ZIPAR
Zambia Institute for Policy Analysis & Research

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ZAMBIA

ANALYSIS OF THE 2024 NATIONAL BUDGET

THEME:

CONSOLIDATING ON REFORMS FOR TRANSFORMATIVE AND INCLUSIVE PRIVATE SECTOR-LED DEVELOPMENT

K177.9bn

READER’S DIGEST

The Minister of Finance and National Planning, Honourable Dr Situmbeko Musokotwane, MP, addressed the nation on 29th September 2023 to deliver the 2024 National Budget. This was the third Budget under the current regime. The Budget themed "Unlocking Economic Potential" set the policy tone for the nation for the 2024 fiscal year and beyond. In all likelihood, the Budget aims at facilitating private-sector-led growth and inclusive development in the wake of economic turbulences that have shocked both the global and the domestic economy in similar ways.

The 2024 Budget, at K177.9 billion is 6.3% larger than the 2023 Budget which was estimated at K167.3 billion. However, when expressed as a percentage of Gross Domestic Product (GDP) the 2024 Budget, at 27.8%, is smaller than the 2023 value of 31.4%. This section provides a synopsis of ZIPAR's analysis of the macroeconomic objectives, the fiscal governance environment, the revenue measures and expenditure priorities, the real sector interventions, and finally, the human development pronouncements contained in the 2024 Budget in the bullet points below:

1. The Budget projects a GDP growth rate of 4.8%, inflation target of 6-8%, and fiscal deficit target within reach. The budget emphasizes the importance of sectors such as mining, agriculture, manufacturing, and tourism for economic growth and proposes measures to support these sectors.

2. Despite the projected increase in 2024, challenges in the mining sector, low productivity in agriculture, and limited investments in manufacturing could severely annul growth and thus, extra care must be taken to manage those risks. The budget aims to increase support to these sectors and increase productivity and foreign direct investment.

3. Regarding inflation, the budget aims to move and contain inflation within the 6-8% target range. However, there are challenges in addressing inflationary pressures caused by food supply constraints and the large informal sector. The Government is urged to implement policies to boost food production, promote financial inclusion, and limit the use of cash transactions.

4. The Government commits itself to improving fiscal governance by sealing the leakage of public finances, reducing debt to sustainable levels by prioritizing concessional borrowing, and scaling the implementation of the decentralization policy through the increased Constituency Development Fund (CDF) allocation despite the low rate of absorption. Thus, the Government is entreated to strengthen the accountability mechanisms so that CDF releases do not create severe public financial management slippages.

5. The Budget proposes measures to stimulate growth, increase liquidity, and reduce borrowing costs.

These measures include an increase in the allocation to the Economic Affairs function and proposes to increase funding to the Zambia Credit Guarantee Scheme (ZCGS) as well as the Citizen Economic Empowerment Commission (CEEC) to enhance lending to the private sector. The budget also commits to dismantling arrears to unlock liquidity in the market.

6. The budget aims at managing volatility in the foreign exchange market and proposes investments in domestic productive capacities to reduce pressure on forex. It sets targets for fiscal deficit reduction and reserves coverage. The Government aims to reduce borrowing and increase domestic resource mobilization.

7. The budget outlines reforms to strengthen tax administration, broaden the tax base, and combat revenue leakages. The Government aims at enhancing domestic revenue collection and fiscal consolidation. It introduces a levy on mobile money transactions and proposes an increase in excise duty, with all the signals, it may negatively impact the financial inclusion agenda.

8. Agriculture is perhaps the economic sector that is closest to the people and indeed very cardinal for the Government in its bid to reduce poverty and change the economic fortunes of the country. However, the 2024 Budget seems to present nothing out of the ordinary by continuing with the Farmer Input Support Programme (FISP) as the main agricultural investment programme with an allocation of K8.56 billion with only a 6.5% reduction from the 2023 Budgetary allocation. The observation is that FISP has not lived up to expectations, and that Government must clearly signal disengagement from this policy. The pronounced intention to complete the development of farm blocks and build infrastructure for use by the private sector may represent a significant and positive shift in policy.

9. On mining, despite the assured resolution of disputes surrounding Mopani Copper Mines (MCM) and Konkola Copper Mines (KCM), output has recently declined and could decline further risking the attainment of the macroeconomic and other targets based on its projected recovery and growth. However, the Government's commitment to undertake geophysical surveys, the lack of which was the largest obstacle to unlocking the mining sector, is commendable. The Government is therefore entreated to quickly present the Bill that establishes the Minerals Regulation Commission (MRC) to Parliament and quickly resolve the issues affecting gold mining in Zambia. The establishment of the MRC will also strengthen Government's capacity to rein in income from all mineral resources.

10. Although the tourism sector has rebounded in 2023, with increases in the number of international visits and length of stay, the Government should aspire for better results, benchmarking with regional comparators. Also notable, is the measure to provide for the delivery of tourism infrastructure to complement other policy measures. It has been suggested that the visa-free measure contributed to the stimulation of visits in 2023.

11. The construction, rehabilitation, and maintenance of road infrastructure has received the largest

allocation boost of almost 60% and prioritizes key trunk roads. Notably, rural roads have also been prioritized through increasing the allocation to the Improved Rural Connectivity Project to spur social and economic activities in the rural parts of the country. However, as the Government also recognizes transport as a key enabler of growth, care must be taken to avoid fiscal slippages that have previously characterized spending on roads and plunged the country into debt previously.

12. In the rest of the sectors; manufacturing, MSMEs, energy, and ICTs, the Budget proposes credible measures to address challenges and promote growth too. It emphasizes private sector-led investment and the need for affordable financing, easing the infrastructure development in these

sectors

13. Overall, the 2024 Budget in Zambia aims to promote economic growth, fiscal discipline, and sectoral development while addressing challenges and maximizing potential in key sectors.

14. The budget presented is a progressive document which aims at placing the private sector at the centre as the engine for development while, the Government plays facilitative role. The business of doing business rests with businesses while the Government concerns itself with creating a conducive environment through the development of infrastructure and legal and regulatory frameworks for businesses to thrive.

15. With this approach it is expected that the business and entrepreneurial zeal of the Zambian community will be unlocked, leading to resurgence and growth of the economy.

16. This growth will also be achieved by delivering better standards of living for the people while, protecting and enabling those who are less able.

2024

NATIONAL BUDGET

K177.9bn

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INTRODUCTION

Following the unveiling of the 2024 National Budget by the Honourable Minister of Finance and National Planning, Dr Situmbeko Musokotwane, MP, on Friday, 29th September 2023, there has been heightened interest in the Public to understand what the Budget entails. Moreso, that the timing of the Budget reading coincides with growing domestic concerns about the rising food prices, and the recently released poverty statistics which show that a significant portion of the population had slipped back into poverty.

The drastic rise in food prices and the exchange rate volatility forced the Central Bank to employ aggressive monetary policy measure which have unintentionally hurt growth. This is evidenced by subdued growth indicated by the downward revision of the 2023 Gross Domestic Product (GDP) growth projection to 2.7% from 4.2%. In contrast to the intentions set out in the Eighth National Development Plan (8NDP), most of this growth is driven by the services and social sectors as opposed to the targeted growth sectors.

Announcing the Budget themed "Unlocking Economic Potential," the Minister set out the priorities of the Government which included positioning the private sector as the engine for growth and job creation. The Budget embodies the commitment of the Government to realign the policy framework, reallocate resources and provide incentives to the reform agenda anchored in the 8NDP. The reform agenda is to create jobs and grow the economy by restoring fiscal prudence and debt sustainability, attracting private investment, and investing in human capital thus, unlocking the economic potential of Zambia.

Noticeably, standing in the way of smoother implementation of the reforms are the ferocious global macroeconomic headwinds of rising inflation and corresponding measures of tightening liquidity which have already had adverse impacts on the domestic macroeconomic environment over the past two years. The headwinds are largely due to the Russia-Ukraine war and the resultant disruptions to the grains, fertilisers, and fuel supply chain, causing sustained rise in global commodity prices and economic downturns world over. On the brighter side, despite the global economic pressures, the Zambian economy has built some resilience in its macroeconomic indicators through the restoration of fiscal prudence, providing a glimmer of hope that the reforms will soon begin to bear fruits if the Government stays the course.

It is against this background, that the Minister presented the 2024 National Budget which at a glance, contains measures designed to address the economic challenges the country has been experiencing, by consolidating the reforms grounded in the 8NDP.

This paper therefore analyses the 2024 National Budget, or the Budget, under the interpretive theme: "Consolidating on reforms for transformative and inclusive private sector-led development". The paper highlights some insights on the macroeconomic objectives for the 2024 fiscal year, the fiscal governance framework, revenue measures, and spending priorities. This paper then applies itself to analyses the real sector policy options to stimulate strong, resilient, and climate-sensitive livelihoods. This paper also articulates issues pertaining to the human development policies and measures contained in the budget.

The cutting edge of this analysis is that it gives caution to the Government about the policies and measures that appear to carry huge risks that could undermine the smooth implementation and the desired impacts of the Budget. This analysis, overall, makes recommendations on how to avoid foreseeable perils and how to capitalize on conceivable opportunities.

ZAMBIA'S MACROECONOMIC FUNDAMENTALS

The Budget moves public policy towards "Unlocking Economic Potential". This section provides insights on the macroeconomic objectives pronounced in the Budget; whether or not the objectives are attainable, and further, how to ensure their attainability and be alert to some watch-factors. Generally, the set targets are consistent with the 2024-2026 Medium-Term Budget Plan (MTBP). For example, the GDP target of 4.8% provides a ray of optimism and remains largely attainable. On the 6-8% inflation target, the Budget could have been aiming at a more relaxed rate within the single digit to slightly larger range, given adverse effects of aggressive inflation containment measures on liquidity and ultimately economic growth. Additionally, the fiscal deficit target and the Gross International Reserve (GIR) target both remain within reach and consistent with the MTBP:2024-2026.

Towards Increased Growth through Economic Transformation

Zambia's real GDP performance has remained steady, growing at 6.2% and 5.2% in 2021 and 2022, respectively[1] (see Figure 2-1). In 2024, the National Budget projects real GDP growth of 4.8%, an increase from the 2023 projection of 2.7%. This 2023 growth projection came from a downward revision of an earlier projection of 4.2% by the Ministry of Finance and National Planning[2] (MoFNP). The revision was attributed to reduced copper production in the first half of 2023 and the sustained fall in the global commodity price of copper.

The 4.8% GDP growth target, albeit moderate, signals a more optimistic economic outlook for Zambia in 2024 compared to 2023. This target is consistent with the MTBP:2024-2026 target and aligns well with the macroeconomic framework of the 8NDP.

The Budget presupposes that growth for 2024, will emanate from the following priority sectors: Mining, Agriculture, Manufacturing, and Tourism. However, except for rebounds recorded in the tourism sector judging from the 22% jump in international tourist arrivals in the first half of 2023 compared to the same period in 2022, the other priority sectors continue to underperform. The underperformance is largely attributed to operational challenges and the low ore grade in mining, low productivity in agriculture, and

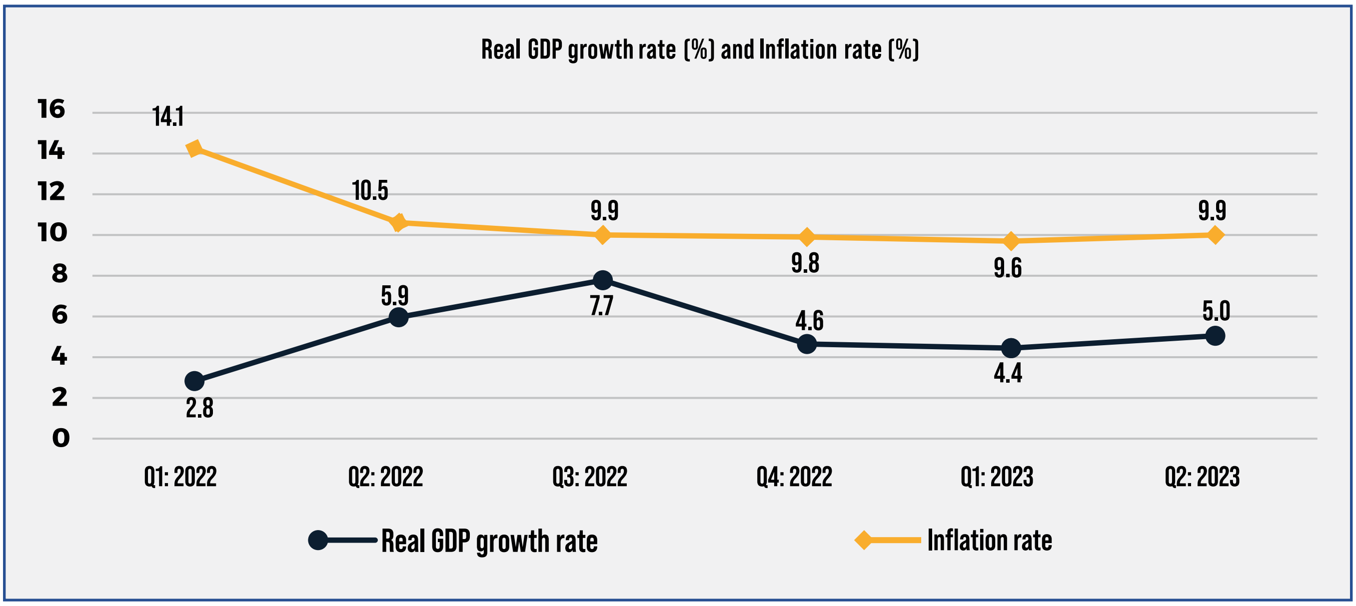
1 ZamStats September 2023 Monthly Bulletin

2 MoFNP. (2023). Economic Developments in the First Half of 2023 and MTBP

limited investments in manufacturing. This therefore, implies that more policy support to these sectors remains critical to foster growth.

Given the challenges highlighted so far, the increase in allocations towards the Economic Affairs function to 22.3% from 20.9% in 2023, is commendable progress. However, the allocation still falls short of the recommended MTBP:2024-2026 target of 26%. Nonetheless, to complement this, the Budget outlines various pronouncements aimed at increasing productivity and Foreign Direct Investment (FDI) in the priority sectors.

Figure 2-1: Real GDP growth rate (%) and Inflation rate (%)



Source: Bank of Zambia and ZamStats

Complementing Monetary Policy to Contain Inflation

Following a sustained reduction in inflation from the highs of above 23.5% in Q2:2021 to 9.9% 2 years later in Q2:2023 (see Figure 2-1), inflation has since edged upwards to 12% as of September 2023. This rise in inflation has largely been driven by increases in prices of maize grain and meat products as well as the pass-through effects of the Kwacha depreciation against the US Dollar. Inflationary pressures have persisted despite the aggressive contractionary monetary stance adopted by the Bank of Zambia (BoZ). In spite of these monetary policy measures, there seems insufficient tendency to the 6-8% target range.

It is evident that there are strong factors militating against the accomplishment of the 6-8% inflation rate , and that the monetary authorities should consider a more accommodative monetary policy to complement the fiscal policy. Such a policy could see the easing of liquidity in the economy and a lowering of interest rates.

In noting the domestic inflationary pressures, the emphasis is on the fact that Zambia's inflation is an economic structural phenomenon and it is largely driven by food systems which are currently facing constrained food supply. This brings into question the adequacy of monetary policy tools alone to address the inflation challenges in Zambia. Moreover, the large informal sector operating outside the formal banking system, further compounds the efficacy of the monetary policy operations. The large informal financial sector, so to speak, weakens the efficacy of monetary policy in achieving the espoused macroeconomic objectives.

In view of the cited structural influence on inflation the country is facing, it's imperative on the Government to draw attention on implementing policies aimed at boosting food and agricultural production and value addition to complement the monetary policy. The Government is also entreated to continue promoting financial inclusion and limit the use of cash as a means of transactions thus, bringing the majority-unbanked population into the financial system. A more aggressive policy of addressing informality in financial markets should accordingly be contemplated. These measures can help improve the efficacy of the monetary policy.

Notwithstanding, other upside risks that could hamper price stability, still remain. The risks include high global food and energy prices, shortages of grain supply in neighboring countries, and tightened global financial conditions, all which require close monitoring throughout the budget cycle.

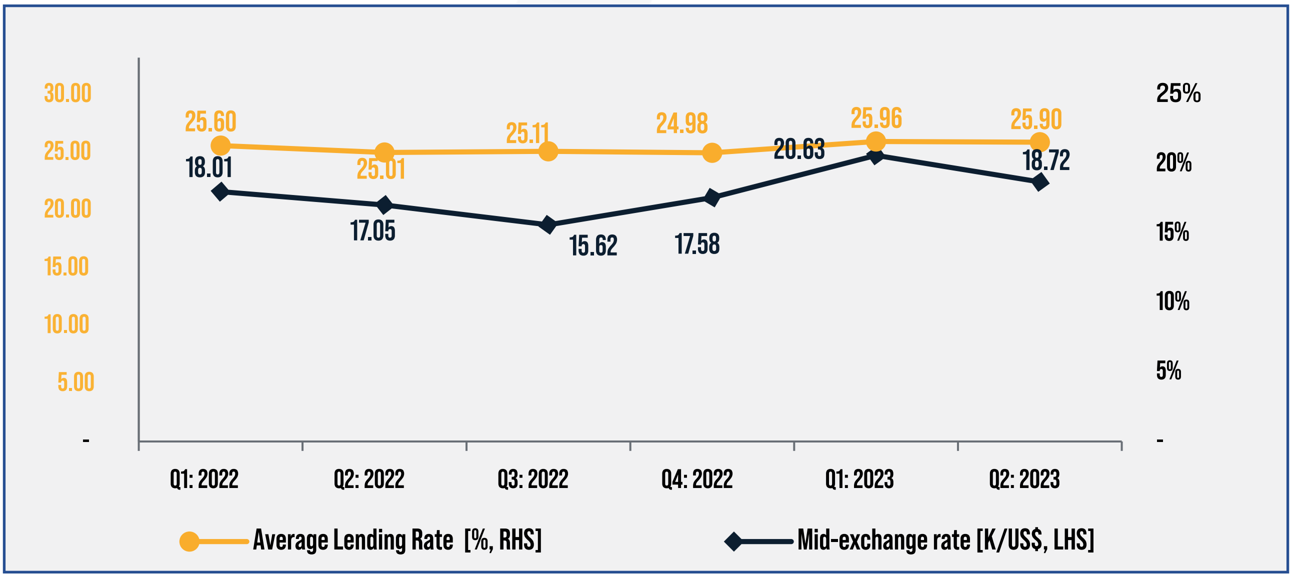
Easing Up Liquidity to Unlock Economic Potential

The cost of borrowing remained high in the first half of 2023 with lending rates averaging 25%[3]. The persistent rise in interest rates has partly been attributed to the continued borrowing by Government from the domestic market. The effect of Government participation in the market has been the crowding out of private investors, among others. However, and more optimistically, the Budget mentions a few other measures aimed at reducing the cost of borrowing and increasing liquidity in different sectors of the economy.

Progressively, the Government is reducing the size of the fiscal deficit, subsequently reducing its borrowing needs, and ultimately freeing up resources for the private sector to borrow. In easing up liquidity, the Budget proposes a 157.3% rise in the allocation to the Zambia Credit Guarantee Scheme (ZCGS), which if actualized, is expected to increase lending to the private sector. Specifically, to MSME's, public sector workers, and small scale and emergent farmers, who have struggled due to lack of access to affordable credit, among the many other challenges they face, this Scheme will be advantageous. Besides ZCGS, increased allocations to the CDF's empowerment programs and the continued roll out of CEEC funds, will be key in injecting liquidity in the economy. Furthermore, the Budget commits K6.9 billion for dismantling of arrears to unlock the much-needed liquidity in the market. However, of major concern is still the tight monetary stance which can reverse potential gains.

3 Bank of Zambia Fortnightly statistics

Figure 2-2: Mid-exchange rate (K/US$) and Average Lending Rates (%)



Source: Bank of Zambia

Stabilizing the Foreign Exchange Market

The Budget commits to managing volatilities in the foreign exchange market. This is despite the Kwacha depreciating against the US Dollar by 11.8% from K18 per US$ as at end-December 2022 to K20.2 per US$ as at end-August 2023[4]. The depreciation of the Kwacha was mostly driven by excess demand of foreign exchange for the purchase of critical imports, among other factors, and therefore appears seasonal in character. To counter this, the Government proposes to invest in the country's domestic productive capacities, whose importation exerts immense pressure on forex demand. These, however, are longer term measures and will have little effect on the exchange rate in the short term. It is also important to note also that there will be reduced demand for foreign exchange for debt service payment purposes. However, key risks persist, including tightening in the global financial conditions, slump in copper prices and production, continued rise in crude oil prices, and the anticipated importation of inputs to feed into the production processes for various sectors of the economy.

4 Based on statistics from the BOZ fortnightlies

Closing the Fiscal Deficit Gaps

The Budget projects a fiscal deficit of 4.8% of GDP, from the projected outturn of 5.8% in 2023 (which will be below the original 2023 target of 7.7%). Not only is the 2024 fiscal deficit target consistent with the MTBP:2024-2026, the 2024 target and the 2023 projected outturn continue to signal strong Government commitment to upholding fiscal discipline. ZIPAR expects the current fiscal prudence to ultimately result in reduced Government borrowing, especially domestic borrowing. This measure should ease pressure on the domestic financial market, creating an enabling climate for private sector, which is a necessary precondition for ''Unlocking Economic Potential".

Shoring Up Reserves Beyond Three Months of Import Cover

As at end-August 2023, Zambia's GIR rose to US$2.9 billion, equivalent to 3.2 months of import cover, from US$2.7 billion as at end-June 2023[5], which was equivalent to 2.9 months of import cover. The rise in GIR was on account of receipts from mineral royalties and the second tranche payment of US$189 million of the International Monetary Fund (IMF) Extended Credit Facility (ECF) in July 2023. The target for GIR in 2024 has been set at no less than 3 months import cover, presenting a positive and realistic target.

To sustain this level of reserves, particularly the IMF biannual tranche payments, it will be vital to actualize the US$5 billion worth of FDI prospects highlighted in the Budget. Furthermore, economic transformation through a combination of improved domestic productive capacity, promotion of export-led growth and import substitution,, and reduced external debt servicing owing to the debt restructuring, will be key.

5 Bank of Zambia: 2023 Monetary Policy Statement - August

HARNESSING ECONOMIC OPPORTUNITIES THROUGH SOUND GOVERNANCE

Amid ongoing debt restructuring with private creditors, the imperative to bolster domestic revenue generation and enhance the country's self-sufficiency remains critical. Years of unchecked spending and imprudent debt accumulation have strained Zambia's resources, hindering its capacity to finance key development programmes, and resulting in the deterioration of key socio-economic indicators. The impact of this fiscal mismanagement still lingers with growth expected to slow down to 2.7% in 2023; a significant drop from 5.2% recorded in 2022.

Despite the anticipated slowdown in growth, the medium-term outlook appears promising, especially as challenges in the mining sector are being addressed. Consequently, the Government is optimistic about its ability to increase domestic resource mobilisation and further optimise its borrowing strategies. As such, the Government aims to reduce the budget deficit to 4.8% of GDP in 2024, down from the projected 5.8% in 2023. To attain this budget deficit, the Budget promises a number of much-needed reforms encompassing fiscal policy, debt management, decentralisation, public financial management, and many others. This is buffeted by the debt restructuring agreement and its implied reduction in debt service.

Budget Demonstrates a Strong Resolve to Plug Revenue Leakages

The 2024 Budget, like its predecessor, outlines strategies for tackling revenue leakages. Zambia has historically grappled with revenue losses from Illicit Financial Flows (IFFs), some of which involve tax evasion. The latest Financial Intelligence Centre (FIC) Trends Report highlights an increase in the value of scrutinised suspicious transactions from K4.4 billion in 2021 to K6.1 billion in 2022, with about a fifth of that linked to tax evasion. Building upon prior initiatives aimed at stemming these and other revenue losses, the Budget introduces reforms to strengthen tax administration by leveraging technology and reshaping the operating model for the Zambia Revenue Authority (ZRA). Some major policy declarations on accounting for export revenues from the Central Bank are also anticipated following the announcement in the Budget to establish the Export Proceeds Tracking Framework. This entails that all exporters will now route their export earnings through an account held at the Bank of Zambia while retaining full control of the proceeds.

In 2024, the Government will establish an electronic invoicing system to combat fake Value-Added Tax (VAT) refund claims, enhancing revenue integrity. To bolster revenue, the Government aims to broaden the tax base by creating a framework for taxing cross-border electronic services. Additionally, it plans to join the Global Forum on Tax Transparency and Exchange of Information, to promote transparency and combat IFFs. A comprehensive Tax Administration Act will be enacted to streamline tax treatment across different tax types, simplifying administration and compliance. Finally, the introduction of a whistleblower reward system is promising, as it will incentivise citizens to provide crucial information for tax recovery, further strengthening tax enforcement.

As with all policy pronouncements, the success of these measures depends on the Government's unwavering commitment to their implementation. The Government is encouraged to clearly outline key performance indicators for monitoring and evaluating the impact of the various measures. Continuous engagement with stakeholders to elicit feedback and make necessary adjustments is also crucial. Above all, the Government should prioritise transparency and accountability in the implementation process to build trust with its citizens and investors.

Fundamentally, the growth in the tax revenue will primarily stem from the expansion of the productive activities in the domestic economy, widening capture of taxpayers (with particular focus on the informal sector), enhanced enforcement and education of potential taxpayers.

Budget Prioritises Spending that Promises to Bolster Economic Growth

The Government is maintaining its commitment to prudent spending by prioritising sectors with the potential to drive economic growth. Key areas in focus include infrastructure development, the CDF, dismantling arrears, and enhancement of Social Cash Transfers (SCT) to support vulnerable populations.

As shown in subsequent sections, one of the areas earmarked for priority spending is roads development. Commendably, the emphasis on prioritising the development of both economic and rural feeder roads recognises the potential this investment holds for stimulating economic activity in the construction process and its post-construction facilitative role.

However, it is worth acknowledging that road construction procurement processes have historically been associated with inefficient use of public resources. Avoidance of wasteful spending should therefore be a top priority for the Government. Imperatively, strengthening the public investment framework is essential to ensure that infrastructure investments yield maximum economic benefits for the country.

Therefore, it is encouraging to note the Government's commitment to revising the Public Procurement Act of 2020 in the Budget. Furthermore, the emphasis on integrating risk management into all public investment is commendable as it will enhance public finance management. Crucially, the Government is urged to furnish regular updates on the progress and outcomes of the public finance management strategy introduced in the preceding budget. This is important as delays in implementing strategies for strengthening public financial management could impede the efficacy of proposed measures and slowdown progress.

It is also important to recognize that the espousal of Public Private Partnerships (PPP) Policy and the associated enunciation of the PPP Act will have a stimulative role in the economy without further call on the fiscus.

Government Pledges to Leverage Concessional Loans for Sustained Debt Management

As the Government continues to pursue debt restructuring agreements with private creditors, it can only access concessional loans as an integral part of its debt management strategy. Inevitably, the Government will continue to borrow to finance its deficit. Therefore, the strategic focus by the Government on securing only cost-effective loans is laudable and is expected to contribute to prudent debt management over the medium-term, although success is contingent upon strict adherence to the Debt Management Act of 2022 and the Annual Borrowing Plan (ABP). It is important to recognize that the National Assembly of Zambia (NAZ) will have to play its oversight role forcefully as empowered in the enabling legislation if it is to support the economic reform and recovery agenda.

Critically, for debt sustainability to be achieved, compliance with existing debt management regulations must be complemented with careful implementation of the previously discussed mechanisms for prioritising expenditures. This will ensure that borrowed funds are directed solely towards investments that hold the promise of delivering sustainable economic returns. Furthermore, measures aimed at managing debt accumulation within the domestic market are also welcomed. Reducing the Government's participation in the domestic financial markets will mitigate the crowding-out effect on private investors, and will ultimately promote long-term economic growth.

Government's Commitment to CDF Evident in Budget

The Government is set to boost funding for the CDF programme for the third consecutive year, underscoring its commitment to using the initiative as a means to address the development needs of its citizens and to bring development closer to the grassroots. This increase comes amid concerns of low absorption of the CDF. A recent NAZ report reveals that while the Government successfully disbursed 92% of the CDF budget by June 2023, the absorption rate remained as low as 19% of the funds released[6]. This low absorption was primarily attributed to centralized of and protracted approval processes, as well as understaffing at almost all levels of the administration, which contributed to delays in project execution. The continuous increase in CDF allocations, despite persistently low absorption rates, is concerning. This situation raises fundamental questions about the effectiveness of public finance management.

Still, the Government should be applauded for taking steps to address some of the concerns raised, as outlined in the Budget. Notably, the Government has delegated CDF project approval authority to provincial administrations. Additionally, to enhance operational efficiency, the Government has granted treasury authority to principal officers in local authorities, allowing them to adjust allocated funds within the community project component. However, these measures do not adequately tackle the issue of shortages of critical technical and administrative staff who play a pivotal role in the CDF value chain, especially at the local authority level.

6 https://www.parliament.gov.zm/sites/default/files/documents/committee_reports/REPORT%20OF%20THE%20%20PARLIAMENTARY%20SELECT%20COMMITTEE%20ON%20THE%202022%20ANUAL%20PROGRESS%20REPORT%20ON%20THE%20IMPLEMENTATION%20OF%20THE%20EIGHTH%20%20NATIONAL%20DEVELOPMENT%20PLAN-1.pdf

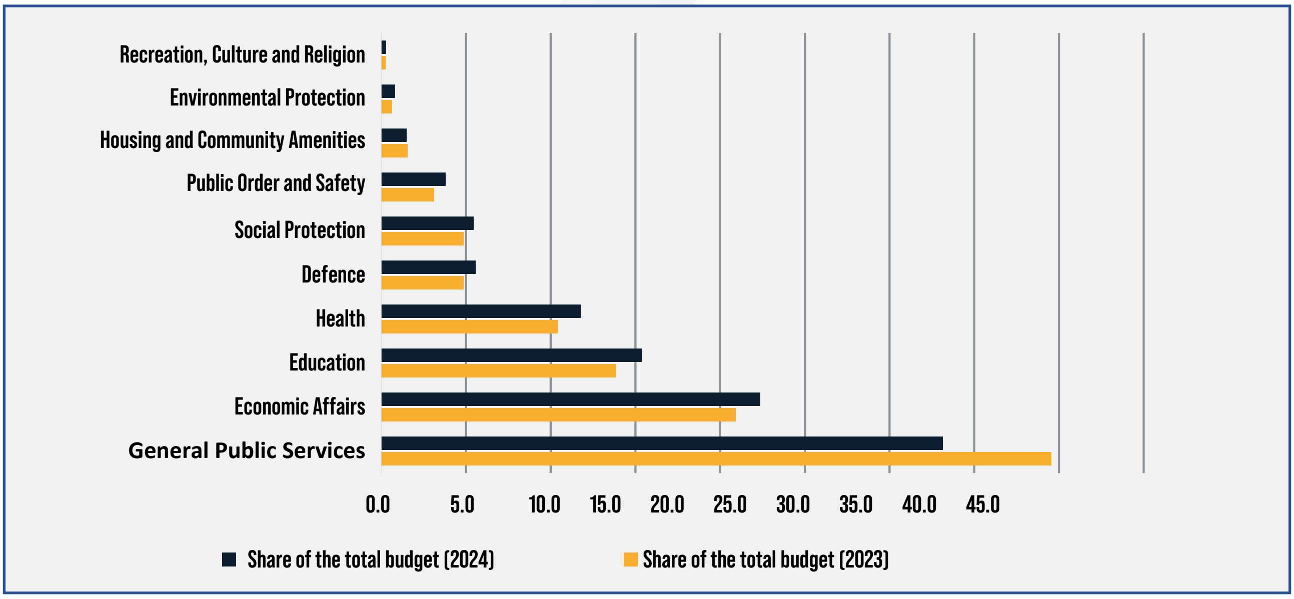
Shifting Public Resources to Make the Most Impact

Upon initial examination, the Budget appears expansionary given the government's plans to spend K177.9 billion in 2024, compared to the K167.3 billion allocated in 2023, representing a nominal increase of 6.3%. However, when examined as a percentage of the overall economy, the budget has, in fact, reduced to 27.8% of GDP in 2024 from 31.4% of GDP in 2023. This likely reflects the Government's aim to rationalise spending amid ongoing debt restructuring efforts and leave most of the resources under the control of the private sector.

Despite representing the largest component of planned spending by functional classification in 2024, at 33.1% of the total budget, allocations to General Public Services represent a decrease of more than 10%, as anticipated (see Figure 3-2). The allocation to this function reduced to K58.9 billion in 2024, down by K6.2 billion compared to 2023. This decline is primarily attributed to a significant reduction in external debt servicing, which has dropped to K6.2 billion in 2024 from K18.2 billion in 2023. Again, this decrease is largely a result of ongoing debt restructuring efforts with official and private creditors.

Notably, with an allocation of K6.9 billion, dismantling of arrears, remains a top priority in 2024. Dismantling of arrears is the largest component of the General Public Services function, representing a 35.3% increase from the K5.1 billion allocated in the MTBP:2024-2026. It underscores the government's dedication to settling arrears to unlock much-needed liquidity.

Figure 3-2: Budget Allocation Comparison between 2023 and 2024



Source: Author's construction based on the 2023 and 2024 Budget Speeches, MoFNP

In line with its commitment to rationalise spending by allocating funds to areas that promise economic returns, the Government plans to raise spending on the Economic Affairs function to K39.8 billion, representing an increase of 13.5%. Notable adjustments within this function include increases in the allocation to road infrastructure (60%); Agriculture, Fisheries and Livestock Interventions (23%); and the CDF (8.2%), in comparison to the 2023 allocations. Particularly, road infrastructure spending rose to K8.3 billion in 2024 from K5.2 billion in 2023.

While higher spending on infrastructure offers many benefits, it can also lead to challenges stemming from expenditure deviations. Thus, it is imperative for the Government to proceed with caution as historical data shows that the period between 2012 and 2021, during which spending on roads increased significantly, is also the time when debt increased the most. Therefore, as already emphasised in the preceding section, it is important for the Government to reinforce public procurement procedures and undertake thorough project appraisals, as essential measures for prudent management of resources within this category.

RESOURCE ENVELOPE

The fiscal performance of the Government in the first half of 2023 offers optimism regarding its commitment to adhere to its spending plans for 2024. During the first half of 2023, total expenditure, including amortization, amounted to K71.1 billion, representing a decrease of 4.4 percentage points compared to the previous year's spending in the same category. Further in 2024, the Government plans to introduce the annual development of a Fiscal Risk Statement, which will serve as a framework for evaluating budget-related risks and strengthening fiscal discipline. This initiative is expected to enhance the Government's credibility.

Ramping-up Domestic Resources to Sustain National Spending Needs

In light of the Government's continued pursuit of debt restructuring with private creditors, emerges a critical need to enhance domestic resource mobilisation. The Budget seeks to boost domestic revenues, setting a target of at least 22% of GDP, which is 0.2% below the projected target of 22.2% outlined in the MTBP:2024-2026. Nevertheless, it marks a significant increase from the 2023 budget target, which aimed to increase revenue generation to 20.9% of GDP. The nominal value of the 2024 domestic revenue target (K141.1 billion) notably surpasses both the 2023 budget target of K111.6 billion and the K134.9 billion target outlined in the MTBP:2024-2026, as we show in Table 4-1: Comparison of 2023, 2024 Budget and MTBP Revenue Targets. This demonstrates the Government's dedication to fiscal consolidation through measures aimed at increasing domestic revenue collections.

Table 4-1: Comparison of 2023, 2024 Budget and MTBP Revenue Targets

	2023 Budget	2024 Budget	MTBP 2024 - 2026
Domestic Revenue	111,643.32	141, 113.73	134,924.21
Tax Revenue	93,556.31	114,578.96	113,234.22
Income Tax	50,427.14	61,322.02	59,522.02
VAT	29,209.21	36,361.86	36,763,83
Customs and Excise Duties	13,810.45	16,774.27	16,574.27
Non-Tax Revenue	18,087.02	26,534.76	21,689.98
w/o Mineral Royalty	8,986.24	10, 004.18	10,225.91

Source: Authors construction using 2023, 2024 Budget Speeches and MTBP

When considering the revenue composition, the 2024 Budget largely mirrors the 2023 Budget, with minor differences on specific revenue sources which have seen a boost. Income Tax is set to rise significantly from K50.4 billion in 2023 to K61.3 billion in 2024, primarily due to the anticipated improvement in the performance of the mining sector. Value Added Tax (VAT) is expected to increase, from K29.2 billion in 2023 to K36.4 billion in 2024. Non-tax revenue is projected to grow, expanding from K18 billion in 2023 to K26 billion in 2024, driven by the introduction of user fees in health, agriculture, and transport. Earnings from mineral royalties are forecasted to grow from K8.9 billion in 2023 to K10 billion in 2024.

The upward trajectory in the Government's revenue targets signals a strong commitment to increase revenue generation. This move, if achieved, can increase the fiscal space for implementing critical development programmes thereby reducing the reliance on external borrowing. However, achieving these ambitious revenue targets requires robust tax policies, improving tax administration, and by implication, revenue collection mechanisms, and enhanced compliance measures. Notable revenue measures include the introduction of a levy on mobile money transactions and increase in excise duty collections.

The 2024 National Budget Introduces a Levy on Mobile Money Transactions

The Government's aim to broaden the tax base by introducing a levy on mobile money transactions ranging from 8 ngwee to K1.80 represents a bold and innovative initiative and a way of taxing the large and hard to tax informal sector. While this measure is intended to contribute to tax revenues the Government should exercise caution when rolling out the levy, considering the potential broader implications it might have on financial inclusion. Potential impacts of this levy may include reduction, or slower growth, in mobile money transactions, leading to increased use of cash and higher costs of doing business, as well as marginalising sections of society that are underbanked and financially underserved. The Government is urged to implement proper Monitoring and Evaluation (M&E) mechanisms to elicit regular assessment the implementation and impact of this tax policy measure.

Budget Proposes Expansion of Excise Duty

The Budget introduces a noteworthy proposal to raise specific excise duty on non-alcoholic beverages, tobacco, and tobacco products. This represents a commendable step by the Government in pursuit of innovative tax strategies that exhibit relatively low elasticity and thus, have the potential for effectiveness. Such tax types are characteristically simpler to administer and carry lower risks to the well-being of ordinary Zambians. Existing examples, like borehole taxes and skills development levies, demonstrate the potential for these approaches to enhance government revenue and contribute to broader policy goals, including sustainability and workforce development.

In summary, continually exploring innovative and effective tax measures will not only aid the Government to attain its fiscal goals but will also help mitigate unforeseen ramifications of some tax types, thereby maintaining equitable distribution of the tax burden across the economy

Financing the Deficit in a Constrained Borrowing Environment

The Government has continued to make substantial progress in achieving fiscal consolidation. This is evident as the Budget projects a fiscal deficit of 5.8% of GDP by the end of 2023, which is substantially below the target of 7.7%. Attaining a lower budget deficit is a commendable reflection of the Government's steadfast commitment to maintaining fiscal discipline compared to, for instance, in 2020, when the projected fiscal deficit was 5.5% of GDP, but the actual outcome soared to 14.5% of GDP. However, in the subsequent years, the fiscal deficit had narrowed and in the first half of 2023, the projected fiscal deficit was 3.6 percent of GDP, but the actual outcome was 2.6 percent. This positive variance was primarily due to higher-than-anticipated revenues and lower-than-planned expenditures. These fiscal developments represent a clear movement towards fiscal discipline and consolidation.

To finance the 2024 deficit, the Government plans to secure funds from both external and domestic sources. Notably, the Government will rely on concessional borrowing from external sources and domestic auction market for its securities. According to the Annual Borrowing Plan (ABP), external loans will be acquired from multilateral sources. Multilateral debt typically carries an average interest rate of 2%, grace periods of 5 years, and maturity periods of up to 25 years (as shown in Table 4-2), which is favourable for the economy. This strategy is in line with the Government's aim to effectively manage the country's debt accumulation particularly amid ongoing debt restructuring negotiations with private creditors.

Table 4-2: Comparison of Interest, Grace Periods, and Maturity of External Debt Instruments

	Interest (%)	Grace Period	Maturity
IDA/ADF/IFAD/NDF	0.75	10	40
ADB/IDA Blend/other Multilateral (Fixed rate)	2	5	25
ADB/IDA Blend/other Multilateral (variable rate)	6-mth LIBOR+/-1.5	5	25
ADB/IDA Blend/other Multilateral	2	5	25
Bilateral	0	15	40
Non-concessional	5-year US treasury bond +/-7	3	8
Eurobonds	7.6	0	

Source: Nalishebo. S. & Muleya.F.B Scaling the Eurobond Debt Wall, ZIPAR Working Paper No.27

Specifically, K17.1 billion will be secured from external sources while K16.3 billion will be raised from the domestic securities market. Notably, a large part of the deficit will be financed with external debt, with majority of the funding allocated to enhancing water supply, sanitation, and hygiene services (WASH), supporting education, bolstering agriculture, and strengthening institutional capabilities for the production, dissemination, and utilization of quality statistics.

On the whole, the Government's reliance on concessional borrowing illustrates its commitment to managing its debt risk. Further, the allocation of funds to WASH, education, and agriculture, demonstrates the Government's unwavering commitment to unlocking the country's economic potential as these sectors are crucial for social and economic development. However, the need to ensure optimal use of these funds cannot be overemphasised to ensure they yield the expected benefits and contribute to growth.

IT'S ALL OUT PRIVATE SECTOR-FRIENDLY

Implementing Radical Changes in the Agriculture Sector

Since 2021, the Government has rightly pronounced itself on reforming agriculture as a way of efficiently boosting output and ensuring food security. However, the pronouncements have been unclear and hesitant. Unenviably, the Budget represents another missed opportunity to emphatically transform the sector. It only mentions the transition to the Comprehensive Agriculture Transformation Support Programme (CATSP) as the desired reforms programme yet to be launched later in the year, but continues with the Farmer Input Support Programme (FISP). FISP is distorted with poor targeting, low production and administrative inefficiencies, and tenuous total output, and yet it dominates the sector investment of the Government. Admittedly, the share of FISP in the total sector budget has been reduced to 62% in 2024 from 74% in 2023, while the allocation to Research and Development takes a paltry 3.9% of the sector budget. The Government is thus urged to expedite the programme reform of replacing the ambiguous FISP by the more business-oriented and clearly defined CATSP. This will engender a wholesale change in agricultural policy and thinking which will help to unlock Zambia's agricultural prospects.

The National Strategic Reserve's (NSR) allocation in the Budget has risen to 13%, signifying a major move in ensuring food security and to help stabilize food prices. However, the direct participation of the Food Reserve Agency (FRA) in the grains market is at the expense of market efficiency and can result in disastrous market outcomes including disincentivising production and reducing private sector participation as observed in the recent past.

The Government is firmly urged to facilitate the development of the Agricultural Commodity Exchange and the Warehouse Receipt System and require the exchange to maintain a statutory grain reserve accessible to the Government on demand and at the market price. The Government must, therefore, reform FRA and restrict its role to purchasing strategic reserves as and when the need arises.

The Budget acknowledges the issue of rising mealie meal prices in Zambia and the need for urgent measures to stabilise prices. Notably, FRA reports that the country has sufficient maize stocks to meet domestic demand despite a significant depletion prior to the current marketing season[7].

Maize price instability in the country is primarily due to supply rigidities, exacerbated by increased regional demand, which has pushed prices up. The Budget proposes releasing maize to millers, who are expected to pass it on to consumers at lower prices. However, this has not yielded positive results in the past due to inadequate monitoring mechanisms. The FRA's inadequate monitoring frameworks led to millers milling smaller portions of the offloaded maize, resulting in limited impact on mealie meal prices. The proposed measure to sell maize directly to communities is a well targeted approach that will potentially offer price sterilisation and enable vulnerable people access to the grain.

There have been suggestions to bring in the Zambia National Service to help assuage the crisis. However, this can only be used as a short-term measure when the market is unable to efficiently clear; meaning it should not be a permanent feature of the market to avoid further distortions. Further, the Government must reconsider its policy on Genetically Modified Organism (GMO) grain imports as the existence of a ban limits its foreign sources of grain and thus can be costly to sustain. While this measure was undertaken with the best of intentions, it is conceivable that mechanisms and instruments may be devised that may help mitigate against the potential risks of GMO.

The government is implementing measures to support agriculture development in the farm blocks through infrastructure such as roads, bridges, and irrigation, promoting climate-smart agriculture, and supporting livestock and fisheries. An agriculture credit window is also being established to support small-scale farmers and public service workers, but proper fiduciary measures are necessary to avoid abuse of the facility. While lending to public service workers may have a palliative effect on the adverse conditions of these workers, it is unlikely to have a major impact on national agricultural output.

As hinted above, the marketing arrangements for agricultural products need to be revisited and reevaluated with a view to establishing stable private sector driven functioning markets. The present arrangements do not make for efficiency and realization of income by the producers.

7 According to FRA data, Maize stocks gradually reduced from 1 million metric tonnes in September 2022 to slightly over 200 000 metric tonnes in June 2023. However, the FRA, Grain traders and millers are currently about to conclude the Maize buying process. As at 26th September, 2023, FRA had indicated that they had purchased about 340, 000 tonnes of maize which when added to existing stocks should render the country food secure for the crop.

Reviving the struggling Mining Sector

The Budget underscores the resolution of the challenges at Mopani Copper Mine (MCM) and Konkola Copper Mine (KCM) and the imminent resolution of those at KCM as crucial steps to attaining the production of 3 million metric tonnes of copper per annum by 2032. However, the recent decline in the production of copper, emeralds, and manganese is concerning and a risk to the attainment of the target. While the Budget attributed the decline in production during the first half of 2023 to operational challenges and flooding, it falls short of transparency regarding the specific operational challenges and how they will be addressed going forward.

As rightly stated in the budget pronouncement, investments in the mining sector are long-term in nature and it takes time for mining investments to yield results. However, there is definitely scope for targeted incentives that should be linked to certain outcomes such as production.

On a high note, the Budget declares a commitment to undertake geophysical surveys which addresses one of the largest impedances to unlocking the mining sector in Zambia. The commitment is reflected in the increased allocation to undertaking the surveys from 5.1% of the total Ministry of Mines and Mineral Resources budget in 2023 to about 24% in 2024. The Government is therefore urged to implement the surveys in order to provide reliable information on the nation's mineral deposits to elicit full exploitation of resources.

The Government has also committed to present a Bill before Parliament to operationalise the Minerals Regulation Commission (MRC). This measure is important in addressing production reporting, mineral content analysis, illegal mining, and illicit trade of minerals. Yet, the lack of reference to measures aimed at tackling the challenge of weak mining value chains through local content regulations is concerning and inconsistent with the measures in the Medium-Term Budget. Local content legislation remains cardinal in ensuring that benefits from the mining sector trickle down to the people. The Budget is also missing pronouncements on gold mining given its importance to diversification within the mining sector.

Powering Growth in the Manufacturing Sector

In recent years, the growth of manufacturing in Zambia has stagnated at lower levels, with a quarterly average of 2.9% between 2016 and 2021 which is substantially below the 20% target set in the National Industrial Policy (NIP). In 2022, the sector grew by 4.7%, a close shave of the 8NDP target of 5%. In 2023, manufacturing investment commitments reached a total of US$7.7 billion, reflecting a significant increase from US$958 million in 2021 with the sector accounting for the highest actualized value of US$1.2 billion of the total committed value. This therefore significantly led to 20,520 jobs created from both domestic and international investors. The progress recorded in Multi-Facility Economic Zones (MFEZ) is commendable, with 30 companies and a total pledged investment of US$230 million and 4,000 jobs in the last year.

The Budget demonstrates a pro-private sector stance and an alignment with the 8NDP strategy to boost manufacturing and job creation. It proposes measures to address some of the challenges in MFEZs, such as harmonizing land rates and simplifying immigration requirements. The Budget also declared its intention to revise the Employment Code Act of 2019 viewed as imposing significant financial responsibilities on employers especially on MFEZs to make them more competitive. While streamlining bureaucratic processes is advantageous for businesses and economic progress, it is crucial that these revisions do not compromise workers' welfare, rights, and job security. This measure should be monitored closely to see how it will balance both business facilitation and the well-being of the workforce.

Markedly, the Budget was silent on the critical success factors of investment in MFEZs which include value chain linkages through the identification of an anchor industry, developing a sustainable financing model, and establishing monitoring and evaluation mechanisms to track progress. Furthermore, despite the emphasis on the MFEZ model in the budget and a 26% increase in allocation to the manufacturing function, no specific provisions have been made for MFEZs, indicating financing uncertainty for the MFEZ development.

It is highly commendable that the Government will provide incentives to revitalize industry value chains starting with the cotton value chain. It is therefore imperative that enhanced monitoring mechanisms are implemented to accompany these incentives, the success of which can lead to their replication across other value chains.

Manage Priorities in the Transport Sector to Avoid Another Debt Trap

The 8NDP positions the transport sector as a key enabler to the economic transformation and job creation agenda. The sector facilitates access to markets, job opportunities, and essential social services; all crucial for human development. The Budget sends the signal that road infrastructure has once again been elevated as a development priority for Zambia with an allocation of K8.3 billion, representing an almost 60% increase from the K5.2 billion allocation in 2023.

The Budget has prioritised construction, rehabilitation, and upgrading of identified economically beneficial roads such as the Lusaka-Ndola, Chingola-Kasumbalesa, and Lumwana-Kambimba carriageways, among others. In addition, the Budget targets to rehabilitate and upgrade several trunks and district roads such as Chipata-Lundazi, Mansa-Nchelenge, and Mpika-Chinsali. However, the Government is urged to resist the urge to sink funds in non-priority transport infrastructure by adhering to the pipeline projects in the Public Investment Plan (PIP) to avoid the fiscal slippages that plunged Zambia into debt in the past decade.

That stated, the Government's decision to prioritise the construction and rehabilitation of rural roads through the Improved Rural Connectivity Project (IRCP) using public resources is commendable. This will facilitate improved access to markets and ultimately increased economic activities in rural areas.

8 Recommendation based on a detailed study undertaken by ZIPAR on the performance of MFEZs in Zambia. See https://sa-tied-archive.wider.unu.edu/sites/default/files/SA-TIED-WP-152.pdf

Furthermore, improving rural road infrastructure will facilitate access for millions of rural populations to vital social services such as health and education in line with Sustainable Development Goals No. 3, 4, and 10. Similarly, the planned involvement of local communities in this exercise using CDF resources could revitalise local economies.

Recognising its fiscal limitations, the Government has positioned the public-private partnerships (PPPs) model as an alternative way of procuring road infrastructure projects. In the Budget, the Government commits to implement at least five PPPs which is the largest number of projects conveyed through the PPP model in Zambia. While the private sector has shown interest to partner with the Government to supply road infrastructure, Government must ensure that agreements are well negotiated to allow sufficient transfer of risk to the private sector and deliver value for money.

In the aviation sub-sector, the plan is to rehabilitate, maintain, and upgrade provincial airports and aerodromes such as Kasaba Bay, Chinsali, and Choma, in order to facilitate passenger and freight movements and tourism travel. The increased double allocation of K700 million in 2024 compared to K355 million in 2023 indicates the Government's commitment to improve local aviation services, thereby boosting local economies.

Finally, there was great expectation that the Budget would also prioritise revamping the railway sub-sector by financing the rehabilitation and upgrading of infrastructure whose poor state has rendered it uncompetitive. The Government is thus advised that failure to prioritise railway transport negletes a strategic link for the country, especially given the aspiration to make Zambia a regional transport hub, including the ambition to produce more copper and increase maize production. Furthermore, a revived railway system is also important to promote sustainable transport and facilitate inter-modal linkages. Off-Budget for 2024, the Government therefore must explore suitable PPP options to finance the construction, rehabilitation and upgrading of the country's railway system and procure new locomotives and rolling stock. Government must revisit the lessons learnt from the failed concession of Zambia Railway Limited (ZRL) to structure mutually beneficial agreements going forward for all PPP projects.


BEST FOR COLOURS
MAKAVELI
LSK404
FLASH 13
BLUE BOOM
ABD 4190

Catalysing the Tourism Sector for Sustainable Growth

The tourism sector remains a cardinal component of the prospects to diversify the Zambian economy. To this sector, the Budget proposes an allocation of K102.7 million for infrastructure development, a striking contrast to the nil allocations in 2022 and 2023. This signals goodwill to address some of the longstanding infrastructure gaps in the sector. Notably, ZIPAR's review on the implementation of the 8NDP revealed challenges of sluggish implementation of public infrastructure development projects despite the availability and timeliness of fund releases. Therefore, the Government must expedite the procurement of the infrastructure to facilitate easy and all-weather access to tourism sites in Zambia.

Remarkably, the unilateral waiver of tourist visa requirements for citizens from selected countries appears to have led to a 22% increase in international tourist arrivals in the first half of 2023. Similarly, the length of stay of tourists in Zambia has also increased to 4 days in 2023 from 3 days in 2022. Albeit moving in the right direction, more still needs to be done as Zambia still lags behind its regional comparators such as South Africa and Tanzania in international tourist arrivals and length of stay which average 13 and 11 days, respectively.

Among the challenges to be resolved to enhance tourism arrivals and length of stay are inadequate tourism promotion and marketing, depleting wildlife stocks, a narrow tourism product offering, limited use of digital platforms for advertising, and the uncompetitive pricing of Zambia's tourism products. This, together with the need to actively complement nature-based with state-of-the-art-built tourism products, should be the Country's goal to achieve significant increases in tourism activities.

To comprehensively capture trade in tourism services, the Government will establish a Tourism Satellite Account (TSA). This is a commendable and a long overdue move which will guide informed decisions on tourism marketing, product development, and regulations in the sector. The process must be expedited to ensure better-targeted tourism programming.

The Government must be commended for successfully obtaining US$100 million to address infrastructure challenges that hindered access to Kasaba Bay and Liuwa National Park in the Northern and Southern circuits, respectively. To this effect, the Government must streamline its procedures and processes to prevent any bureaucratic bottlenecks that could slow down the use of these funds for the intended purposes.

Fostering the growth of MSMEs

Micro, Small and Medium Enterprises (MSMEs) in Zambia constitute about 97% of total enterprises and account for approximately 70% of Zambia's GDP and 88% of employment (FSD Zambia 2021). The Vision 2030 and 8NDP recognise the importance of MSMEs in Zambia's economic transformation process.

The Budget strongly signals the Government's emphasis on private sector-led investment and growth. Therefore, the Budget proposes several measures that advantage the MSME sector but most notable among them is the 61% proposed increase in funding to the ZNCGS. This measure will certainly be helpful in addressing the challenge of constrained access to affordable financing faced by most MSMEs. The quantum of resources, nevertheless is small in relation to the scale of demand for such services.

Furthermore, the decision to increase the allocation to the Empowerment Funds head through the Citizens Economic Empowerment Commission (CEEC) and the SME Development and Empowerment both by 5% is a good signal. However, the increase is very little compared to the size of the sector in the economy and the need for financing even when complemented by a better capitalised NCGS. The Government is urged to boost the allocation to business empowerment programs in future Budgets.

While access to affordable finance is being addressed, there is need for a holistic approach to address the other challenges impeding MSME development such as burdensome licensing procedures, business skills, and access to markets, among others. For instance, the expenditure on cooperative skills development has remained constant from 2022 at K5.5 million. Further, the Government is urged to revisit its overall policy towards MSMES to make for a more aggressive stance that sees the enhancement of support to MSMEs through expanded finance, business development, marketing and training. In this regard, government is urged to expedite the formulation and enunciation its long-awaited MSME Policy.

Unlocking Private Investments in Energy

Energy is one of key growth enablers identified in the 8NDP and is therefore earmarked for sweeping reforms to eliminate the various administrative inefficiencies that have characterized the sector. The reforms are important to first, increase electricity access to rural households which is estimated to be at 4.4%[9], and second, to position Zambia to be a net exporter of electricity. Notably, there are more issues than the administrative inefficiencies which affect the energy sector. Because energy is a climate sensitive sector, it has continued to encounter the adverse impacts of climate change. Climatic and weather events such as rise in temperatures, erratic rainfall, and droughts, are projected to intensify going forward (Tembo et al. 2020) risking the performance of the sector, especially the hydropower-dominated electricity subsector.

Zambia has great potential in renewable energy sources, and it is commendable that the Government, through the Budget, is reiterating the promotion of alternative renewable energy sources, namely

9 National Energy Policy 2019

geothermal and solar. The K1.1 billion allocation to the Office for the Promotion of Private Power Investment (OPPPI), is commendable as it will help the Institute to undertake full technical feasibility studies and establish the bankability of renewable energy projects whose absence have usually been a hinderance to securing private investments in the sector. This measure is critical to reducing the barriers to entry and attracting independent power producers (IPPs) to the sector.

Regarding the petroleum subsector, the Budget contains measures to complement the policy decision that converted the Tanzania-Zambia Crude Oil Pipeline (TAZAMA) to carrying finished products. The announced measure opens up the pipeline to the private sector to lease space. This is commendable as it will encourage competition and eventually deconcentrate the supply of petroleum products leading to a more efficient price discovery. It is worth noting, however, that currently, the pipeline caters only to 80% of the national demand of Low Sulphur Gasoil which, according to the Energy Regulatory Board (ERB) data, stands at 3,300 litres per day. The expansion of the current pipeline may help to meet demand in the short to medium term. Demand for petroleum products is expected to rise with the resumption of operations at KCM and the targeted mining output of 3 million tonnes by 2030.

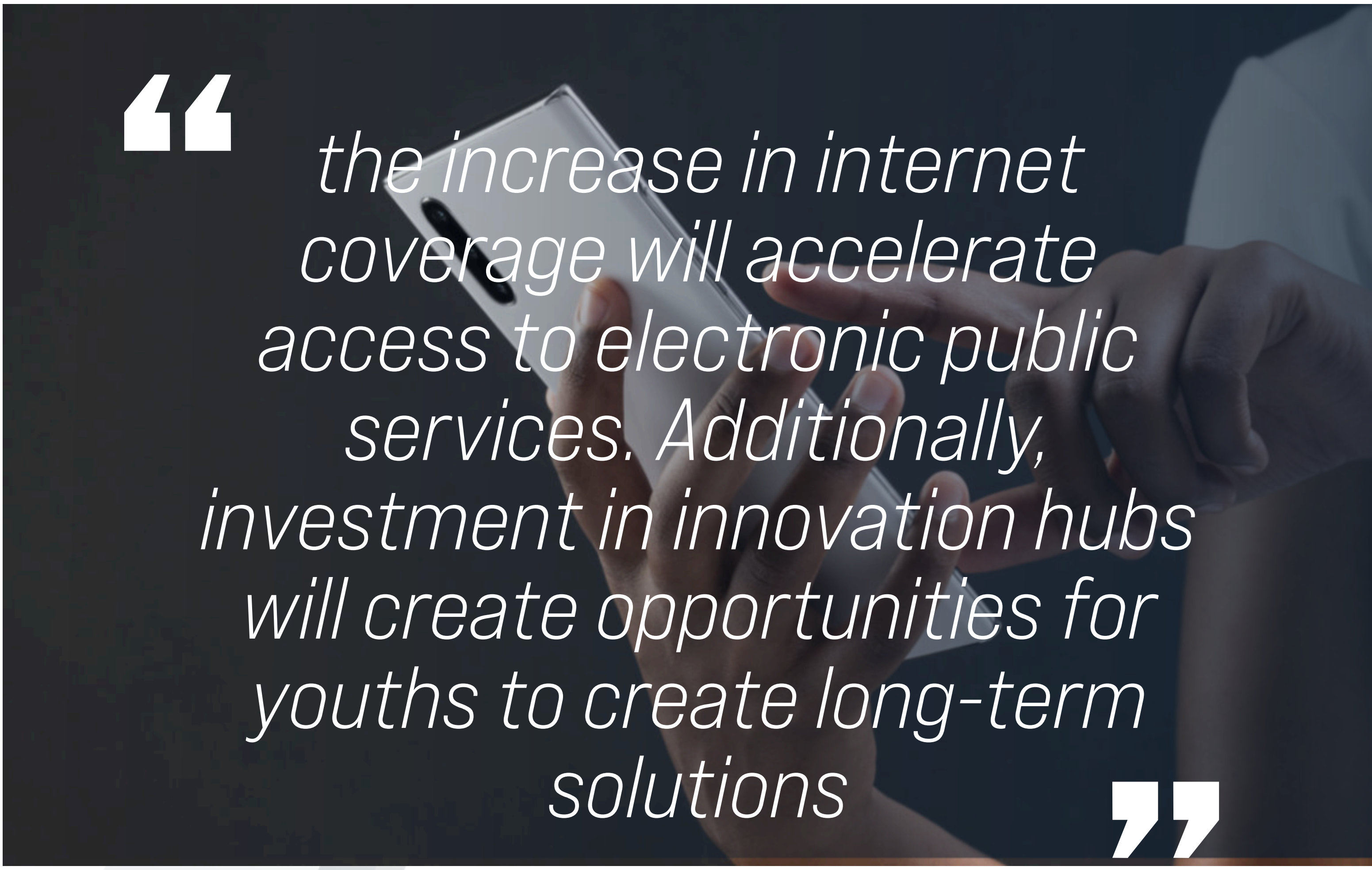
The Government is urged to expand the existing pipeline to meet the foreseeable demand. Furthermore, the Government must consider embarking on greenfield pipeline investments between Copperbelt and North-Western Province, and Ndola and Lusaka, using appropriate financing models in order to benefit from the perceived lower cost-to-asset ratio that pipeline transportation offers. Pipeline transportation charge is US$54 per metric tonne (or US$44.55/ m^3) compared to road transport which ranges between US$135 and US$170 per cubic meters.

The policy tone set by the 2024 Budget for the energy sector is pivotal to unlocking investments and addressing the challenges facing the sector with respect to reliable electricity access. In the petroleum sub-sector, the Government should move in quickly to have the pipeline deliver 100% of diesel and petrol to be brought by the private sector.

Universal Internet Coverage for Enhanced Public Service Delivery

The 2024 Budget signals the importance of provide universal access to the internet and mobile connectivity to promote the uptake of digitally available public services towards the improvement of business processes thus, stimulating economic growth. The Government proposes to upgrade network coverage to 92% from 78% in 2020 through the measures announced in the 2024 Budget which will increase network coverage and contribute to the 2026 target of 80% internet penetration. These measures include: construction of an additional 169 towers from the 139 towers in 2023; increasing the number of services on the ZamPortal to 382 from 280 against the target of 1,500; rolling out the e-learning management system and encouraging local enterprises and institutions in rural areas to provide online access to public services at a fee.

Another commendable ICT innovation contained in the Budget is the promotion of the use of biometric



identity through the Integrated National Registration Information System (INRIS). To operate seamlessly, the INRIS will require a stable and resilient ICT infrastructure. It is therefore, recommended that the Government quickly rolls out the ICT measures pronounced in the Budget to support this innovation. Critically, the current internet services running through the public communication towers is the 4G which is slightly slower and could result in delayed access to the digitised public services the Government will be promoting. It is, thus, recommended that the Government considers deploying 5G internet to permit faster internet connectivity.

The Budget also proposes the establishment of innovation hubs and digital research institutions aimed at fostering innovation, collaboration, and the creation of ideas with the potential to create tailormade solutions to address the socio-economic challenges in Zambia today. In addition, the Government has committed to operationalizing the National Ground Receiving Station in Chibombo to elicit the use of Artificial Intelligence (AI) in agriculture, mineral exploration, and natural resource management thus, eliminating human errors that typically compromise decision-making in these sectors. These innovations are all commendable and will improve business processes and promote growth. However, the ICTs legal framework must be reviewed in order to effectively regulate usage of AI at national level.

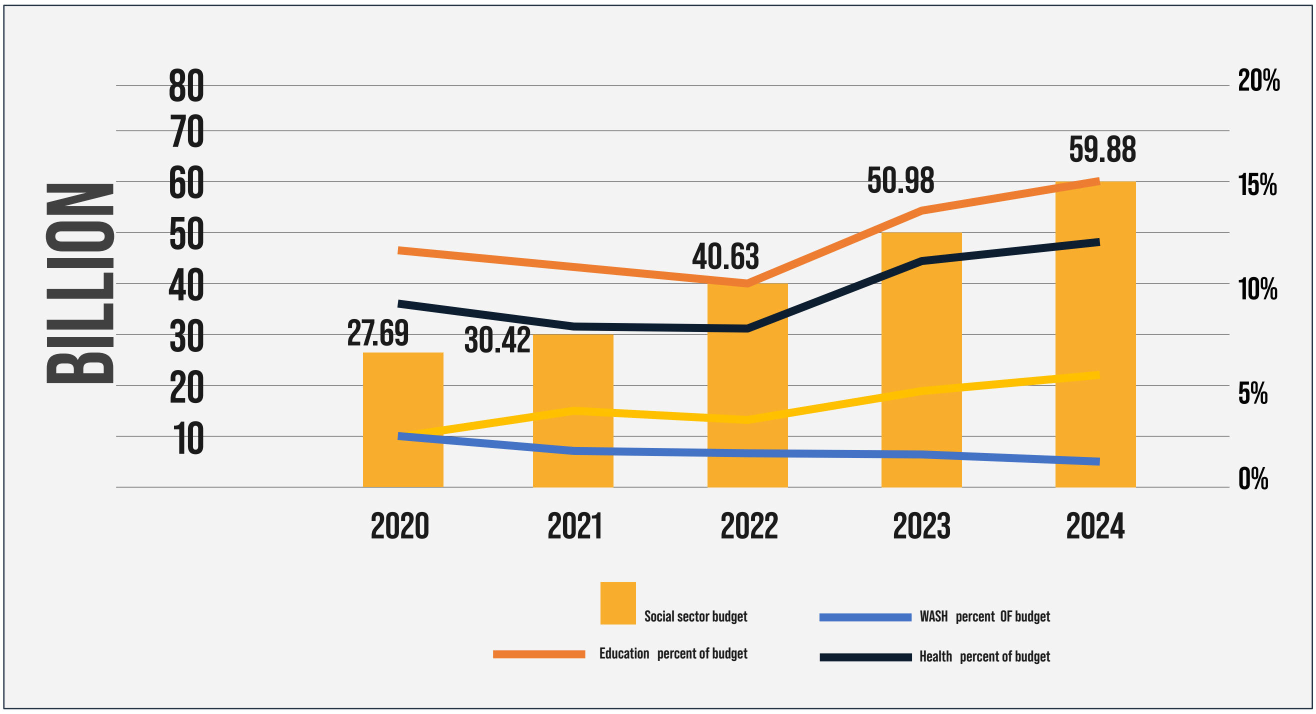
Furthermore, the Budget proposes to establish Digital Transformation Centres (DTC) in rural areas to reach these underserved populations. The DTC will be essential to bridge the domestic digital divide that exists between the urban and the rural areas.

Overall, the increase in internet coverage will accelerate access to electronic public services. Additionally, investment in innovation hubs will create opportunities for youths to create long-term solutions in various industries and sectors, hence creating economic value for them and the country overall. Furthermore, the use of INRIS and AI will enhance easy and universal access to accurate information for improved decision-making.

SOCIAL SECTOR EXPENDITURES REQUIRE PROTECTION

Nominally, the 2024 Budget gives an impression that it is substantially larger than the Budget from the previous year's being increased by 6.3% to reach K177.9 billion. However, this apparent increase is voided by the relatively higher inflation rate at 12%, signifying a decrease in the 2024 Budget, in real terms. Therefore, while the education and health sector allocations have nominally risen by 18% and 20% respectively, allocations to critical social protection initiatives like the Social Cash Transfer and Food Security Pack have declined by 3% and 8%, respectively in real terms.

Figure 6-1: Budget allocations to the social sectors, 2020-2024 (K'Billion)



Source: Authors construction using the 2020-2024 Budget Speeches

Notably, the Budget is also primarily dependent on domestic revenue, constituting 79% of the total budget. This signifies the government's commitment to achieving self-sustainability in development financing. Within the social sectors, the functions of Education, Health, Social Protection, and Water, Sanitation, and Hygiene (WASH), has a total allocation of K59 billion, signifying an increase of 18% in nominal terms from the previous year. Remarkably, while pensions, health, and education sectors received substantial boosts, a troubling 13% decrease in allocations to WASH programmes poses significant challenges to clean water access and sanitation facilities, potentially jeopardizing the national development agenda set in the 8NDP.

Education Spending Consistency with Recruitments a Priority

The 2024 education budget addresses Early Childhood Education (ECE) at primary, secondary, and tertiary level, but it also caters to skills development. The Government has allocated K27.4 billion towards education, constituting 15.4% of the total budget. Notably, this allocation marks an 18% and 4% increase in nominal and real terms respectively from the previous year, further being consistent with the MTBP:2024-2026. The Budget proposes to recruit 5,400 education personnel to further support successful implementation of the free education policy. Another notable measure was the significant leap of 183% in the allocation to school feeding programs which address the critical nutritional needs of children, enhancing their learning environment. Overall, the education sector has been prioritised in the 2024 Budget but will require further support to undertake complete monitoring of progress.

Increased Health Sector Budget and Legislative Reforms

In the fiscal year 2024, the health sector experienced a significant budgetary boost, with allocations reaching K20.9 billion, up from K17.4 billion in 2023. This increase, amounting to 20.2% in nominal terms and 6% in real terms, highlights the government's commitment to strengthening the healthcare system. However, despite this augmentation, the sector's portion of the total budget stands at 11.8%, exceeding the 11.2% target set in the MTBP but below the internationally recommended 15% stated in the Abuja Declaration. While the recruitment of 4,000 additional health personnel is a positive step towards improving healthcare delivery, it's essential to address the existing staff shortage, which currently hovers around 60,000 unfilled positions. Additionally, the Government's proactive move to establish the Local Pharmaceutical Manufacturing Strategy demonstrates a strategic approach to resolving the persistent challenges related to the procurement and supply of essential medicines and medical supplies.

Pension Arrears Prioritised while SCT and FSP budgets Decrease

In the 2024 budget, allocations for social protection programs have experienced a notable increase. The nominal allocation saw a significant uptick, rising by 19% from K8.1 billion in 2023 to K9.7 billion in 2024, representing a growth in its share from 4.9% of the total budget in 2023 to 5.4% in 2024. However, when adjusted for inflation, the real increase in social protection funds was 11%. Notably, the Public Service Pension Fund (PSPF) received the most substantial boost, witnessing a remarkable 61.5% increase from the previous year. Funding for the Social Cash Transfer (SCT) program also rose by 10.7% compared to 2023, and allocations for the Food Security Pack (FSP) increased from K1.2 billion in 2023 to K1.3 billion in 2024.

The rising urban poverty underscores the urgency of comprehensive government strategies aimed at supporting vulnerable urban populations, emphasizing the critical need for robust social protection programs. Despite a nominal 10.7% increase in the SCT allocation, a real-term decline of 2.7% raises concerns, particularly in the face of the escalating cost of living. Delays in SCT enrolment pose a significant challenge, highlighting the necessity for expedited processes to promptly assist vulnerable communities. Moreover, the current SCT value of K200 falls drastically short of meeting nutritional requirements, especially amidst the looming cost of living crisis, emphasizing the need for immediate attention and possible adjustment in benefit values.

Declining WASH Budget a Source of Concern

The Water and Sanitation sector has experienced a significant reduction in funding, dwindling from K2.9 billion in 2023 to K1.9 billion in the current budget. This declining trend has persisted since 2020 when the sector's share stood at 2.5%. Over the years, this share has steadily diminished, reaching a mere 1.1% in 2024. This continuous decrease raises alarming concerns about the sector's capacity to effectively tackle the urgent water and sanitation challenges faced by communities.

Despite the diminished budget allocation, there are some positives as over 280,000 households are anticipated to gain access to improved water facilities in 2024. This development signifies a positive stride toward enhancing public health and sanitation, although the overall sector funding remains a concern. Additionally, the sector's heavy reliance on external financing, constituting over 80% of the 2024 budget, highlights the urgent need for strategic financial planning to ensure sustainable water and sanitation initiatives in the long run.

CDF Receives an Increment amid Utilisation Concerns

In 2024, the Constituency Development Fund (CDF) allocation experienced a nominal increase of 8.2%, rising from K4.4 billion in 2023 to K4.8 billion. However, accounting for inflationary pressures, the real value of the CDF has decreased by 4.8%, raising concerns about its actual impact on local development initiatives. Despite this increase, the CDF has faced challenges leading to poor fund absorption, prompting anticipated reviews of the Constituency Development Fund Act of 2018 and the Public Procurement Act of 2020. These reviews aim to streamline fund utilization, fostering more efficient community projects. Additionally, reforms in local government administration are on the horizon, expected to address fiscal challenges and enhance the capabilities of local authorities in driving effective community development initiatives.

Environmental Protection Accounting for less than 1% of the Total Budget

In the 2024 budget, the allocation for environmental protection has increased by approximately K391 million compared to the 2023 budget. However, it currently stands at 0.8% of the overall budget, indicating a modest growth of 0.2% from the previous year and falling short of the Medium-Term Budget Plan's projection of 1.0% in 2024. Despite this increase, Zambia's vulnerability to climate change necessitates proactive measures, emphasizing the urgency of enhancing resilience in vulnerable communities and fortifying emergency preparedness. The funding for environmental protection, while increased, still falls below the 1% MTBP target, highlighting the need for more substantial investments in climate change mitigation efforts. The Government's initiatives to bolster funding for disaster risk management underscore the importance of proactive planning to effectively mitigate climate-induced disasters. Integrating climate resilience projects within the CDF framework offers a promising avenue for enhancing local communities' capacity to combat the effects of climate change.

CONCLUSION

The 2024 National Budget builds on the policy achievements of the three immediate past Budgets - 2021 - 2023 - which have brought in fiscal discipline, reining in public spending, sealing resource leakages, and narrowing the fiscal deficit. The Budget, albeit forecasting a modest GDP growth rate of 4.8%, is rather more optimistic of the economic future of Zambia at the time when the global economies are revising their growth downward. It sets macroeconomic targets that are largely consistent with the MTBP:2024-2026 and the 8NDP, and the prospects of achieving those targets are high. The budget also demonstrates strong commitment to the improvement of the fiscal governance and public financial management frameworks.

This analysis urges the Government not to be detracted in pursuing a path of economic prudence and creating an enabling environment for private sector-led growth. Caution is also made that the fiscal space created through debt restructuring and the opportunity for concessional finance as well as development assistance is not used on expenditures that do not offer the best returns on the resources.

The Budget provides measures to improve the business environment to spur private investments. The Government is entreated not to renege on this course as has been the case in the first year of implementing the 8NDP where finances were released but the absorption was low. Reneging could frustrate the private initiatives that come to terms with the propitious measure contained in the Budget. The announced reforms in the agricultural, mining, energy, and manufacturing sectors should be thoroughly followed through as those will not only support growth but also help deal with inflationary pressures.

The provisions to the social sector in the 2024 Budget have in real terms decreased. In the view of the rise in the number of people living in poverty, the Government is encouraged to prioritise social spending allocations in the regular financial releases and ensure that the needy are fully supported. This analysis, encourages the Government to devise a programmatic approach which will run in parallel with the other programmes of the Government to emphatically put a dent on poverty.

Despite all the shortcomings of the Budget, ZIPAR is confident that it will deliver according to the overall plan and should be supported. This is not the time for turning.

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