will need lookout outwards to create social and economic opportunities that creates job opportunities especially for the young people and the women who are the majority in the Zambia context, a special attention should be paid to key sectors such as, Agriculture, Tourism, and ITC as these sectors have potential to create job opportunities.

AAZ also notes that, in as much as government projects to spend 80% of the national budgets into projects, it is worthy considering economic projects and those projects that aim to alleviate poverty among Zambians especially the agriculture sector, mining sector as well as the manufacturing sector.

* **Transfers**

The government's allocation of K83.0 billion over the medium term for transfers is aimed at providing subsidies to critical institutions and programs, including Grant Aided Institutions, Local Government Equalization Fund, and Constituency Development Fund, as well as supporting schools and hospitals. These funds play a vital role in delivering essential services to the population. The government also plans to implement a cost-efficient electronic system for the Farmer Input Support Programme, with projected expenses of K8.6 billion in 2024, K7.7 billion in 2025, and K8.1 billion in 2026. AAZ urges the government to ensure effective utilization and transparency in fund management, focusing on the intended beneficiaries. The shift to a more efficient system for agricultural support is a positive step, and regular evaluations are essential to measure program impact on economic growth and citizen well-being. By prioritizing efficiency and transparency, the government can optimize resources and achieve better development outcomes.

* **Social Benefits**

The government's commitment to increasing social benefits and protection programmes by K25.8 billion over the medium term aims to safeguard the welfare of the poor and vulnerable. However, there is a need for more specific information on the covered programmes and targeted beneficiaries. To ensure effectiveness, AAZ is of the view that the government should enhance transparency in allocation and implementation, establish clear eligibility criteria, and well-defined targeting mechanisms. Regular impact assessments and performance evaluations are essential to measure the programmes' effectiveness in alleviating poverty and improving social well-being. Collaborating with non-governmental organizations and development partners can enhance efficiency and coverage. Addressing these gaps and implementing recommendations will strengthen the government's efforts to protect the vulnerable, fostering inclusive and sustainable development.

Government intends to spend about K171.3 billion for the 2024 national budget and out this allocation, government has allocated to spend about 80 percent of the total budget in projects, 13.2% in assets and 4.8% in liabilities. Government has also set the following expenditure strategy such as 11.2% for the health sector, 6.1% for social protection, 1.0% environmental protection and 15.3% in the education sector.

AAZ commends government for a gradual increment in the above sectors as compared to the previous budget. However, government should prioritize increasing the budgets to at least more than 60% of the total allocations in the quest to meet the regional and international protocols as well as mitigating and adapting to the impacts of climate change, economic shocks from Russia – Ukraine War, and the fiscal tightening of developed economies.

**STRATEGIC DEVELOPMENT AREAS VIS -A- VIS THE MEDIUM-TERM BUDGET PLAN**

**Economic development and job creation**

The ministry of Small and Medium Size Enterprise should be more agile to create business opportunities beyond the Zambian economy to allow Zambian citizen to be competitive by way of taping into global markets and in return this will create a balanced trade, subsequently stabilizing the domestic economy. There is need to strengthen value addition mechanisms at all levels of the economic milestone pillars as provided for in 8NDP.

Government to scale-up Solar energy which has potential to improve production especially in the agriculture sector where production has been a challenge given the impact of climate change.

The fisheries and aquaculture sectors offer greater opportunity for economic growth. Currently, it contributes about 3.2 % to the country’s GDP and is a source of livelihood for over a million small scale fishers[[12]](#footnote-13). With the vast water resources the country is endowed with; the fisheries sector has potential to greatly contribute towards the country’s GDP. Therefore, AAZ is of the view that the sector budget should be increased. The increase in the budgetary allocation will facilitate the recruitment of fisheries and aquaculture extension staff that will support small-scale farmers and fishers to boost their production. An increase in production will reduce the net deficit of 74000 metric. Furthermore, an increase in production will translate into exportation of fish which will bring about the needed forex and create much needed jobs for the women and the youth.

Government to prioritize the review of the Land Act of 1995 and the Chiefs Act of 1965 to ensure women and youth have access and control to land for improved utilization and improved production which will result in job creation especially in the agriculture sector.

Government to ensure enough resources are allocated for the review of the unfriendly legal flamework and environment existing in the country e.g., the Peno Code (1930), and the Public Order Act (1955), Defamation laws, the Penal Code, NGO Act (2009), the Cyber Security and Cyber Crime Act (2021), Preservation of Public Security Act and the Emergency Powers Act used effectively has been used to undermine democracy, thereby being key impediments to effective citizens’ engagement and participation in democratic processes. Freedom of assembly, association, and expression, off and online, key ingredients for deepening democracy and participation for improved good governance.

The recognition of cross border trade by many countries is another opportunity to address the many challenges that include job creation, poverty reduction. Cross border traders especially women are involved in many activities that include market finding for and services.

**ANY OTHER RELEVANT INFORMATION…..**

**BUDGET PERFORMANCE**

The budget performance during the first half of 2023 highlights a minor revenue shortfall, where total revenues and grants amounted to K57.3 billion, falling slightly below the budget target of K57.5 billion by 0.4 percent. The primary issue is the underperformance in tax revenue collections, which resulted in total domestic revenues collected falling short of the target by 1.1 percent. Specifically, tax revenue collections were K43.9 billion, missing the target of K47.0 billion by 6.4 percent. On the positive side, non-tax revenue sources exceeded their target by 24.4 percent due to exceptional revenue, including higher dividends from the Bank of Zambia. However, mineral royalty collections fell short of the target by 23.2 percent, and despite grants from cooperating partners surpassing the target, there might be implications for fiscal sustainability if the underperformance in tax revenue persists.

To remedy the fiscal challenge and improve revenue collection, ActionAid Zambia proposes the following measures

1. Strengthen Tax Administration and Compliance: The government should focus on enhancing tax administration and compliance measures to improve tax revenue collection. This may involve upgrading tax systems, conducting regular audits, and implementing measures to ensure better compliance from taxpayers.
2. Enhance Revenue Diversification: To reduce reliance on a few revenue sources, the government should explore opportunities to diversify its revenue streams. This can include increasing focus on non-tax revenue sources and considering new revenue-generating avenues.
3. Address Mining Sector Issues: Engage with mining companies to address issues affecting income tax payments and mineral royalty collections. Addressing challenges related to lower payments from mining companies and encouraging responsible mining practices can positively impact revenue.
4. Monitor Currency Fluctuations: Keep a close eye on currency fluctuations and their impact on import values and taxable transactions. This can help predict potential changes in tax revenues and facilitate appropriate adjustments in tax policies when necessary.
5. Efficient Debt Recovery: Continue efforts to collect tax arrears efficiently to improve revenue collections and minimize the impact of outstanding payments on the fiscal position.
6. Responsible Fiscal Management: Ensure prudent fiscal management to maintain fiscal sustainability and avoid overreliance on grants and external financing. This can involve prioritizing expenditure on critical sectors and implementing efficient public financial management practices.
7. Strengthen Partnerships with Cooperating Partners: Strengthen partnerships with cooperating partners to ensure increased remittances and maintain favourable grant inflows. These partnerships can also support development initiatives and economic growth.

By implementing these recommendations, the government can work towards addressing the underperformance in tax revenue, achieving fiscal targets, and maintaining a sustainable fiscal position while fostering economic growth and development.

**EXPENDITURE PERFOMNACE**

During the first half of 2023, total expenditures amounted to K76.2 billion, falling below the target by 7.4 percent. The underperformance is primarily attributed to lower releases towards the Farmer Input Support Program (FISP) and disbursements for foreign-financed projects, which are recorded with a lag. The expenditures were distributed among personal emoluments, use of goods and services, interest payments, transfers, social benefits, acquisition of assets, and financial assets and liabilities.

To tackle the shortfall in expenditures and ensure effective allocation of resources, ActionAid Zambia proposes the adoption of the following measures by the government:

1. Improved Planning and Timely Releases: Enhance planning and coordination to ensure that releases for essential programs like the Farmer Input Support Program (FISP) are made on time to avoid disruptions in critical sectors. This will help in achieving program goals and overall budget targets.
2. Efficient Project Implementation: Streamline the implementation of foreign-financed projects to reduce delays in disbursements and ensure that capital projects are executed efficiently.
3. Rationalize Capital Projects: Prioritize capital projects with high economic and social impact while ensuring proper cost-benefit analysis. This will ensure that limited resources are directed towards projects that provide the most significant benefits to the economy and society.
4. Fiscal Discipline: Maintain fiscal discipline and prudent financial management to optimize resource utilization and minimize waste in government spending.
5. Monitoring and Evaluation: Regularly monitor and evaluate expenditures to assess the effectiveness and efficiency of various programs and projects. This will help in identifying areas for improvement and making informed decisions for future budget allocations.
6. Debt Management: Continue to manage debt prudently and consider the long-term implications of financial assets and liabilities. This includes addressing arrears in a timely manner and ensuring transparency in debt management practices.
7. Strengthening Economic Empowerment Initiatives: Enhance the effectiveness of empowerment funds, like the Citizens' Economic Empowerment Commission, by ensuring proper utilization and targeting of resources to uplift disadvantaged groups and foster inclusive economic growth.

Through the implementation of these recommendations, the government can strive to improve expenditure efficiency, reach budget objectives, and foster sustainable economic development within the nation.

**Second Half Fiscal Outlook**

The government has taken commendable strides in implementing measures to strengthen tax compliance, which is anticipated to bolster revenue collections. These efforts will encourage businesses and individuals to fulfil their tax obligations, ultimately leading to increased revenue generation.

Furthermore, the recent disbursement of NAPSA pre-retirement benefits has contributed to improved liquidity conditions in the economy. This financial infusion is expected to have a positive impact on economic activities, empowering individuals with additional financial resources for spending and investment, further supporting economic growth.

However, AAZ urges government to address significant gaps that may pose challenges to achieving revenue targets. The volatility in commodity prices, especially fluctuations in global copper prices, could potentially impact government revenue as a considerable portion of our export earnings relies on these commodities. Additionally, disruptions in the supply chain, such as transport interruptions and shortages of essential goods, may hinder economic activities and ultimately affect revenue collections.

To surmount these challenges, AAZ proposes several recommendations. Firstly, the government must prioritize diversifying revenue sources to reduce reliance on volatile commodity prices. Exploring opportunities in other sectors and expanding the tax base will create a more stable revenue stream, ensuring fiscal sustainability.

Secondly, government must focus on strengthening economic diversification by investing in sectors beyond mining, including sustainable agriculture, manufacturing, and services. This strategy will decrease dependence on copper exports and foster more resilient revenue streams, contributing to a more sustainable economy.

Thirdly, it is imperative that the government addresses supply chain disruptions by investing in logistics and infrastructure, ensuring seamless trade operations. This will stimulate economic activities, facilitating the flow of goods and services and supporting revenue generation.

Lastly, promoting fiscal discipline is essential to align expenditures with budget targets and prioritize spending in critical sectors. This approach will help avert fiscal deficits and ensure efficient resource utilization.

**RECOMMENDATIONS**

**OPPORTUNITIES**

* The extended maturity period of 20 years of debt offers a great opportunity for the Zambian Government to effectively strategize for the sustainable development agenda, while prioritizing government efforts in education, health, agriculture, and social protection to reduce poverty by ensuring the provision of gender responsive public services to all citizens in an equitable and transparent manner.
* AAZ wish to call on the Government to take advantage of the bilateral debt relief and three-year grace period to strategize for improve revenue generation through domestic resource mobilization mechanisms and improving the national tax architecture and advance a sustainable progressive taxation agenda. The government needs to encourage investors to open companies that will add value for our minerals as opposed to continue exporting raw materials which end up buy and spending more resource on the same product.
* PACRA in collaboration with other government agencies such as ZRA and the FIC must ensure technologies such as the governments Integrated Financial Management Information System (IFMIS), and other information sharing platforms are utilised to ensure the use of beneficial ownership data is maximised to curb tax leakages and financial crimes facilitated through foreign investments.
* The government should provide a comprehensive breakdown of allocations, justify the chosen percentage, consider the fiscal impact, assess the implications on key sectors, involve the public in decision-making, and establish monitoring and evaluation mechanisms. This will enhance accountability, transparency, and effective use of public funds for the benefit of citizens and the economy.

**WEAKNESSES**

* In their effort to streamline incentives, there is need for the Ministry of Finance and National Planning to harmonise their Double Taxation Agreement (DTA) strategy with the efforts of the Ministry of Commerce Trade and Industry (through Zambia Development Agency) to ensure that incentives that are offered are mutually beneficial to the Zambian people for development.
* To avoid losing our taxing rights to other jurisdictions in the medium term, The Ministry of Finance and National Planning must prepare legislation and policies to effectively implement the OECD’s 2 Pillar Solution which entails taxation of the digital economy and the implementation of a global minimum corporate tax rate of 15%.
* **Limited use of solar energy;** AAZ of the view that Government needs to scale up the use solar energy if it is to remain competitive on the globe Market under the review period and going forward to meet the target set in the 8NDP, Furthermore, Government if it is to address issues inflation rate which has been slowing down. Solar energy has potential to improve production especially in the agriculture sector where production has been a challenge given the impact of climate change.
* We urge the Government to halt the aggressive promotion and incentivising of PPPs. It is vital to resist the increasing use of PPPs as a preferred financing tool to deliver infrastructure and public services. Instead, we call for the promotion of high-quality, publicly funded, democratically-controlled, gender-sensitive and accountable public services, based on the fulfilment of human rights and the protection of the environment.
* The Government has provided tax incentives on renewable energy technologies such as solar and others. However, this has not yielded results aimed transitioning from unsustainable methods and technologies that impact the environment. AAZ recommends that government should enforce that Zambians are not exploited by businesses companies who want to reap maximum benefits at the expense of many vulnerable Zambians who can't afford to access and utilize the renewable

**CONCLUSION**

In conclusion, we urge the government to adopt these progressive recommendations to optimize revenue collections and promote sustainable economic development in Zambia. By taking proactive measures, government can navigate the challenges and create a prosperous future for our nation.

These plans and projections need to be shared widely by the ministries responsible to ensure a shared understanding of the aspiration of the Government.

1. Ministry of Fisheries and Livestock (2023) National Fisheries and Aquaculture Policy. GRZ, Zambia [↑](#footnote-ref-2)
2. TaxEd Alliance Zambia Factsheet <https://actionaid.org/sites/default/files/publications/Zambia_factsheet.pdf> [↑](#footnote-ref-3)
3. UNDP. What Will It Take To Achieve the Millennium Development Goals? An International Assessment. June 2010 [↑](#footnote-ref-4)
4. ActionAid, Sweet Nothings 2013 <https://actionaid.org/publications/2013/sweet-nothings> [↑](#footnote-ref-5)
5. Diggers News <https://diggers.news/business/2020/06/24/govt-cancels-tax-treaty-with-mauritius/> [↑](#footnote-ref-6)
6. Ministerial Statement on Reclassification of Zambia as Low-Income Country, 2022 <https://www.parliament.gov.zm/sites/default/files/images/publication_docs/15.07.22%20MINISTERIAL%20STATEMENT%20ON%20RE-CLASSIFICATION%20OF%20ZAMBIA%20AS%20LOW-INCOME%20COUNTRY.pdf> [↑](#footnote-ref-7)
7. “vulture funds” - the term given to entities that purchase distressed debt on the secondary market, where it trades significantly below its face value, and then seek to recover the full amount, often through litigation. <https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/african-legal-support-facility/vulture-funds-in-the-sovereign-debt-context> [↑](#footnote-ref-8)
8. Eurodad, History Repppeated 2, 2022 <https://www.eurodad.org/historyrepppeated2> [↑](#footnote-ref-9)
9. Our Future is Public, Santiago Declaration, 2023 <https://peopleoverprof.it/resources/news/our-future-is-public-santiago-declaration-on-public-services?id=13578&lang=en> [↑](#footnote-ref-10)
10. Eurodad, History Repppeated 2, 2022 <https://www.eurodad.org/historyrepppeated2> [↑](#footnote-ref-11)
11. Glasgow Declaration, 2021 <https://ukcop26.org/glasgow-leaders-declaration-on-forests-and-land-use/> [↑](#footnote-ref-12)
12. Ministry of Fisheries and Livestock (2023) National Fisheries and Aquaculture Policy. GRZ, Zambia [↑](#footnote-ref-13)