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Zambia Institute of Chartered Accountants

Comments on the Budget Estimates for the 2023 Fiscal Year

1.0 INTRODUCTION

The Zambia Institute of Chartered Accountants is a professional membership body whose function among others is to advise government on matters of economic and national development. As requested, the Institute wishes to submit its overall comments on the 2023 National Budget presented to the Parliament on Friday, 30th September 2022 by the Minister of Finance, *Hon. Dr. Situmbeko Musokotwane*, *MP*, under the theme **"*Stimulating Economic Growth for improved livelihoods*"**. As directed by the Clerk of the National Assembly, the thrust of our comments is on the ramifications of the macroeconomic framework and the social protection in the Budget. What we are presenting are our views on the proposed changes to the Tax system and commentary on measures put in place in handling the debt stock in the medium to long term.

2.0 OVERVIEW OF THE GLOBAL AND DOMESTIC ECONOMIES

- The 2023 national budget has been prepared during a global slow down mainly on account of the supply-side disruptions caused by the continued Russia – Ukraine conflict, the partial lockdown in China related to the COVID – 19 and tighter financial conditions in advanced economies.

  In 2022, the global economy is, therefore, poised to grow by 3.2% down from the 6.1% growth recorded in 2021. In Sub Sahara Africa, growth is expected to be at 4.0% in 2023 up from 3.8% in 2022 mainly driven by elevated fossil fuel and metal prices for some commodity-exporting countries.

  The economic outlook for 2023 and the medium term, whilst positive will continue to be uncertain in view of the challenges of slow global growth, supply – side disruptions on account of the conflict in Ukraine, the post COVID – 19 pandemic challenges and the looming tighter financial conditions in advanced economies.

- The Zambian economy has continued to grow for the third - year running. By the end of this year,GDP is projected to grow by 3.0 percent compared to a recovery of 4.6 percent in 2021 and targetting a 4% rel GDP growth in 2023. To contextualise this, growth in (Sub Sharan Africa (SSA) is expected at 3.7 percent in 2022 and 3.8 percent in 2023. This shows that by benchmarking our growth rates with SSA we are on the right trajectory. The slowdown in growth in 2022 is mainly attributed to lower output in agriculture due to the late onset of rain, drought, and flash floods in some parts of the country. The construction sector also recorded a weak performance.

- The total exports in the period 1 January 2022 to 30 June 2022 were US$5.964 billion whilst the imports for the same period were US$4.3 billion. Overall the trade balance remained in surplus at US$1.6 billion.
- The amount of money lent by the banking system grew by 13 percent in the first half of 2022 against a contraction of 5.4 percent in the second half of 2021. The increase was largely due to accelerated disbursements to eligible financial service providers from funds provided by the Bank of Zambia under the Targeted Medium- Term Refinancing Facility.

2023 budget objectives;

a) Attain a real GDP growth rate of at least 4.0 percent;
a) Reduce inflation to within the target band of 6-8 percent;
a) Maintain international reserves above 3 months of import cover;
a) Increase domestic revenue to not less than 20.9 percent of GDP;
a) Achieve a fiscal deficit of not more than 7.7 percent of GDP; and
a) Limit domestic borrowing to no more than 3.0 percent of GDP
b) Government proposes expenditure of ZMW 167.3 billion in 2023(2022: ZMW 173 billion)
c) Government expects *to* raise a total of ZMW 167.3 billion in revenues from the following sources:
    - Tax revenue - ZMW 93.5 billion
    - Non-tax revenue - ZMW 18.1 billion
    - Domestic financing - ZMW 15.6 billion
    - Foreign financing and grants - ZMW 40.1 billion

The composition of the sources of the revenue measures are 66.7% from domestic revenue and 9.3% through domestic financing. The remaining 24% will be raised through foreign financing and grants.

3.0 MACRO ECONOMIC TARGETS

3.1 Targets

The Minister has set out the following broad macroeconomic targets for the year 2023

Description	2021 Actual	2022 Target	2022 Actual out-turn	2023 Projection
Growth in Real GDP (%)	**3.6**	**3.5**	**3.2**	**4**
Inflation (%)	16.4	6-8	9.9	6-8
Debt Burden % of GDP (%)	99.8	90.9	N/A	N/A
Overall Fiscal Budget Deficit (% of GDP)	23.5	6.7	9.8	7.7
Gross International Reserves	Not less than 5.5 months of import cover	Not less than 3 months of import cove	Not less than 3.5 months of import cover	Above 3 months of import cover

3.2 Our comments on specific macroeconomic targets

a) **Attain a real GDP growth rate of at least 4% (2021: 3.5%)**

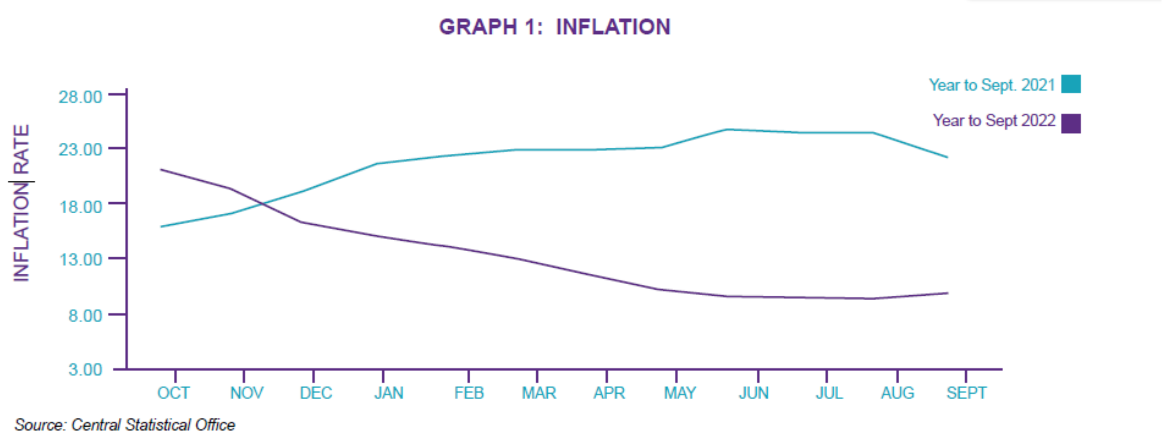
The attainment of the objective which is higher than the target for 2022 (3.5%) is feasible particularly because of the renewed and high private sector confidence in the economy coupled with the recently approved IMF ECF program for Zambia which are both expected to lead to high private investment outlays in the economy. The IMF program also opens a pathway to resolve the protracted foreign debt restructuring. However, this is conditional on how tight the global financial conditions are going to be including rising energy costs and inflation and reducing copper prices. On the local front, the early distribution of farmer inputs under the Farmer Input Supply Program (FISP), and the rainfall patterns and weather conditions for the 2022/2023 season will also contribute to the attainment of the objective of achieving a real GDP growth rate of 4.0% in 2023.

b) Reduce the inflation to within the target band of 6 – 8% in – 2023

In 2022, the growth in consumer prices, as measured by the inflation rate, has slowed to single digits. For September 2022, inflation was recorded at 9.9%from 22.1% in September last year. In 2023, the target is expected to be attained.

Our expectation is that overall annual inflation will in 2023 be above the lower bound of 6 – 8 % and will in the medium-term hover within the bound target. The Bank of Zambia is expected to continue to play its supportive role of implementing an appropriate monetary policy stance. The Central government on its part has signaled a contractionary fiscal stance which is expected to support the single-digit inflation object amidst its socio-economic agenda of improving the livelihoods of its people.

Figure 1: Annual Inflation Rate, Sept 2021 – Sept 2022 (%)



c) Sustain International Reserves to at least 3 months of import cover (2022: 3.5 Months)

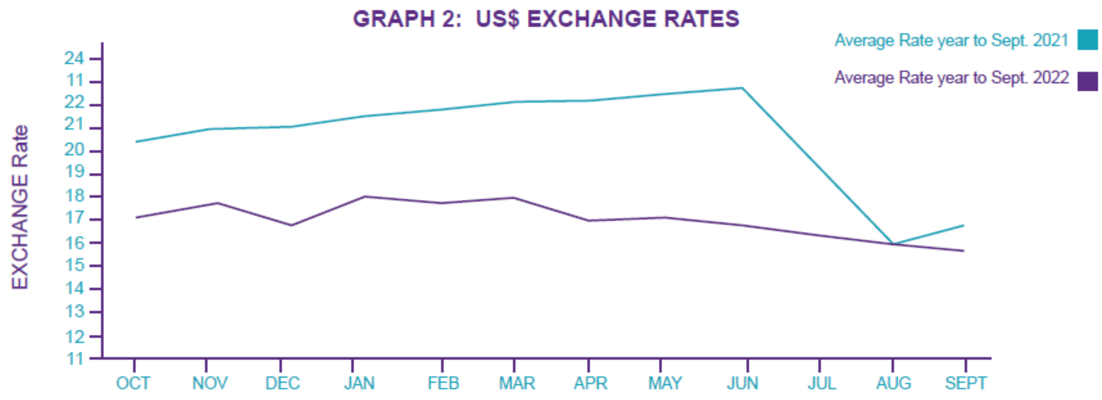
The objective is attainable as at end-August 2022, gross international reserves were US $3.0 billion, representing 3.5 months of import cover. This is above the target of at least 3 months of import cover for 2022. The objective is likely to be met in 2023 too particularly that the country is on an IMF ECF supported program amounting to US$1.3billion which has brought in other forex inflows in form of IMF blended support and more donor support.

d) Reduce the fiscal deficit to no more than 7.7% of GDP (2022: 9.8%)

In 2022, the target for budget deficit was at 6.7% of GDP and projections are that the year-end deficit is going to be higher at 9.8% of GDP. The government is expected to continue financing its social protection agenda in health, education, and agriculture and, therefore the 2023 7.7% fiscal deficit target is unlikely to be met.

e) Exchange Rates

The exchange rate of the Kwacha against major currencies has been relatively stable over the period of the 2022 budget. On a year– to – date basis, the Kwacha has appreciated by 5.2% to ZMW15.79 per US dollar. The gain has largely been on account of an improved supply of foreign exchange mainly owing to increased inflows from the mining sector and greater confidence in the economy, particularly commitment to reforms by the government and following the IMF Executive Board's approval of the country's application for an IMF ECF program.



Source: Bank of Zambia

f) Limit domestic borrowing to not more than 3.0% of GDP (2022: 5.2%)

This objective is attainable as the country is now attractive for foreign inflows following the Government's track record of good governance and prudent financial management and approval of the IMF-supported ECF program and cooperation from other cooperating bilateral and multilateral partners. As of August 2022, the country received grants from cooperating partners amounting to ZMW4.2 billion against a target of ZMW1.2 billion. It is, however, important to note that domestic borrowing increased in 2022 and increased by 5.3% as at end of August 2022.

g) Mobilize domestic revenue to at least 20.9% of GDP (2022: 21.0%)

In 2022, total revenues and grants are expected to be ZMW101.04 billion against the budget target of ZMW100.7 billion. Whilst domestic revenue collections have been impressive this year mainly on account of increased collections in corporate tax and Pay as You Earn, the major driver of the above is the increased inflows of grants from the cooperating partners which as at end of August 2022 stood at ZMW4.2 billion way above the annual target of ZMW1.2billion.

In 2023, we expect to see continued positive performance in domestic revenue collections as the newly employed public workers of at least 41,000 are all put on the payroll and contribute to the Pay as You Earn. This includes the yet to be employed as envisioned by the 2023 National Budget. This will also be enhanced as the continued implementation of the new measures announced in both the 2022 and the 2023 budgets: such as sealing of revenue leakages for most tax measures and innovative revenue collection measures such as the addition of 100 more public services to the Government Service Bus and Payment Gateway take effect.

We, however, expect lower than targeted domestic revenue collections in 2023 on account of the continued over-hung effects of the COVID – 19 pandemic and subdued global business conditions on account of the tighter financial conditions in advanced economies.

h) **Debt Position**

During the Budget presentation, the Minister announced that the in 2022, the stock of public external debt amounted to US $14.87 billion as at end-June 2022. Of this amount, Central Government external debt was US $13.25 billion while guaranteed and non-guaranteed external debt for State Owned Enterprises was US $1.50 billion and US $113.69 million, respectively.

Central Government external debt increased by 1.6% to US $13.25 billion as at end-June 2022 from US $13.04 billion as at end-December 2021. This was on account of disbursements mainly from multilateral creditors. The stock of Central Government external debt includes US $1.8 billion in principal arrears and US $868.4 million in interest arrears arising from the ongoing debt service standstill.

In addition, the stock of domestic debt, that is, Treasury bills and Government bonds, increased by 5.3% to ZMW203.9 billion as at end August 2022 from ZMW192.9 billion as at end-December 2021.

From the review of the performance of the economy in 2022, it is evident that the Zambian economy has stabilized. Progress has been made in achieving some of the socio – economic targets made for the fiscal year as shown by a stable exchange rate of the domestic currency against major convertible currencies and subdued inflationary pressures. Progress has also been made in resolving the country’s debt crisis.

We recognise that the budget presented is a worst case scenario on debt obligation payments as it assume no debt restructuring. However, based on the evidence seen with growing trust from international partners we expect that the debt restructuring will be succesfull and we will get concessions effective in 2023 and this will bring in extra allocation for budgeted expenditure, beyond what the Minister has presented.

3.3 Factors that will influence the Macro economic objectives

The deterioration in the budget deficit, high debt stock and current account deficit in the past years have contributed to the depreciation of the Kwacha.

The country’s economy is still heavily reliant on the mining operations for most of its economic output and accounts for 70% of Zambia’s export of goods. However, the sector is dominantly led by a few major mining players and is highly susceptible to fluctuations in commodity prices and global economic conditions. We recognise the inherent risk of low global copper prices which can negatively impact our budget. Copper dropped below $7,000 a tonne for the first time since November 2020, as fears over a worldwide recession grew (Source: The Guardian, July 2022).Given the circumstances, it is a risky undertaking to place so much reliance in the Budget on the sector for part of the resource envelope.

In our view other challenges that are expected to have adverse impact on the 2023 Budget are:

a) Volatility in foreign exchange rates and copper prices;
b) The rising cost in the energy and fuel;
c) The ballooning public expenditure;
d) The cost of borrowing remains significantly high despite several interventions;
e) The operationalisation of CDF, considering that the implementaion in 2022 was not succesful. Weak implemenetation and operationlisation applies to all programs because in 2022 other plans like farm blocks were not operationalised.

4.0 Commentary on selected specific economic sector proposals

4.1 Agriculture, Livestock and Fisheries

- The Minister announced that Government has secured US$300 million from the World Bank for the development of farm blocks. The financing is concessional with a maturity period of 30 years and a grace period of 5 years for development of farm blocks such as Nansanga in Central Province, Luswishi in Copperbelt Province and Luena in Luapula Province. We support this plan.
- Government is set to revive the development of farm blocks whose main objective is to promote diversification, sustainability and jobs in the agrifood sector. Government's task in developing farm blocks is to put in key infrastructure like main access and internal roads, power, water development and an administrative centre.We support this plan. However, the farm blocks were mentioned in the 2022 budget but were not operationalised.

- Government will enhance surveillance, prevention and control in the livestock sector through interventions such as construction of bio-security infrastructure on trunk roads, completion of laboratories, as well as establishment of an animal vaccine plant, promotion of veterinary public health, food safety and enhancement of animal health research and diagnostics. We support this plan.
- Government will continue to support the aquaculture value chain players through the Aquaculture Seed Fund, promotion and enforcement of sustainable fishing practices in the capture fisheries. The National Animal Health and National Fisheries polices will be formulated.We support this plan.
- Government to provide 1,623 extension kits, 1,000 tablets, 621 motorbikes and rehabilitate over 536 camp houses. This is with the aim to provide extension services to about 1.5 million smallholder farmers through physical visits and e-extension platforms.We support this plan.
- US$ 10 million financing secured from African Development Bank (AFDB) for Chiansi Irrigation Scheme in Kafue to cover 600 hectares in field irrigation by smallholders' farmers and to establish storage facilities.We support this plan.

- The Farmer Input Support Programme (FISP) to continue in 2022/ 2023 farming season under the new expanded programme which will be called Comprehensive Agriculture Support Programme (CSP). Government hopes that the (FISP) programme will also ensure better targeting and equity in the provision of subsidies and services.We support this plan. We urge the Government to consult stakeholders during design stage of the CSP. We expect CSP to influence private sector investment decisions so that it is not just a food security program (about Maize) but also a wealth cretion program to grow the middle class by including crop diversification initiatives and cash crops in there.

4.2 Manufacturing and Industrialisation

Government will continue to promote Multi facility Economic Zones (MFEZ) to expand the country's industrial and manufacturing base. The following measures have been announced to stimulate growth in the sector:

- Introduce income tax concessions for 15 years on income generated from local sale of corn starch by agro processing business operating in Multi facility Economic Zones, industrial parks and rural areas.

- Propose to reduce excise duty on locally produced clear beer from cassava to 5 percent from 10 percent.
- Reduce excise duty on locally produced clear beer made from malt to 20 percent from 40 percent.
- These measures will apply to production levels over and above a specified threshold for a period of 3 years effective in the last quarter of 2023.

We commend government on these proposals. We note that tax is only one consideration in investment decisions. Other factors such as tax administration, infrastructure, employment law and ease of doing business also play a significant role. We propose that an investment summit be convened with a cross section of stake holders to discuss making Zambia a more attractive investment destination.

4.3 **Tourism**

- Government will continue to bid for hosting of meetings, international conferences and events.
- Zambia will host the 45th Annual Meeting of the Association of African Central Banks.
- Government to continue providing incentives to attract investment in the sector.
- Invest in infrastructure in the Kasaba Bay, Liuwa National Park and other tourism sites. Government is in the process of securing US$100 million from the World Bank.
- Streamline the legal framework by reviewing the Zambia Wildlife Act, Tourism and Hospitality Act and the National Heritage and Conservation Commission Act.
- Waiver of visa fees to selected countries.
- Budgetary allocations have been made for:
  - Provincial aerodromes infrastructure at K355 million;
  - Tourism marketing and infrastructure at K366 million; and
  - Border infrastructure at K150 million.

We support these measures. The proposed reforms must also include an overhaul of the tourism and hotel grading system that has effectively collapsed over the years and has negatively impacted tourism into other parts of the country. We note that global travel operators largely recommend and book travel based on grading. We also note that waiving visa fees alone will not dramatically reduce a tourist's costs. A benchmarking exercise of a the costs of a tourist comparing with regional competitors like South Africa, Namibia, Kenya will help us to be more competitive because hunting license fees, accomodation and tour costs are huge cost drivers that influence decision making.

4.4 **Mining**

- In the quest to attain the 3 million metric tonnes production for the next nine years, Government will focus on developing the sector. This will create more direct mining jobs and other indirect jobs in areas such as transport, engineering and many more.
- Some new mines are expected to come into production at Kitumba Copper Project in Mumbwa, Kashime in Mkushi and Mwekera Copper Mines in Ndola.
- An investment of US$1.35 billion for the expansion of Kansanshi Project and development of the brand-new Enterprise Nickel Project by First Quantum Minerals has already been secured.
- To spring back to vigorous life of work, unity and joy on the Copperbelt, Government is urgently working towards resolving the challenges at Konkola and Mopani Copper Mines.
- Coal production at two sites in Southern Province and manganese production in Chipili District of Luapula Province have also commenced.
- To unlock the unexploited mining potential, Government has embarked on attracting exploration through private sector capital to carryout aerial mapping of mineral resources.
- To promote artisanal and small-scale mining, Government will implement measures to formalise their operations and support them with the necessary equipment and training to increase production.
- Government will empower Zambians with mining licences, create offtake market opportunities and streamline the taxation system.

It is important for the Government to adopt a long term and consistent mining policy and resolve the legal cases with KCM. This will bring confidence back in the sector after we balance rectifying concerns from investors and the tax payers too. Consideration should be given to bring in local share participation by locals and revisiting viability of state run mines versus investments through ZCCM-IH.

We support the Ministers proposals as the measures will help to ensure increased production and reclaim our position as the continent's top copper producer.

4.5 **Energy**

- Performance in the energy sector improved as evidenced by the increase in electricity generation as well as minimal disruptions in the fuel supply chain. Electricity generation increased by 8.4 percent to 9,159,536 MWh in the first half of 2022 compared to 8,451,192 MWh in the corresponding period in 2021.
- This was attributed to increased water levels in the main water reservoirs and increased generation capacity following the commissioning of additional power units at Kafue Gorge Lower Power Station.
- Electricity exports increased by 18.7 percent to 1,199,846 MWh from 1,010,796 MWh recorded in the same period in 2021. Electricity imports rose by 13.3 percent to 9,591 MWh during the first half of 2022 from 8,462 MWh in the same period in 2021.
- Government is restructuring Indeni Oil Refinery which is no longer economical and cannot compete with modern refineries. Instead of processing crude oil, the company will be blending locally produced biodiesel and ethanol with imported finished petroleum products. It is envisaged that Indeni will also manage fuel depots and mark petroleum products to guarantee product integrity and prevent tax fraud.
- Government continued implementing the Rural Electrification master plan which targets to electricify 1,217 rural growth centres by 2030 with 525 beneficiaries electrified representing 43.1 percent.

We support the Ministers proposals as stable and Sustainable energy sector is critical for fostering growth in the economy.

4.6 Transport Sector

- Considering that the transport sector plays an important role in economic growth through facilitation of commerce and trade in goods and services as well as the movement of people, Government has prioritised the development and maintenance of transport and logistics infrastructure.
- To overcome the limitations imposed by scarce financial resources, roads with good traffic volumes will be worked on using the Public Private Partnership mode. Some of the roads whose works are likely to start once negotiations are concluded includes; Lusaka-Ndola dual carriageway, Chingola-Solwezi, Ndola-Mufulira, Chingola-Kasumbalesa and the Lumwana- Kambimba roads.
- To improve efficiency and reduce time spent at the border, Government will construct and upgrade access to and infrastructure at key border posts. These include the Sakania, Chalwe, Mokambo, Kambimba, Kipushi, Katima-Mulilo, Mpulungu, Chanida, Mwami, and Nakonde. The roads leading to Namafulo and Zombe will be rehabilitated. In addition, pontoons will be stationed at Luangwa and Namafulo.
- Government is in discussion with our neighbouring countries to improve the rail network to facilitate trade in the region. This is in recognition of the critical role rail transport plays in transforming and developing the country.

We support the Ministers proposals as the transport sector plays an important role in economic growth. It facilitates commerce and trade in goods and services as well as the movement of people.

4.7 Social Protection Programmes

- In 2023, the number of beneficiaries on social protection services will increase to 1,021,000 from 880,539 as at 30 September 2022. In 2023, the number of beneficiaries will increase to 1,374,500.

- Government will continue providing education grants for girls in social cash transfer beneficiary households under the keeping girls in school initiative.
- Government will continue with the Food Security Pack Programme and the Public Welfare Assistance Scheme.
- Terminal benefits under the Public Service Pensions Fund will now be paid out to the retirees 3 months from the day that they retire.
- Now that Government is current with Public Service Pensions Fund, beginning 2023, Government will focus on reducing the waiting period of pensioners under the Local Authorities Superannuation Fund.

We support the Ministers proposals as they enhance the social protection of the most vulnerable in our society. We also support the quick resolution of pension arrears as they have contributed to increased household vulnerability.

4.8 Education and Skills Development

- To improve the quality of education, Government recruited and deployed over 30,496 teachers to various schools across the country, to improve the teacher pupil ratios, as well as education outcomes.
- Education and skills development is a powerful vehicle for reducing intergenerational poverty and inequality. It also increases productivity and sets a foundation for sustainable growth.
- Government has continued to pay boarding fees and provide education grants for the disadvantaged adolescent girls to encourage the girl child to remain in school. They continued to implement the Keeping Girls in School Project with approximately 59,000 girls currently benefiting from the project.
- Tuition and examination fees were abolished and free education in public schools from early childhood to secondary school is being provided.
- The construction of 115 secondary schools are at various stages of completion. An additional 120 secondary schools will be constructed.
- Government embarked on leveraging the Constituency Development Fund (CDF) to locally sourced desks for schools.

We commend governments for these proposal as they will lead to significantly improved education outcomes in the long term. Education is key income mobility and the proposals will help reduce income inequality in the long term.We also support plans to transform the education curriculum.

4.9 **Health**

The Minister announced that the health sector has continued to provide affordable, high-quality healthcare at all levels with the implementation of the following:

- Improved the health workers to patient ratios in public health institutions leading to improved access to better basic and specialist healthcare for citizens.
- Recruited and deployed over 11,000 health workers across the nation of which 8,563 have been placed on the payroll.
- Continued sustainably mobilizing and making healthcare financing options available to ensure people have access to quality and affordable healthcare at all levels.
- Continues to build 36 district hospitals, 16 mini hospitals and 83 health posts around the nation which are at various levels of completion.
- Lifted the mandatory requirement of wearing masks and social distancing.
- Government has increased the allocations for the purchase of drugs and medical supplies and an allocation of K4.6 billion has been budgeted.

We commend government for these proposals as the health sector is critical to the wellbeing of the nation and economic growth. We also urge government to accelerate the rollout of technology solutions to manage the medicine supply chain as the disconnect between the supply of drugs and their availability to patients in health centres remains a challenge.

4.10 Small and Medium Enterprise Development

- To ensure that SMEs access affordable finance from financial services providers, Government will continue to empower SMEs through the Constituency Development Fund and Citizens Economic Empowerment Commission.

- In 2023, Government will spend ZMW397.4 million on citizen economic empowerment programs. In addition, the Citizens Economic Empowerment

Commission has developed seven empowerment products valued at ZMW365 million targeting citizens, SMEs and cooperatives

- To facilitate access to affordable loans by SMEs from financial institutions, Government has increased budgetary allocation to the Zambia Credit Guarantee Scheme in 2023 to ZMW150 million.
- The Bank of Zambia is also collaborating with stakeholders to provide credit guarantee for SMEs. The scheme will commence in 2023 on a pilot basis.
- Further, Cooperating Partners have provided a US$20 million Loan Guarantee Scheme for SMEs through the financial sector.
- In 2023, Government will reduce the rate of withholding tax to 0% from 15% on interest earned by individuals from loans advanced by members under the savings groups such as co-operatives and village banking. The measure is meant to stimulate the growth of SMEs by enabling them to have access to affordable capital.

We support the SME developments listed above. SME development is the main thrust that speaks to the theme of the 2023 budget. We are of the view that the budget allocation to economic affairs should have been more. For example it increased from 19.5% to 20.9% (by 1.4%) of budget compared to Public order security and defence which increased from 6.4% to 8% (by 1.6%). This does not speak to the budget theme "Stimulating Economic Growth for improved livelihoods."

SMEs will create wealth and tax revenues which are needed in the long term to support other sectors like security, health, social welfare in a sustainable manner.

We support the plans for Bank of Zambia (BOZ) to pilot a credit guarantee scheme (CGS). We wish to remind Government that previous attempts to introduce a CGS have failed. Schemes were tried by USAID and the EU and some still exist but the uptake was poor. The design was poor and mostly took interests of the commercial banks and not the SMEs. The Zambia Credit Guarantee Scheme also failed to take off.

BOZ needs to understand why previous schemes failed and do things differently to avoid failure. It is important to understand the customer (the SME) and consult him extensively during the design stage. The risk with BOZ leading is that it can be heavily influenced by the Bankers Association of Zambia's voices. This risk should be managed by policy makers. We support running a pilot and suggest that it can be done by using existing SME programmes like Zambia AgribusinessTtrade Project (ZATP) and other SME programs covering other business sectors because these provide technical assistance (TA) to the SMEs and this reduces the risk that Banks face. In addition banks do not provide TA. This model helps reduce SME risk and will make the guarantee more attractive.

5. **Summary of Proposed Expenditure**

In 2023, the Zambian Government proposes to spend a total of ZMW167.3 billion or 31.4% of GDP compared to ZMW173.0 billion spent in 2022 which was equivalent to 37.1% of GDP. Thus, the 2023 national budget is less than the 2022 national budget by ZMW5.7 billion, a reduction equivalent to 3.3% of the 2022 budget.

Government proposes to increase spending in all the functions by Government classification but one function, the general public services. In particular, Government proposes to reduce spending in the general public services function on account of a substantial reduction in foreign debt serving obligations as reflected by a reduction in the proposed budgetary allocation to ZMW18.2 billion in 2023 from ZMW51.3 billion in 2022. In 2023, the general public services function will only account for 39.5% as a share of the total budget compared to 49.9 % as a share of the total budget for 2022. Of the ZMW66.2 billion expenditure on the general public services function, ZMW30.5 billion will go towards domestic debt servicing while ZMW6.8 billion will go towards dismantling of arrears owed to various suppliers of works, goods and services.

Government proposes to increase economic affairs spending to 20.9% as a share of the total budget for 2023 to support its goal of stimulating economic growth and improving the livelihoods of the Zambian people. Of the total amount for the function, ZMW11.2 billion has been allocated for various interventions in the agriculture, fisheries and livestock sub-sectors in line with the Comprehensive Agriculture Support Programme. ZMW5.2 billion has been allocated for road infrastructure while ZMW3.5 billion will be for the Constituency Development Fund.

6. **DIRECT-TAXES**

6.1.1 Pay as You Earn

CURRENT REGIME		**PROPOSED REGIME**	
Income Bank (K, Per Month)	**Tax Rates (%)**	**Income Bank (K, Per Month)**	**Tax Rates (%)**

0 – 4, 500	0%	0 – 4, 800	0%
4, 501 – 4, 800	25%	4, 801 – 6,800	20%
4, 801 – 6,900	30%	6, 801 – 8,900	30%
Above 6,900	37.5%	Above 8,900	37.5%

The Government has proposed to increase the exempt threshold from ZMW4 500 in 2022 to ZMW4 800 per month in 2023. The annual exemption threshold will be at ZMW57, 600 in 2023 from ZMW54 000 in 2022. The marginal PAYE rate in 2023 will remain the same at 37.5%.

Commentary

We welcome this move because it will help put more money in the pocket for employee. The adjustment will increase disposable income available to employees and help mitigate the increase in living cost. We note however that below inflation adjustments in the past (no adjustments in some years) have resulted in the bands falling significantly behind the Basic Needs Basket.

6.1.2 Increase Tax Credits for Persons with Disabilities

Increase tax credits for persons with disabilities to K600 from K500 per month.

Commentary

We welcome this proposal because it will increase the disposable incomes of persons with disabilities and thereby contribute to their improved livelihoods

6.2.0 Corporate Income Tax

6.2.1 Restructure the Taxation of Mineral Royalty to Tax

The Hon. Minister proposes to restructure the taxation of Mineral Royalty to tax only the incremental value in each price range when the price crosses each Mineral Royalty price threshold.

Current Regime			**Proposed Regime**		
Price Range	**Rate (%)**	**Taxable Amount**	**Price Range**	**Rate (%)**	**Taxable Amount**

Less than US$4,500 per tonne	5.5	Full Price Amount	Less than US$4,000 per tonne	4.0	The first US$4,000
US$4,500 per tonne or more but less than US$6,000 per tonne	6.5	Full Price Amount	US$4,001 per tonne or more but less than US$5,000 per tonne	6.5	The next US$1,000
US$6,000 per tonne or more but less than US$7,500 per tonne	7.5	Full Price Amount	US$5,001 per tonne or more but less than US$7,000 per tonne	8.5	The next US$2,000
US$7,500 per tonne or more but less than US$9,000 per tonne	8.5	Full Price Amount	US$7,001 per tonne or more	10	balance
US$9,000 per tonne or more	10	Full Price Amount			

Commentary

We welcome this measure. Mineral royalty in the Mines and Minerals Development Act is defined as a payment received as consideration for the extraction of minerals. The imposition of mineral royalty tax on the full price of copper in each band negatively affected mining company's cash flows. This resulted in a disincentive for further investment in the mining sector.

The amendment is also intended to improve the competitiveness of the Zambian tax regime by reducing the effective tax rate that had been one of the highest globally

6.2.2 Introduce a Threshold on Turnover Tax and Rental Income Tax of K12, 000 per annum to be taxed at zero percent and the balance at the applicable Turnover Tax rate.

The Hon. Minister proposes to introduce a threshold on Turnover Tax and Rental Income Tax of K12, 000 per annum to be taxed at zero percent and the balance at the applicable Turnover Tax rate.

Commentary

We welcome the measure. Currently, annual gross income of below ZMW800,000 is taxed under turnover tax at a rate of 4%. The proposed amendment is intended to reduce the cost of the collection of tax on annual income of ZMW12,000 and below. The ZRA has noted that the cost of collecting tax on taxable amounts of ZMW12,000 and below, was higher than the tax being collected or pursued.

6.2.3 Reduce the Corporate Income Tax rate to 25 percent from 30 percent on income earned from value addition to gemstones through lapidary and jewellery facilities.

The Hon. Minister proposes to reduce the Corporate Income Tax rate to 25 percent from 30 percent on income earned from value addition to gemstones through lapidary and jewellery facilities.

Commentary

We welcome the measure as it aims to stimulate growth of the gemstones sub-sector by supporting domestic value addition to gemstones. The measure is in line with Government's diversification agenda.

6.2.4 Reduce the tax chargeable on income received by a special purpose vehicle under a Public Private Partnership for the first five years that a project makes profit, by 20 percent of the tax which would otherwise be chargeable on that income.

The Hon. Minister proposes to reduce the tax chargeable on income received by a special purpose vehicle under a Public Private Partnership for the first five years that a project makes profit, by 20 percent of the tax which would otherwise be chargeable on that income.

Commentary

We welcome the measure as it is intended to stimulate private sector participation in Public Private Partnerships which will contribute to narrowing the infrastructure deficit.

6.2.5 Introduce an accelerated rate of wear and tear allowance on a straight-line basis, not exceeding 100 percent, in respect of any implement, plant and machinery acquired and used under a Public Private Partnership projects.

Commentary

We welcome this measure. The measure is intended to stimulate private sector participation in Public Private Partnerships which will contribute to narrowing the infrastructure deficit.

6.2.6 Abolish the two-tier taxation system in the telecommunication sector and tax all income at the rate of 35 percent.

The Hon. Minister proposes to abolish the two-tier taxation system in the telecommunication sector and tax all income at the rate of 35 percent.

Commentary

We welcome this measure. Currently, there are two income tax rates applicable to telecommunication companies as follows:

i) Taxable income of up to ZMW250,000 is taxed at the rate of 30% per annum.

ii) Taxable income above ZMW250,000 is taxed at a rate of 40% per annum.

Prior to 2012, the telecommunication sector was taxed at a flat rate of 35%. The re-introduction of a single rate of 35% is commendable. The Eighth National Development Plan identifies the Information, Communication and Technology sector as a key sector in the growth of the economy. The reduced tax rates should allow the industry to invest more in infrastructure and increase user access.

6.2.7 Exempt interest income earned on green bonds listed on a securities exchange in Zambia with maturity of at least 3 years from Withholding Tax

The Hon. Minister proposes to exempt interest income earned on green bonds listed on a securities exchange in Zambia with maturity of at least 3 years from Withholding Tax.

Commentary

We welcome this measure. Currently, interest income earned on corporate or government bonds is taxed at 15%. The measure aims to encourage investments in climate change projects.

6.2.8 Exempt Investment Income on Life Insurance Funds

The Hon. Minister proposes to Exempt Investment Income on Life Insurance Funds.

Commentary

We welcome this proposal as it is intended to increase the return from investments in life insurance funds and stimulate uptake of life insurance services. This measure will also align the tax treatment of investment income earned by life insurance funds with international good practice.

6.2.9 Increase the allowable expenditure for the construction of employee housing to K100, 000 from K20, 000.

The Hon. Minister proposes to increase the allowable expenditure for the construction of employee housing to K100, 000 from K20, 000.

Commentary

We welcome this proposal as this measure is intended to increase the allowable expenditure for granting wear and tear allowance (industrial building) so as to encourage employers to provide employees with decent accommodation. The allowance is given at 10 percent of the allowable expenditure.

6.2.10 Introduce a Presumptive Tax on Income Earned from Artisanal and Small Scale Mining

The Hon. Minister proposes to introduce a presumptive tax on income earned from artisanal and small scale mining at the applicable Turnover Tax rate which is based on the gross turnover less mineral royalty paid.

Commentary

We welcome this proposal. Currently, all mining companies are subject to Corporate Income Tax irrespective of scale. This measure is therefore intended to simplify the tax regime for holder of artisanal and small-scale mining licences so as to improve their tax compliance.

6.2.11 Extend the 2 percent local content allowance to income earned from value addition to tomatoes

The Hon. Minister proposes to eextend the 2 percent local content allowance to income earned from value addition to tomatoes as well.

Commentary

We welcome this proposal. Local content allowance for income tax purposes is currently applicable on value addition to mango, pineapple and cassava at the rate of 2 percent. This measure aims to extend the local content allowance to promote value addition in the tomato chain and support the sub-sector.

6.2.12 Reduce tax on winnings from gaming and betting to 15 percent from 20 percent for the 2023 and 2024 charge years.

Commentary

We welcome this proposal. The measure is intended to improve compliance on gaming and betting activities and lower the tax burden on winnings.

6.2.13 Abolish the 20 percent withholding tax on reinsurance, including retrocession, placed with reinsurers not licenced in Zambia.

We welcome this proposal. Prior to the proposed amendment, withholding tax on reinsurance placed with reinsurers not licensed in Zambia was at 20%. However, the minister has proposed to remove the tax. This measure is commendable especially for Secondary reinsurance as it will allow reinsurance companies to transfer their risk to larger reinsurers which will in turn support the growth of the insurance industry.

6.2.14 Reduce to 0 percent from 15 percent the withholding tax rate on interest earned by individuals from loans advanced to members under the savings groups such as co-operatives and village banking.

We welcome this proposal. The measure is meant to stimulate the growth of SMEs by enabling them have access to low cost capital.

6.2.15 Introduce income tax concessions on income generated from local sales of corn starch by agro-processing businesses operating in a Multi-Facility Economic Zone, Industrial Park or rural area as follows:

a) Zero percent Corporate Income Tax charged on profits arising from local sales of corn starch for the 2023 – 2033 charge years;
a) Fifty percent Corporate Income Tax charged on profits arising from local sales of corn starch for the 2034 – 2036 charge years;
a) Twenty five percent Corporate Income Tax charged on profits arising from local sales of corn starch for the 2037 – 2038 charge years; and
a) Waive Withholding Tax on dividends declared on profits made from local sales of corn starch for the 2023 – 2033 charge years.

This measure is intended to attract investment into corn starch processing which will in turn promote value addition to maize and support employment creation.

6.3.0 Direct Taxes – House Keeping Measures

6.3.1 **Expand the definition of the term Royalties to include rent of software for income tax purposes.**

This measure intends to broaden the definition of royalties to incorporate technological advancements.

6.3.2 Introduce, under the Income Tax Act, specific penalties for negligence, willful default and fraud with respect to presumptive tax on gaming machines and casino games (brick and mortar) as follows:

a) Negligence – half the amount of undeclared tax
b) Willful default – equivalent to the amount of undeclared tax
c) Fraud – one and half times the amount of undeclared tax

We welcome this measure. It aims to improve tax compliance in the sector through the introduction of specific penalties for negligence, willful default and fraud.

6.3.3 Introduce the use of electronic fiscal devices and other devices for income tax purposes and provide for penalties for non-compliance.

We welcome this measure. The measure is intended to improve compliance by empowering the Minister to Issue detailed guidance for the administration of electronic fiscal devices and other devices. The measure will also provide for penalties for non-compliance.

6.3.4 Redefine the term “child” in the Income Tax Act to remove the word “illegitimate”.

We welcome this measure. The measure is intended to align the definition of a child in line with the Legitimacy Act, Chapter 52 of the Laws of Zambia and the United Nations Convention for the Rights of the Child.

6.3.5 Amend the definition of “purchase price” to include resident to resident transactions

The measure is intended to align the definition of purchase price to that of Commodity Royalty.

6.3.6 Amend the Income Tax Act to align the minimum age for TPIN registration to that of the issuance of a National Registration Card at 16 years

We welcome this measure. The measure is intended to align the minimum age for TPIN registration with the Minimum age for obtaining a National Registration Card. This will also provide an opportunity for all National Registration Card holders to open bank accounts when need arises.

6.3.7 Amend the Second Schedule to the Income Tax Act under Paragraph 6A to remove the word “withholding” from the side note and the main text

We welcome this measure as it seeks to clarify that interest income received by the listed persons in the referenced paragraphs shall be subject to tax.provide clarity on winnings that are subject to Withholding Tax.

6.3.8 Clarify that a payment of tax is due and payable within 90 days of registration for income tax, if such registration is made after 31st March

We welcome this measure as it is intended to provide for a due date for payment of tax towards a

provisional return submitted for which income tax registration occurs after 31st March. The payment shall be due within 90 days of registration.

6.3.9 Align the Income Tax Act with the Pension Scheme Regulations Act by:

a) The deletion of the Fourth Schedule to the Income Tax Act;
b) Providing in the Income Tax Act that a pension approved under the Pension Scheme Regulations Act is exempt from tax; and
c) Inserting the approval criteria in the Pension Scheme Regulation Act that was covered in the fourth schedule to the Income Tax Act but is not in the Pension Scheme Regulation Act.

We welcome this measure as it seeks to align the Income Tax Act with the Pension Scheme
Regulations to streamline the process for approving pension funds.

6.3.10 Make it mandatory for all employers to submit the TPIN for all their employees in the Pay As You Earn return

The measure is intended to improve tax compliance and safeguard revenue. Additionally, employees will easily know if their PAYE contributions are being submitted correctly to ZRA by their employers through individualized statements which will become possible to produce once this measure is implemented. The employers will also reduce the need for PAYE audits thereby reducing their cost of compliance.

6.3.11 Extend fiscalisation to taxpayers registered under Turnover Tax and Presumptive Tax on Gaming and Betting

This measure is intended to improve tax compliance and enhance domestic resource mobilization.

6.4.0 Property Transfer Tax

6.4.1 Increase the Property Transfer Tax rate on the transfer of mining rights held by exploration companies to 7.5 percent from 10 percent

Currently, PTT is applicable on the transfer of mining rights at a rate of 10%. Mining rights under the Mines and Minerals Act include exploration licenses and mining licenses. A large portion of Zambia is still unexplored for mining purposes. The Government has an ambitious target of producing 3,000,000 tons of copper per annum, within the next 10 years, from the current annual production of approximately 850,000 tons. In order to achieve this target, the Government proposes to reduce the PTT rate applicable on the transfer of an exploration license to incentivize investment in exploration and consequently contribute to copper production. However, further efforts must be made to free mining licenses, a large number of which are held by hoarders for speculative purposes with very little exploration taking place.

6.5.0 Housekeeping measures

6.5.1 Clarify in the Property Transfer Tax Act that a share for the mining sector includes “interest in a mining right” and “an interest in a mineral processing license”

We welcome this measure as it seeks to curb the risk of double taxation created by the ambiguity of the current definition of a share. This means that interest in a mining right and mineral processing license will not be subject to tax separately when a transfer involves a shareholding change.

6.5.2 Clarify that the realized value in respect of the computation of Property Transfer Tax on indirect transfer of shares is the proportion of the value of the Zambian company

The measure seeks to amend the Act in order to clarify that the realised value for Property Transfer Tax is limited to the proportion of the value of the Zambian company.

6.5.3 Clarify the definition of Realised Value in the Property Transfer Tax Act

We welcome this proposal. The measure seeks to clarify that the realized value referred to under Section 5
(2A) should be restricted to the proportion applicable to the Zambian entity.

6.5.4 Delete the definition of effective shareholding under the Property Transfer Tax Act

This measure follows the clarification provided on the computation of the realized value.

6.5.5 Exempt the surrender or forfeiture of shares from Property Transfer Tax

We welcome this proposal as the proposed amendment seeks to clarify that the surrender and forfeiture of
shares is not a transfer and therefore not subject Property Transfer Tax.

6.5.6 Remove the reference to the Commissioner of Lands and prescribe how the provisional return in respect of land shall be submitted

This measure intends to remove the reference to the Commissioner of Lands as the return in relation to transfer of land is currently submitted to the Commissioner General. The measure also seeks to prescribe how the provisional return shall be submitted.

6.5.7 Allow for the use of the actual price received in determining the realised value for the disposal of distressed property by a financial services provider

This measure aims to improve the turnaround time for disposal of distressed assets and improve liquidity of financial service providers.

6.6.0 Transfer Pricing Regulations

Housekeeping measures

6.6.1 Amend the definition of "Multinational Enterprise Group" and "Ultimate Parent Entity" to align with the Organization for Economic Cooperation and Development (OECD) definition

This measure is intended to align the definition to the model legislation on Country-by-Country reporting provided by the OECD.

6.6.2 Amend the Regulations to provide for the use of a single currency for the threshold for Country-by-Country Report as prescribed by the OECD

Currently, the provision stipulates a two-currency test in Euros and Kwacha. The proposed amendment seeks to align the filing conditions to the recommended legislation by OECD which provides for a single currency test.

6.6.3 Amend the Regulations to align the requirements to be met for conditional filing of the Country-by-Country Report to the guidance by the OECD

We welcome this proposal as it intends to clarify the procedure of submitting the Country by Country (CbC) reports.

7.0 INDIRECT TAXES

7.1.0 Value Added Tax

7.1.1 Amend the Zero-Rating Order to include the supply of milk cans, churns and milking machines

Commentary

We welcome the measure as it intends to zero-rate the supply of milk cans, churns and milking Machines to support the supply chain in the dairy sub-sector.

7.1.2 Amend the Zero-Rating Order to include the supply of selected Information and Communications Technology (ICT) and telecommunications equipment

Commentary

We welcome the move as this measure seeks to improve the telecommunication sector's competitiveness and thus attract investment that will in turn stimulate increased mobile penetration in the Country.

7.1.3 Amend the Value Added Tax Exemption Order to include gaming, betting and lotteries

Commentary

We welcome the move. This measure seeks to remedy the difficulties in accounting for tax in the industry and to improve administrative efficiency. The measure will also align the taxation of the industry with international good practice.

7.1.4 Amend the VAT Exemption Order to include game animals being imported as breeding stock

Commentary

The measure intends to attract investment in breeding stock and thereby support the growth of the livestock sub- sector.

7.1.5 Provide Value Added Tax relief on imported equipment and machinery where duty shall be waived under the Customs and Excise (Regulations) under a Public Private Partnership project, subject to the same limitations and conditions as shall be specified therein

Commentary

The proposed measure is intended to stimulate private sector participation in Public Private Partnerships which will contribute to increasing public infrastructure.

7.1.6 Extend the provisions under the Value Added Tax (General) Regulations A of an "intending trader" to special purpose vehicle for Public Private Partnership projects for a period of four years.

Commentary

The measure will ensure that a special purpose vehicle established under a Public Private Partnership can claim input VAT in its set up phase for up to four years. The measure is therefore intended to stimulate private sector participation in Public Private Partnerships which will contribute to narrowing the infrastructure deficit.

7.2.0 Housekeeping Measures on VAT

7.2.1 Amend the Heading of Section 7A (1) of the Value Added Tax Act to read Record of Sales’

The current heading of Section 7A reads as “Record of Daily Sales”. This heading was in line with the reading of Section 7A (1) that referred to daily sales. This amendment is intended to align the heading with the subject in view of the amendment that was effected on 7A (1).

7.2.2 Amend the Value Added Tax Act to increase the penalty regime to 300,000 penalty units from 30,000 penalty units

This measure seeks to align the penalty under Section 44(1) with that under 44(2), to ensure that only one penalty is applicable under the Section.

7.2.3 Amend the Value Added Tax Exemption Order to expand the definition of Poultry

This measure aims to add quails and guinea fowls to the list of birds that are exempt and whose feed is exempt for VAT purposes. This will harmonize the VAT treatment of feed for all birds that are kept for domestic or commercial purposes.

7.2.4 Amend the VAT (Electronic Fiscal Device) Regulations to rearrange the wording in order to reflect the correct order of approval of Accounting Software

The measure intends to correctly reflect the order of approval and integration of Electronic Fiscal Devices.

7.2.5 Amend the Valued Added Tax (Electronic Fiscal Device) Regulations to provide for maintaining inspection log (automated inspection logbooks)

The measure aims to provide for both electronic and manual logbooks to reduce printing costs and expand the scope of electronic recording to include live, offline and USSD.

7.2.6 Amend the Value Added Tax Act to clarify when a tax invoice expires for purposes of deducting or crediting input tax

We welcome this measure as it intends to provide clarity that the three months limit is determined with reference to the date of the input tax supporting document and the date of submission of the return in which that input tax is being deducted.

7.2.7 Amend the heading of Group 7 (h) of the Value Added Tax Zero-Rating Order to include the term “Solar Batteries”

This measure is intended to clarify that only solar batteries are zero-rated.

7.2.8 Amend the VAT (Electronic Fiscal Device) Regulations to remove a provision adequately covered under the Information Communication Technology Act

The Zambia Information and Communications Technology Authority (ZICTA) mandate, through the Information Communication Technology Act, is clear on electronic equipment type-approval and as such there is no need to provide for it The Zambia Information and Communications Technology Authority (ZICTA) mandate, through the Information Communication Technology Act, is clear on electronic equipment type-approval and as such there is no need to provide for it in the VAT (Electronic Fiscal Device) Regulations.in the VAT (Electronic Fiscal Device) Regulations.

7.3.0 Customs and Excise Tax

7.3.1 Extend the suspension of Customs Duty on importation of safari vehicles under the tourism sector to 31st December, 2025

Commentary

We welcome the proposal as it is intended to support the recovery of the tourism sector from the adverse effects of the COVID-19 Pandemic. The measure also intends to promote the provision of quality services for safari tourism and game viewing.

7.3.2 Suspend Customs Duty for the tourism sector up to 31st December, 2025, on selected capital equipment, machinery, fittings and fixtures which are not produced locally

Commentary

We welcome the proposal as it is intended to revamp and increase the sector's economic contribution.

7.3.3 Extend the provisions of the Customs and Excise (Suspension) (Medical Supplies) Regulations, 2020, Statutory Instrument No. 78 of 2021 to 31st December, 2023

Commentary

We welcome the proposal as this measure is meant to extend relief on medical supplies critical to reducing the spread of COVID-19.

7.3.4 Remove 5 percent Customs Duty on biological control agents used in agriculture

Commentary

We welcome the proposal as this measure seeks to promote the use of environmentally friendly pest control
techniques in the horticulture and floriculture sub-sectors to increase compliance with quality standards and phytosanitary measures required by some export markets.

7.3.5 Suspend to 0 percent, from 15 percent, Customs Duty applicable on greenhouse plastics used in agriculture up to 31st December 2025

Commentary

We welcome the proposal as this measure is intended to promote investments in the floriculture and other
climate controlled agro-sectors with a view to boost domestic exports of floral products.

7.3.6 Suspend Customs Duty on machinery, equipment and articles used in aquaculture to 31st December 2025

Commentary

This measure seeks to support further investment in the aquaculture sub-sector and increase production of fish.

7.3.7 Remove 15 percent Customs Duty on vegetable seedling growing media (peat moss) used in the production of vegetable seedlings

Commentary

The measure seeks to promote the production of commercial vegetable seedlings in Zambia.

7.3.8 Suspend Customs Duty on refuse compactor trucks, skip loader vehicles, road sweepers and skip bins to 31st December, 2025

Commentary

This measure aims to encourage investment in waste management to promote cleanliness and hygiene in the environment through improved collection, transportation and safe disposal of waste.

7.3.9 Suspend 5 percent Customs Duty for a period of three years on importation of equipment for baling waste

Commentary

We welcome the proposal as this measure aims to promote suitable packaging of waste to support waste
Management.

7.3.10 Suspend 15 percent Customs Duty on imported Automated Teller Machines (ATMs) for a period of one year

Commentary

We welcome the proposal as the measure is meant to promote financial inclusion and increasing access to
Financial service provisions across the Country.

7.3.11 Remove 15 percent Customs Duty on gas cylinders

We welcome this measure as it intends to reduce the cost of Liquefied Petroleum Gas (LPG) and thereby increase its accessibility by reducing the cost of cylinders. This measure is envisaged to diversify the energy mix.

7.3.12 Reduce excise duty to 60 percent from 125 percent on methylated spirit

We welcome this measure as it aims to harmonise the excise duty rates for methylated spirit and
ethyl alcohol.

7.3.13 Suspend Excise Duty on clear beer made from cassava to 5 percent from 10 percent and Excise Duty on clear beer made from malt to 20 percent from 40 percent for production levels over and above agreed production threshold, for the period 2024 – 2026

We welcome this measure as it is intended to promote value addition to cassava, support out-grower
schemes and enhance job creation.

7.3.14 Remove 25 percent Customs Duty on prefabricated buildings up to 31st December, 2025

We welcome this measure as it aims to mitigate the housing shortage in the Country.

7.3.15 Remove 5 percent Customs Duty on selected tree crop seedlings

We welcome this measure as it aims to promote growing and exporting of fruit and nut tree crops
such as citrus, avocado, cashew, and macadamia nuts.

7.3.16 Reduce Customs Duty on electric vehicles and electric motorcycles to 15 percent from 30 percent and 25 percent, respectively

This measure is intended to encourage the adoption and use of electric vehicles and electric motorcycles in the country.

7.3.17 Suspend Customs Duty on selected equipment for the music and film industry for duly registered businesses to 31st December, 2025

We welcome this measure as it seeks to reduce the cost of capital equipment and improve the industry's competitiveness.

7.3.18 **Remove Customs Duty on plant, machinery and equipment acquired for use in a Public Private Partnership project**

We welcome this measure as it is intended to stimulate private sector participation in Public Private
Partnership which will contribute to narrowing the infrastructure deficit.

8.0 COMMENTS ON OTHER AREAS OF THE BUDGET

Our commentary in this respect is limited to areas where we want to draw the attention of the Minister of Finance and Parliament on the 2023 National Budget.

The increase in the 2023 Budget has been driven the following Expenditure Allocations:

Description	**2023 Budget**	**2022 Budget**	**2021 Budget**	**2020 Budget**
General Public Service	66,172	83,370	57,819	44,081
Local Govt Equalization Fund	1,339	1,339	1,165	2,278
Domestic Debt Payment	30,530	27,365	18,338	12,635
External Debt Interest Payment	18,234	51,315	27,745	21,091
Defense	8,117	7,634	5,643	6,526
Public Order and Safety	5,189	3,493	3,079	4,043
Economic Affairs	35,013	33,706	21,500	21,833

International Airports	-	1,037	567	1,823
Housing & Community Amenities	2,584	2,376	2,222	3,460
Health	17,395	13,912	9,653	9,367
Recreation & Culture	444	156	151	383
Education	23,189	18,073	13,773	13,122
Social Protection	8,128	6,294	4,821	2,580
Climate Change Resilience	789	971	213	222
Water Supply and Sanitation	2,270	2,352	2,170	4,381

In 2023, the general public services function will receive a total of ZMW66.2 billion from ZMW86.4 billion in 2022 and from ZMW57.8 billion in 2021. As a share of the total budget, there has been a reduction in expenditure on general public services from 49.9% in 2022 to 39.9% in 2023. Out of the total general public services allocation of ZMW66.2 billion, ZMW30.5 billion is for domestic debt servicing, ZMW18.2 billion is for external debt servicing and ZMW6.8 billion is for dismantling domestic arrears bringing the total for debt servicing and dismantling of domestic arrears to ZMW55.5 billion.

Clearly, there has been substantial reduction in resources allocated to debt servicing and dismantling of arrears in the 2023 budget from a total of ZMW81.8 billion in 2022 to a total of ZMW55.5 billion in 2023 representing a 32% reduction. The reduction has seen foreign debt servicing being allocated ZMW18.2 billion in 2023 as compared to ZMW51.3 billion in 2022 although the Minister of Finance and National Planning made it clear that the allocation towards debt service does not take into account debt restructuring and will be subject to change once an agreement is reached with creditors.

The total debt servicing and dismantling of arrears for 2022 is broken down as follows: ZMW51.3 billion was for external debt servicing; ZMW27.4 billion for domestic debt servicing; and ZMW3.1 billion for dismantling domestic arrears. Even with the reduction in the allocation for debt servicing including dismantling of arrears in the 2023 budget, the two budgetary items still account for 33% of the total budget and in 2022 accounted for 47% of the total budget. When compared with the combined allocation of resources to key economic and social protection, the said sectors only account for 25% of the total budget in 2023. It can thus be argued that debt servicing and dismantling of arrears take away resources from the key economic and social sectors of the economy.

The economic affairs function received an increase in allocation of 3.9% in 2023 following a major increase in allocation of 56.7% in 2022 and in absolute terms has been allocated ZMW35.0 billion in 2023 and received ZMW33.7 billion in 2022, respectively. The economic affairs function allocation as a share of the total budget increased from 19.5% in 2022 to 20.9% in 2023. The increase in allocation for the function in 2023 is mainly on account of the allocation to various interventions in the agriculture, fisheries and livestock sub-sectors in line with the Comprehensive Agriculture Support Programme which received an allocation of ZMW11.2 billion. Further, Constituency Development Fund received an allocation of ZMW3.5 billion and road infrastructure received an allocation of ZMW5.16 billion. Other notable programs in the 2023 budget include rural electrification, empowerment and credit guarantees funds for the small and medium enterprises (SMEs), border infrastructure and provincial aerodromes infrastructure with allocations of ZMW743.6 million, ZMW547.4 million, ZMW150 million and ZMW355 million, respectively.

The allocations to the economic affairs function reflect the Government’s desire to continue with its agenda of transforming the economic landscape of the country through increased participation of its citizenry and the SMEs in economic activities and through increased business opportunities for all which will lead to wealth and job creation and ultimately contribute to the economic growth of the country.

In the health function, the budgetary allocation as a share of the total budget increased to 10.4% in 2023 from 8.0% in 2022 and in absolute terms increased to ZMW17.4 billion in 2023 from ZMW13.9 billion in 2022 representing a percentage increase of 25.2%. A notable change in expenditure in the health sector is the increase in allocation to procure drugs and medical supplies by 35% to ZMW4.6 billion in 2023 from ZMW3.4 billion. To build on the gains made in 2022 which included the recruitment of at least 11,000 frontline health personnel, Government proposes to recruit additional health personnel amounting to 3,000 in 2023 and thus has allocated ZMW307.5 million for this activity.

The education function received a substantial further increase in the budgetary allocation for 2023 following another increase in 2022. The function's allocation as a share of the total budget increased to 13.9% in 2023 from 10.4% in 2022. In absolute terms, the budgetary allocation for education has increased to ZMW23.2 billion in 2023 from ZMW18.1 billion in 2022 representing an increase of 28.2%. The increase in education by function expenditure is meant to build on the successes made in 2022 which include the recruitment of at least 30,000 teachers, and the provision of free education for primary and secondary school education up to grade 12. Notable budgetary allocations in 2023 include the provision of ZMW358.4 million for the recruitment of 4,500 additional teachers. The government has further allocated ZMW930.2 million to the Higher Education Loans and Scholarship Board for the provision of student bursaries and student meal allowances. The government, thus, has re-introduced student meal allowances for students on government bursaries in 2023.

The government's budgetary allocations as a percentage share of the total budget to social protection, defense, public order and safety, housing and community amenities, environment protection and recreation, culture, and religion has increased in 2023. The social protection budget as a share of the total budget has been proposed to be increased to 4.9% in 2023 from 3.6% in 2022 and in absolute terms to ZMW8.2 billion from ZMW6.3 billion in 2022. The noted budgetary inclusion for 2023 is the ZMW300.0 million for retirement benefits under the Local Authorities Superannuation Fund. Furthermore, budgetary allocation for the Social Cash Transfer Programme has been increased by a further 19.8% to ZMW3.7 billion in 2023 from ZMW 3.1 billion in 2022 while ZMW1.2 billion has been allocated for the Food Security Pack in 2023 to support the vulnerable but viable farmers. ZMW133.5 million has been provided in 2023 for the Keeping Girls in School Programme. The continued increase in social spending by Government is in a bid to protect the vulnerable and the poor and mitigate against the effects of the post COVID – 19.

Further, budgetary allocations for defense and public order and safety have been increased as a percentage share of the total budget to 4.9% and 3.1% in 2023 from 4.4% and 2.0% in 2022, respectively. In absolute terms, the budgetary allocations to the two functions increased to ZMW8.2 billion and ZMW5.2 billion from ZMW7.6 billion and ZMW3.5 billion in 2022, respectively.

To support the 2023 ZMW167.3 billion national expenditure, Government proposes to collect revenue through both tax and non – tax measures coupled with increased tax compliancy levels. The measures will result in an increase in tax revenue collected to cover 55.9% as a share of the total revenue in 2023. In addition, 10.8% of the total revenue will be in form of non – tax revenues.

In 2023, Government hopes to raise ZMW111.6 billion or 20.9% of GDP as domestic revenue which has been increased by 12.9% to 2022 domestic revenue which stood at ZMW98.86 billion. Government, therefore, hopes to increase the share of domestic financing in its resource envelope in 2023 to 66.7% as a share of the total budget compared to 57% in 2022.

The government further proposes to increase the share of total foreign financing and grants in 2023 by 12.1% to ZMW55.7 billion from ZMW49.67 billion in 2022. In particular, ZMW1.7 billion will be in form of grants from Cooperating Partners while ZMW54 billion will be debt financing. Thus, the budget deficit for 2023 is estimated to be ZMW40.9 billion or 7.7% of GDP. See Figure 2 for the summary of the country's resource envelope for 2023 in comparison to the 2022 and 2021 fiscal years.

Government proposes to offer various tax and non–tax relief incentives to the productive sectors and employees which are meant to increase investments, spur growth for the productive sectors as well as increase disposable incomes for employees thus resulting in an increase in consumer spending and ultimately the growth of the domestic economy.

Budgeted Expenditure

Below is the summary of budget allocation for the financial year 2023 according to the 2023 Budget Policy Statement by the National Treasury and Planning.

Figure1: Budget allocation for 2023

Function	2023 K' Million'	%	2022 K' Million'	%
General Public Services	66,172	39.50	86,370	49.90
Defense	8,148	4.90	7,634	4.40
Public Order and Safety	5,189	3.10	3,493	2.00
Economic Affairs	35,013	20.90	33,706	19.50
Environmental Protection	1,060	0.60	972	0.60
Housing and Community Amenities	2,584	1.50	2,376	1.40
Health	17,395	10.40	13,912	8.00
Recreation, Culture and Religion	444	0.30	156	0.10
Education	23,189	13.90	18,073	10.04
Social Protection	8,128	4.90	6,294	3.60
Grand total	**167,322**	**100.00**	**172,987**	**100.00**

9.1 Measures Put in Place in handling the economic growth, industrialization and job creation

The amount allocated for economic affairs is not adequate as it is just a 20.9% of total budget on the background of attaining 3.2% economic growth. One would expect more budget and measures to stimulate economic growth and to ensure that the SME sector starts growing.

We have taken note of some initiatives taken up in the agricultural sector (which accounts for about 50% of employment in Zambia according to the CSO). We are of the view that comprehensive programs like the Aquaculture transformation program are critical to build capacity and competitive advantage is selected sectors. We are of the view that two other sectors (for example cashew nuts, horticulture or other high value cash crops) in addition to Aquaculture which have ability to create jobs and create more tax revenue sources should have been targeted. This is a more sustainable way of providing social protection and creating wealth for Zambians.

9.2 Economic Transformation and job creation- SME Support

We have noted that the budget is trying to address mainly economic growth and job creation.

The most sustainable path to job creation and economic growth is to provide support to the private sector which helps the companies grow. We have seen concrete steps taken to help the local farmers grow, applicable to both small and medium sized farmers. We have only observed broad plans for the SME commercial sector coming under the new Ministry of SMEs. We expect that the support to be provided to SMEs and Cooperatives will be similar to that planned in the agricultural sector. We expect at a minimum:

- Programs to be designed to provide financing : grants and cheap loans (for both working capital and capital expenditure)
- The programs should also provide technical services or business development services. The BoZ refinancing facility is only available to financial institutions and

SMEs who had loans with the Banks pre-covid-19. This excludes the majority of SMEs from accessing the fund. We need a similar SME Fund that is available to all SMEs (like FISP under agriculture) in the market but it should be managed by a party with a higher risk appetite than BoZ. SMEs need a fund with a risk appetite similar to a venture capitalist.

- Operationalization of the Credit Guarantee scheme is very welcome. This should reduce interest rates and in turn increase access to finance by SMEs.

10 Conclusion

We believe that the Budget is a necessary fiscal tool to create positive contribution to economic growth and poverty eradication. We have noted that the 2023 Budget has created a conducive environment for the private sector to thrive in employment creation and contribute to the growth of our economy.

Finally, we would like to thank the government for listening to the submissions from ZICA on different issues.