Rebalancing for growth

2024 Zambia National Budget

Content

Commentary

01

Commentary

The United Party for National Development (UPND) Government's third budget builds on and refines the party's ambitious plans to transform Zambia's economy

With progress made towards concluding Zambia's debt restructuring deal, the New Dawn Government has started to stablise Zambia's economy, which is the first stage in the UPND's Economic Transformation Programme.

In his budget speech, the Minister of Finance and National Planning, the Honourable Dr Situmbeko Musokotwane, MP, said the 2024 budget aimed to build on this newfound stability by creating conditions for economic expansion, and private as well as public sector job creation.

Putting the 2024 budget in context

The 2024 budget, themed *Unlocking Economic Potential*, bears few big surprises but instead fine-tunes the economic policy laid out in the previous two budgets, focusing on policies that support private sector growth, improve efficiency in revenue collection and optimise expenditure.

In understanding the 2024 budget, it is necessary to read it in conjunction with the two budgets preceding it and to recognise that they share a common thread. Each builds on the previous one. We used words like "aggressive" and "dramatic" when describing the UPND's maiden budget. For 2023, we described the budget as "bold and ambitious". Our view of the 2024 budget is that the Government appears to be fine-tuning and refining the measures it has already started to implement previously. After radical changes to policy and approach in the UPND's first two budgets, economic policy will likely be more stable going forward, with few big changes in direction. This consistency in policy direction and areas of focus is in line with the Government's Eighth National Development Plan (8NDP)

This stable policy approach is welcome and much needed, especially given the Zambian economy continues to face challenges. These include rising food and fuel costs, a weak Kwacha and reduced copper exports.

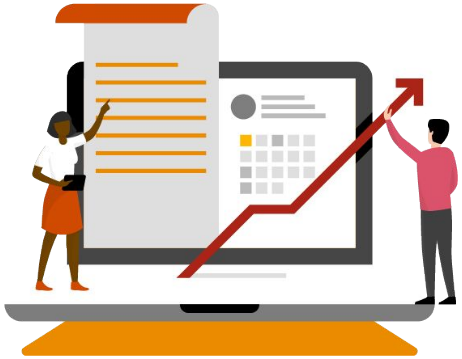
The economy in brief

Zambia's economy has faced several challenges in 2023. The year started on a relatively bullish note, with GDP growth for the year forecast to be above 4% at the half year point. Since then, growth forecasts have been moderated and growth is now expected to be 2.7% for the year compared to 5.2% in 2022.

> "The 2024 budget is themed *Unlocking Economic Potential*

Commentary

External global pressures, such as the ongoing Russia-Ukraine crisis, have exposed vulnerabilities in Zambia's economy. Zambia has struggled to insulate itself against fluctuations in global commodity prices which has affected revenue from mining, the economy's mainstay. In addition, recent increases in petroleum prices have hampered growth and fuelled inflation.



Pump prices in Zambia are now at record highs and, with global prices rising and the local currency weakening, the trend is unlikely to reverse in the near future. Since the start of the year, petrol and diesel pump prices have increased by 42% and 49% respectively.

At the local level, a decline in mining sector output has weighed heavily on the economy. The knock-on effects of this include:

- Lower export earnings
- Lower foreign currency inflows, adding to Kwacha volatility and depreciation
- Lower contribution to GDP and
- Lower contribution to total taxes collected

This out-turn is the result of production challenges brought about by flooding at some mines as well as worsening ore grades, which means that less copper is extracted for similar volumes of ore processed. In short, mines are becoming less efficient. Also, delays in resolving issues relating to Konkola Copper Mines (KCM) and Mopani Copper Mines (Mopani) means that the anticipated incremental production from their expected recovery has not yet been realised.This dependence on the mining sector emphasises once again why diversifying Zambia's economy is a matter of urgency. Diversification has been on the Government agenda for years, and we hope that consistent and concerted efforts will continue to make this a reality. Mining is and will remain important for some time to come, and must be used to propel Zambia into its next phase of development.

The rising cost of living is another big issue for Zambians. As well as rising petroleum prices, food prices have also increased significantly. Regional demand for Zambia's staple commodity, maize, plus high input prices have pushed up the price of the staple, mealie meal. In order to take advantage of the current export opportunity, the floor price of maize was revised upwards to incentivise higher production. The counter effect of this is even more upward pressure on the price of mealie meal. It is something of a chicken and egg situation. Production needs to be increased to take advantage of the export opportunity and stabilise prices in the medium term, but, in the short term, this has escalated prices further.

Overall, inflation rose to 12% in September this year, while the Kwacha fell 10.9% to K20.05 against the US dollar between January and August this year.

Commentary

> 2024 Annual Borrowing Plan released alongside the budget announcement

A big step closer to debt sustainability

In principle, the Government reached a debt restructuring deal with official creditors in June this year. The deal, which accounts for US$6.3 billion of Zambia's external debt, includes extending the repayment period by over 12 years with a three-year grace period during which only interest payments are due.

The deal also unlocked a further US$189 million of concessional loans from the International Monetary Fund (IMF) as part of its three-year support programme. Zambia's external debt, excluding publicly guaranteed external debt, was US$14.07 billion at the end of June 2023.

The deal has been a long time coming. The Hon. Minister said in his maiden budget speech in September 2021 that he expected a deal to be struck by the end of the first quarter of 2022. The 15-month delay in the debt negotiation has taken its toll on the economy, negatively affecting investor confidence.

The restructuring will give Zambia some much-needed fiscal space and is expected to reduce external debt servicing to 14% of revenues by 2025. The savings from the debt restructuring are expected to be diverted towards social sectors such as health and education. There is more work to be done, however. A memorandum of understanding that puts the terms of the deal in writing has yet to be signed. Government also needs to renegotiate its debt with private creditors, including Eurobond holders, if it is to make all its external debt sustainable. It is hoped that the Government will reach an agreement with private creditors similar to that which it negotiated with bilateral partners by the end of the year, although this was not mentioned in the Hon. Minister's speech.

In July 2023, the IMF concluded the first review under the 38-month Extended Credit Facility. This review was due as at 1 April 2023 but was delayed pending confirmation that a restructuring deal had been agreed with official creditors. This resulted in the delayed disbursement of the second instalment of US$189 million. Notwithstanding this challenge, the IMF confirmed that Zambia had achieved all quantitative performance criteria set. This is a vote of confidence in Zambia's economic reform journey.

Currently, there is an instalment due at the end of September, but it remains to be seen whether this will happen given that the MOU with official creditors has yet to be signed and the private-creditor debt deal has not been announced.

The Government released its 2024 Annual Borrowing Plan alongside the budget announcement. This is a requirement of the Public Debt Management Act, 2022. The domestic financing of K16.3 billion and US$914.75 million (K17.01 billion) is analysed and justified.

The plan is part of the process that delivers enhanced debt transparency and accountability. As periodic reports are presented, an objective evaluation of Zambia's debt management practices will be made. The added scrutiny should ultimately result in improved debt management by the Government.

Commentary

Fiscal discipline

As well as negotiating debt sustainability, the UPND government has adopted a prudent approach to spending, which appears to be bearing fruit. Total expenditure in 2023 is projected at K157.5 billion, 5.8% below the K167.3 billion approved in last year's budget. Meanwhile, revenues and grants are expected to be 5% higher than the 2023 budget target of K119.1 billion.

This means Zambia's fiscal deficit target for 2023 should fall from a projected 7.7% to 5.8% of GDP. In 2024, the Government hopes to reduce the fiscal deficit still further to 4.8% of GDP as well as limit domestic borrowing to 2.5% of GDP. Domestic debt servicing accounts for K32.9 billion of the 2024 budget, the equivalent of 29% of the total expenditure in 2024 (2023: 27%).

> "Total expenditure in 2023 is projected at K157.5 billion, 5.8% below the K167.3 billion approved

Sustaining positive fiscal performance is important as it inspires confidence that the Government can deliver on its plans, which is an important part of the debt renegotiation process.

The underperformance of the mining sector will put pressure on revenue measures in the short term. Continued efforts to enhance revenue collection through better tax administration, growing the tax base and the introduction of various tax measures are therefore needed.

Agriculture

Maize shortages have pushed up the price of mealie meal this year, putting additional financial pressure on poor households. Zambia produced 3.2 million tonnes of maize in the 2022/2023 season, which should be enough to feed the country. However, regional maize shortages have prompted many farmers to sell their maize crop across borders for higher prices, creating a domestic shortage. The Government has responded by increasing the price at which it buys maize from farmers.

According to the Hon. Minister, the Government will be taking steps to increase maize production and stabilise maize prices in 2024. These include releasing stocks of maize from the Food Reserve Agency (FRA) to the community to mill themselves and persuading millers who buy FRA maize to sell mealie meal at lower prices. The Hon. Minister said domestic fertiliser manufacture should also curb maize price inflation in 2024. The price of fertiliser has fallen from US$1,200 per metric tonne in 2022 to US$865 this year thanks to the opening of local fertiliser factories.

Agriculture has been given much airtime in the 2024 budget speech. The Hon. Minister said Government plans to launch the Comprehensive Agriculture Transformation Support Programme at the end of this year. The programme will gradually replace the Farmer Input Support Programme (FISP) and will include extension service support, access to finance, irrigation development, and support for value addition as well as storage and logistics.

The Government hopes that the farming blocks that are at different stages of completion will support increased agricultural production and foster job creation. Making the farming blocks operational is crucial for Zambia as it seeks to unlock the full potential of this sector. The successful rollout of these farming blocks is expected to deliver growth at scale, which is necessary if agriculture is to deliver the desired economic transformation.

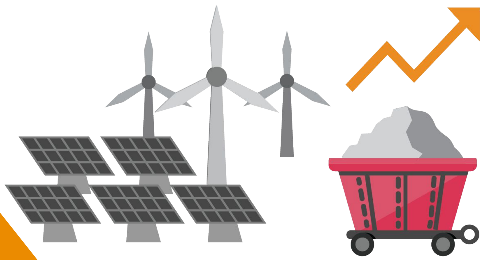
Another major element of unlocking Zambia's agricultural potential is improving animal management. Disease has been a significant challenge, and improving information management that supports animal identification and traceability is an area of focus.

However, the most significant risk affecting the sector is, without a doubt, climate change. It is therefore encouraging that there remains a focus on implementing climate-smart techniques as well as improving grazing land for livestock.

Commentary

Getting the mining sector back on track

The mining sector has faced multiple challenges recently. Copper production has been affected by operational issues at two of Zambia's biggest mines, KCM and Mopani. The resulting decline in production has been compounded by flooding and low ore grades at some of the other major mines and makes the Government's copper output target of three million tonnes per annum by 2032 seem increasingly unlikely.



To compound the situation, the Hon. Minister reported that the production challenges have impacted other minerals, with emeralds and manganese also sighted. In the first half of 2023, copper export earnings fell 11.6% to US$5.3 billion, affecting foreign currency reserves and contributing to Kwacha volatility.

In September, the Government announced that it will return control of KCM to Vedanta Resources provided Vedanta invests US$1.2 billion in the mine to increase output and pay outstanding debts. Government and Vedanta have been in a dispute over KCM's ownership since 2019 when the former Patriotic Front government took control of the mining company. The Hon. Minister also said the Government had identified a strategic equity partner for Mopani. Further details are to be provided shortly.

Since coming into Government in 2021, the UPND has introduced various tax incentives to encourage investment in the mining sector. These include the reintroduction of the deductibility of mineral royalty for corporate income tax assessment purposes in the 2022 budget and, in the 2023 budget, the restructuring of the mineral royalty tax regime to lower the effective rate payable.

Despite operational issues at KCM and Mopani, these incentives appear to be stimulating much-needed investment in the sector. The Hon. Minister said in his budget speech that the sector had seen US$3.4 billion of committed investment in 2023 compared to US$1.7 million in 2022. Part of the investment above has already resulted in the commencement of nickel production in Kalumbila District by First Quantum Minerals Limited. Others include US$1.35 billion expansion of Kansanshi, the US$150 million greenfield investment by Kobold Metals and the recently announced US$1.3 billion capital injection by CNMC over the next 5 years.

That said, that it takes many years for a mine to become operational. Even with additional investments in the sector, the Government's 10-year copper production target appears ambitious.

The other major factor holding back Zambia's production potential is the lack of new discoveries and mines. Aggressive exploration is needed to reverse this situation.

It is therefore good news that the Government will undertake a high resolution geophysical survey of selected parts of the country in order to improve the understanding of mineral potential in different areas. This will hopefully reduce the time taken to discover new mineral resources as exploration can be more targeted. Large scale exploration activity by companies such as Kobold Metals indicates that there is already progress in the journey to discover and understand new mineral deposits.

Commentary

We welcome the announcement that a Minerals Regulation Commission will be established. We have for some time advocated for the establishment of an independent regulator to improve oversight of the industry. The assumption is that the commission will be progressive and impartial so that players who are compliant will not experience a disproportionate increase in their compliance burden from a process and cost perspective. Rather, the role for largely compliant entities should be to provide added assurance and trust that they are doing the right thing. Meanwhile, players that are non-compliant can be better identified and supervised for the benefit of the country and its citizens.

The continued focus on artisanal mining is also worth noting. Harnessing this part of the sector is crucial if the value derived from mining as a whole is to be improved.

Irrespective of the challenges, the mining sector constitutes a significant part of the economy and will remain so for some time to come.

More expected from other sectors

In line with the 8NDP, a number of other key sectors are given attention in the budget.

Tourism

Post Covid-19, tourism has rebounded and is expected to continue to grow. Policy measures such as the waiver of tourist visa requirements have contributed to a 22% growth in international arrivals to 605,650 tourists in the first half of 2023. What is also encouraging is that local tourism has increased. In the budget, the Hon. Minister said more infrastructure will be developed to support growth in the sector.

Local tourism has increased

Commentary

More expected from other sectors

Manufacturing

The Government remains intent on stimulating the manufacturing sector in order to drive value addition and grow exports. Since coming into office in 2021, the emphasis has been on granting incentives to companies operating in Multi-Facility Economic Zones (MFEZs). The 2024 budget, although not providing significant new incentives, focuses on addressing matters that have hindered the growth of investment into the MFEZs. The Hon. Minister signalled that various policies would be relaxed, including the cost of land rates, employment codes and immigration requirements.

The growth of the MFEZs should deliver economic growth, jobs, additional foreign currency earnings and contribute to sustainable diversification away from mining.

"Actualisation of the PPP model to finance infrastructure taking shape

Enablers of economic growth

Infrastructure

Since coming into office, the UPND government has been emphatic that even though building infrastructure is a critical part of Zambia's development it will not undertake it in the same way as the previous government. Instead, the UPND Government has harnessed the Public Private Partnership (PPP) model for infrastructure investment rather than investing directly.

The 2022 and 2023 budgets were therefore fairly muted in terms of direct infrastructure spending.

However, a number of significant PPP projects have been announced, including the upgrading of the Lusaka to Ndola dual carriageway (already started), the rehabilitation of the Chingola-Kasumbalesa road (70% complete), and the signing of the concession agreement for the Lumwana to Kambimba road.

In addition, the Hon. Minister said more concessions would be signed before the end of the year and at least five more signed in 2024, indicating that the PPP model is slowly gaining traction.

Although investment via PPPs remains the preferred route for infrastructure development, we have noticed a shift in approach in the 2024 budget. In his speech, the Hon. Minister acknowledged that the Government must play its part in certain large-scale infrastructure projects as not all of these projects are commercially viable and are therefore unattractive to private investors.

With little money in the pot for spending, Zambia's road infrastructure has declined in recent years. Many roads need repairing while rural road connectivity remains scant.

Government has said in 2024 it will spend K598 million building roads, bridges, power lines and irrigation systems in the new farm blocks in a bid to increase production.

Commentary

New roads, bridges, power lines and irrigation systems in the new farm blocks

Nature of infrastructure	Target
300 km of roads & 10 bridges	Farming blocks - Nansanga, Luena & Shikabeta
200km of power lines	Farming blocks - Luena, Luswishi & Shikabeta
Irrigation infrastructure	Farming blocks
Tourism facilitation infrastructure*	Kasaba Bay, Liuwa National Park, River Zambezi Source
Air and road connectivity	Liuwa Plains National Park, Sioma-Ngwezi National Park, Lower Zambezi National Park and Kafue National park
Improved Rural Connectivity Project - roads	Construct and rehabilitate 4,300km of feeder roads (500km targeted for 2024)
Feeder road construction	700km
Feeder road rehabilitation (through CDF)	1,000km
Trunk road rehabilitation and upgrade	• Chipata - Lundazi • Mansa - Nchelenge • Monze - Niko • Mpika - Chinsali • Tateyoyo - Katunda
Schools	Construction and completion

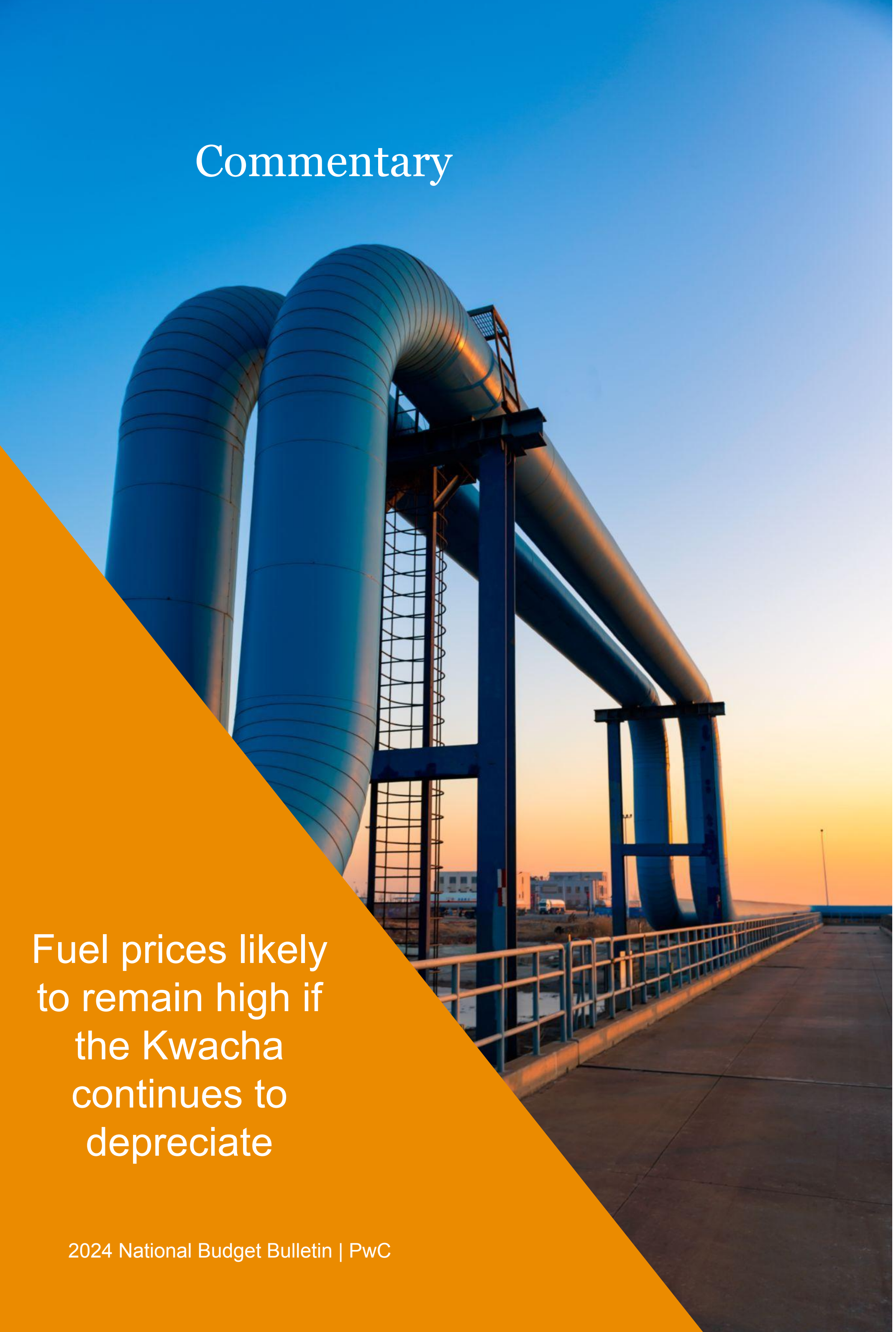
**US$100 million Green Resilient and Transformational Tourism Development Project*

Interestingly, despite the much-needed investment in road infrastructure, there is little mention in the budget about how to improve Zambia's railways. If economic activity increases as the Government hopes, Zambia's road network will come under additional pressure. More traffic carrying goods into and out of the country will make costly maintenance of those roads inevitable. Furthermore, the advantage of having a good railway system is that the benefits accrue not to one specific sector but across the economy.

The only notable boost to the rail sector seems to be the removal of customs duty on the importation of wagons and locomotives. Although this may improve carrying capacity, under investment in the rail network itself may mean that the desired objective of shifting cargo from road to rail will not be achieved. It is widely reported that sections of the existing railtrack require rehabilitation to enhance efficiency. This could at least be prioritised before additional investment is considered.

We believe rail development could be a candidate for PPP investment. However, without any partnerships on the horizon, the Government may need to find alternative ways of financing the rehabilitation of the railways.

Commentary



Fuel prices likely to remain high if the Kwacha continues to depreciate

Energy

Increasing energy generation is a priority for the UPND Government. In the 2024 budget, the VAT refund claim period for expenses incurred before hydro electricity generation has been extended from four to seven years. Additionally, customs duty has been removed on machinery and equipment designed for geothermal energy activities. Improved energy generation is essential not just for local economic growth, but also for generating export earnings as demand for power from the region continues to grow.

The Government has also converted the Tazama Pipeline from a carrier of petroleum feedstock to a transporter of low-sulphur diesel in order to reduce diesel prices. Unfortunately, the impact of this has not been fully appreciated as the overall cost of petroleum prices has escalated dramatically, much to the dismay of consumers.

We believe that as long as the global dynamics that have driven crude oil prices higher persist, and with no relief provided by Kwacha appreciation or at least stability, fuel prices are likely to remain high.

We sympathise with the Hon. Minister, who has stood by his belief that escalating fuel prices are a lesser evil than subsidies, which would need to be funded by cuts in spending elsewhere. However, an uncontrolled escalation in the price of petroleum products will have multiple knock-on effects that make achieving sustained economic growth challenging. Should some fuel taxes be reduced or eliminated perhaps? It is a difficult question to answer.

Commentary

Human and social development

Health and education

A key pillar of the 8NDP is improving the quality of Zambia's human resource capacity. Examples of actions taken in recent budgets include the introduction of free education up to secondary school, the recruitment of large numbers of teaching staff, investment in school infrastructure and equipment, and a focus on Technical Educational, Vocational and Entrepreneurship Training initiatives.

The 2022 and 2023 fiscal years have also seen renewed focus on improving the health of citizens by recruiting a record number of health workers, constructing health infrastructure and procuring equipment.

The Government's investment in education and health will continue in 2024 albeit at a slower pace. We agree with the Government that spending on health and education is an important investment. However, given Zambia's fiscal constraints, investment made must be sustainable.

Caring for the vulnerable

Government wants to increase the reach and amount of financial support provided to the most vulnerable in society. For example, the number of households in receipt of the Social Cash Transfer and the actual amount paid have increased progressively from 2022 through to the budget for 2024. This is necessary given the challenging economic environment. Sustainable support can, however, only be delivered with the support of a growing and thriving economy.

Meanwhile, there has been marginal relief for workers following the adjustment in the tax free band from K4,800 to K5,100 and the lowering of the highest tax band from 37.5% to 37%.

Granted, the effect of this is small, but given current revenue mobilisation challenges, additional relief was unlikely.

The good governance environment

Decentralising governance and development through the Constituency Development Fund (CDF) is a significant part of the UPND Government's approach to improving governance.

Increased allocation in CDF

The allocation per constituency has been set at K30.6 million in 2024, up from K28.3 million in 2023 and K25.6 million in 2022. Implementation bottlenecks appear to be slowly coming under control as laws are amended and procedures adapted to improve the efficiency and effectiveness of fund administration. However, absorption rates are no longer published and so we cannot assess the level of utilisation. Regardless, it is important to note that the Government said earlier this year that unutilised funds will be carried forward and remain available to constituencies.

Although this represents an opportunity cost in the sense that unutilised funds are unlikely to be earning significant returns, it does signal the Government's level of commitment to this programme.

While progress has been made in as far as delivering much-needed development in communities through CDF, there is still the opportunity to enhance its effectiveness by having constituencies collaborate on various initiatives.

For example, does each constituency need to have exactly the same equipment to deal with its development needs or can some form of asset pooling be done to increase the range of available assets?

Suffice to say, the CDF is here to stay!

Commentary

In conclusion

While the 2024 budget is less dramatic than expected, it builds steadily on the UPND Government's first two budgets and is in line with the 8NDP. It also adheres to the UPND's manifesto to revive the economy through a three-phase Economic Transformation Programme: recovery and stabilisation (phase one); steady growth (phase two); and take-off (phase three). The 2024 budget can be seen within the context of phase one, the recovery and stabilisation phase.

Mining remains cardinal in Zambia's current and future prospects and it is clear that there is work to be done if the sector is to reach the ambitious three million metric tonnes output of copper by 2032. At the same time, Agriculture presents a real opportunity to diversify and grow Zambia's economy sustainably for the benefit of citizens.

Zambia continues to face economic challenges, however, not least high inflation, a weak Kwacha, and rising food and fuel costs. While the 2024 budget continues to sow the seeds of recovery, it will take time and patience before the UPND Government's policies bear fruits. Yet patience, especially among poorer households, is wearing thin as individuals and businesses feel the pinch of challenging economic conditions.

Overall, it is apparent to us that even as the Government works to refine the policy environment in order to support growth, recovery will only be achieved with the full participation of businesses and individuals alike.

A budget that builds on previous budgets' achievements

The economy

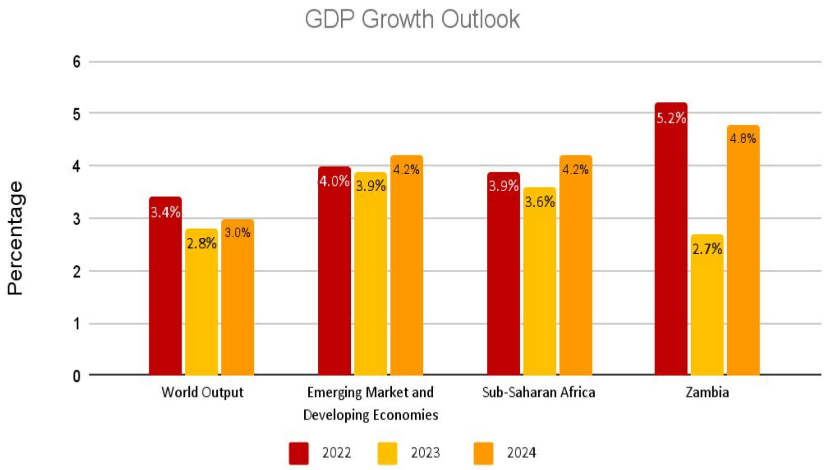
02

Global and regional economy

Global

Global growth is expected to slow down to 2.8% in 2023 from 3.4% in 2022, with a forecast 3.0% for 2024. The slowdown in growth is due to sustained tightening of monetary policy to curb inflation resulting from the impact of the Russia-Ukraine war and the adverse impact of the climate change. Overall growth priorities could include sustaining inflation and financial stability.

The continued Russia-Ukraine war has led to negative effects on the food and energy prices and hence caused strain on the growth prospects on the emerging markets and developing economies (EMDE). Growth is projected to be at 3.9% in 2023, compared to 4% in 2022 and a forecast growth of 4.2% in 2024.



Region

Sub-Saharan Africa (SSA): Growth is projected to decline to 3.6% in 2023 (2022: 3.9%) and projected to pick up to 4.2% in 2024. Economies in this part of the world are focusing on achieving fiscal sustainability through higher revenues and improved debt management.

Zambia

The local economy is projected to grow by 2.7% in 2023, compared to the budgeted 4.7% and a decline from 4.2% in 2022.

The lower than expected growth is largely due to decline in the mining sector as a result of operational challenges, among other factors.

2023 Growth forecasts:
Global 2.8% (2022: 3.4%),
EMDE 3.9% (2022: 4.0%)
SSA 3.6% (2022: 3.9%)
Zambia 2.7% (2022:4.2%)

Other notable observations include the increase in inflation from 9.9% as at the close of 2022 to 12% as of September 2023. The increase in inflation was caused by the increase in food prices and also the depreciation of the Kwacha. The Kwacha has remained volatile against the major convertible currencies in the short to medium term.

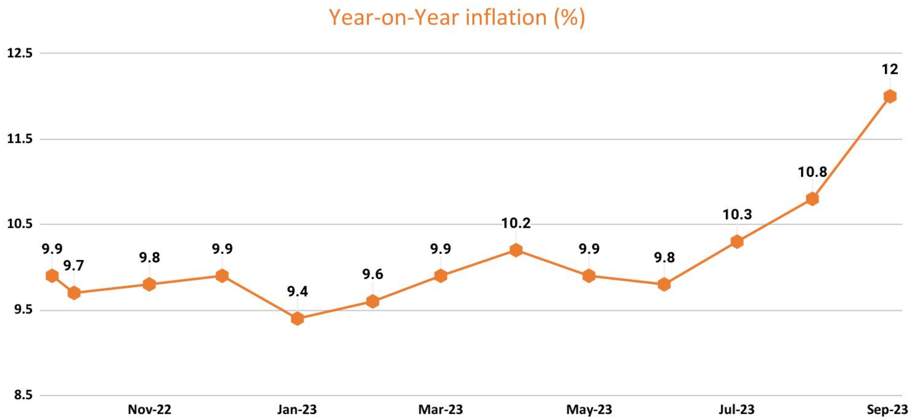
In an effort to contain the volatility, the Bank of Zambia increased its policy rate from 9% at the start of the year to 10% which led to an increase in average lending rates.

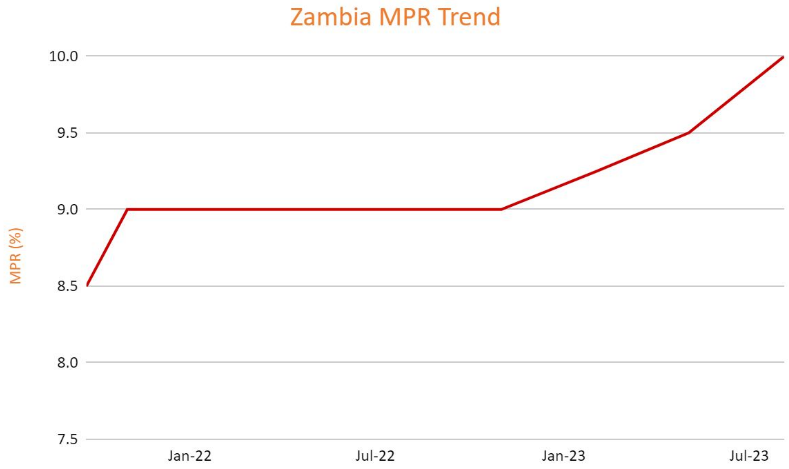
Other Economic Highlights

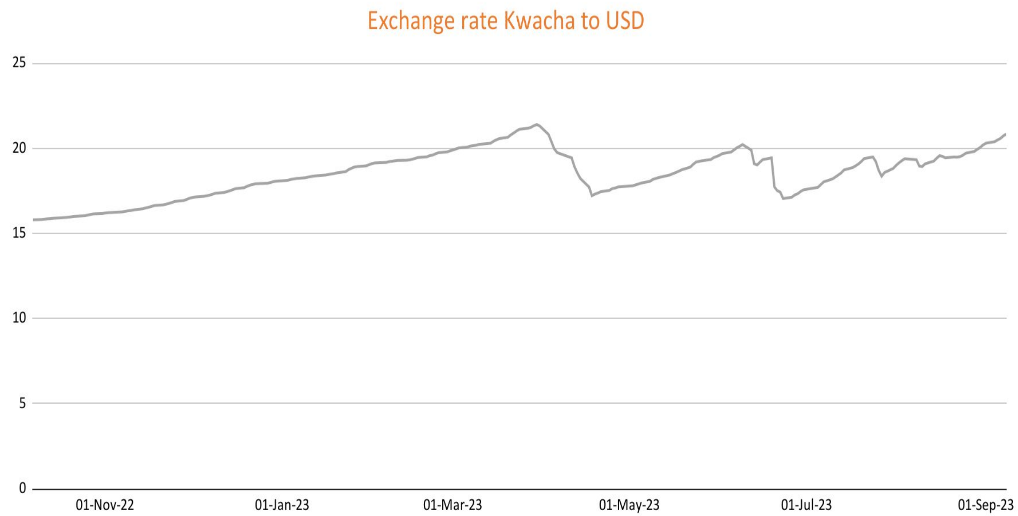
- Debt restructuring is still work in progress with both ‘official’ and private creditors
- Zambia is in its second year of the 3-year US$1.3 billion IMF program. As at end of September 2023, total disbursements under the arrangement amount to US$374 million.

State of the economy

Key economic highlights Include







Growth downgraded to 2.7% mainly due to slow growth in mining, agriculture and construction sectors

Economic outlook

Where to now?

From reading the Budget speech, it's clear that the set targets for 2024 and beyond are in line with the 8NDP which is expected to be executed between 2022 and 2026. The targets set are expected to restore macroeconomic stability which is in line with the UPND's manifesto.

The 2024 Budget highlights the following ambitious economical targets:

- Attainment of real GDP growth rate of at least 4.8%;
- Reduce inflation to the Central Bank's target of 6%-8%;
- Reduce the fiscal deficit to 4.8% (from 2023 projection of 5.8%);
- Maintain international reserves above the 3 months cover;
- Finalisation of the debt restructuring with all parties (both official and private creditors); and
- Restore mining sector productivity through actualisation of some of the pledges made so far.

"

Sticky inflation and persistent Kwacha volatility

While the Government has delivered on some of its set targets specifically fiscal deficit and the maintenance of international reserves above the 3 months import cover, the Government's ability to achieve the macro-economic objectives set out in the 2024 budget is likely to be impacted by a confluence of the following factors:

- **Debt restructuring:** Continued delays in the finalisation of debt restructuring arrangements has prolonged the atmosphere uncertainty relating to the trajectory of the economy and is likely to continue affecting investor confidence and constraining capital inflows.
- **Persistent vulnerabilities:** the prospects of the economy remain highly sensitive to two main factors:
  - ❑ **copper export earnings***:* with copper exports contributing over 70% of foreign exchange earnings, overall economic growth ambition will remain highly sensitive to performance of the mining sector. The reduction in copper production during the year, and the resultant drag to the country's economic growth further emphasise this dependency.
  - ❑ **rainfall patterns:** inconsistent and/or low rainfall significantly impacts electricity generation and agricultural output. Reduced agricultural output, particularly maize, triggers upward inflationary pressures which in turn reduces aggregate demand and constrain economic growth. Additionally, poor rains negatively impacts electricity generation causing disruptions to economic activity and increase the cost of production. In addition, this will be exacerbated should expectations of the onset of El Nino in the second half of 2023 materialise.

- **Exchange rate volatility:** Exchange rate volatility and its pervasiveness of the Kwacha volatility on the wider economy remain an area of concern. While the direction of the exchange rate is a result of several factors, the vulnerability of the Kwacha is largely on account of a high demand for imports, particularly petroleum and fertiliser, coupled with a concentration on a single source (copper exports) for foreign exchange earnings. Attaining exchange rate stability will be critical to achieving the set growth targets. The Exports Tracking Framework announced by the Hon. Minister may help achieve this much sought after stability.

- **Inflation:** Inflationary pressures are expected to persist on account of increasing oil prices, elevated prices of maize and tight global financial conditions.

Taxes

03

General Tax Administration Update

Introduction of a Unified Tax Administration Act

Currently, the administration of the various taxes is largely covered within the respective tax acts. In the 2024 budget address, the Hon. Minister indicates that they will likely enact the Unified Tax Administration Act in 2025 following a consultation process to harmonise tax administration.

With a Unified Tax Administration Act, the Government intends to simplify and standardise tax administration. This will make tax administration processes and Government tax enforcement easier to understand.

The measure demonstrates Zambia's commitment to tax reform for greater transparency, efficiency, and compliance. This should also help with making the Zambia tax system more fair and equitable and one that protects taxpayers rights.

The success of the act will be determined by the quality of consultations and its careful drafting to accommodate Zambia's diverse economic landscape.

Direct Taxes – Personal Income Tax

Changes in the tax exempt band and adjustment of top personal income tax rate

In the wake of the rising cost of living and in a bid to increase the disposable income of individual taxpayers, the Hon. Minister proposes to increase the annual income tax exemption threshold for income tax from K57,600 to K61,200. He also proposes the reduction in the highest marginal income tax rate from 37.5% to 37%.

The following table compares the 2023 personal income tax bands to the proposed personal income tax regime for 2024:

Increased disposable income for individual taxpayers

Annual Income	2023 Tax Rate	Annual Income	2024 Tax Rate
First K57,600	0.00%	First K61,200	0.00%
From K57,601 to K81,600	20.00%	From K61,201 to K85,200	20.00%
From K81,601 to K106,800	30.00%	From K85,201 to K110,400	30.00%
From K106,801	37.50%	From K110,400	37.00%

The proposed change to the exempt threshold is intended to alleviate the tax burden for low-income individuals and protect against the rising cost of living. The proposed reduction of the highest tax bracket from 37.5% to 37% could provide modest relief to higher income individuals. To reduce the rising cost of living, alternative anti-inflationary policies may be required in addition to the above noted changes to the personal income tax regime.

Reduction in the highest marginal income tax rate from 37.5% to 37%

Direct Taxes: Corporate Income Tax

Expected Impact of Corporate Income Tax Reforms

Corporate tax proposals outlined in Zambia's National Budget for 2024 reflect a multifaceted approach intended to help actualise the Government's objective of spurring economic growth by creating a diversified and industrialised economy and by helping foster a very competitive private sector. In particular, the reforms are intended to promote rural empowerment, consolidate the agricultural sector, and foster equitable infrastructure development in the MFEZs. These initiatives have the potential to serve as a foundation for sustained economic growth and diversification in Zambia's economic environment if they are implemented effectively.

The reforms are analysed in the following pages.

Direct Taxes: Corporate Income Tax

Tax concession for businesses in rural areas

The Hon. Minister proposes increasing the tax concession (that is, the discount on the applicable corporate income tax rate applicable to the respective taxpayers) from 14.2% to 20% for the first five years of operation for all businesses operating in rural areas, except mining.

Currently, only businesses in manufacturing, hotels, motels and lodges that are operating in rural areas are entitled to a 14.2% reduction of their income tax rate, for the first 5 years in operation.

The proposal to reduce the corporate tax rate for rural businesses for the first five years is a strategic move to encourage business development in rural areas. This could lead to more jobs, improve infrastructure in rural areas, and close the economic gap between urban and rural areas.

Tax holidays for the cotton value chain

The Hon. Minister proposes the following tax holidays on profits in the cotton value chain:

Business Activity	Tax holiday length
Cotton seed production	5 years
Ginning of cotton	5 years
Cotton spinning and thread weaving	10 years

The tax holidays proposed for the cotton value chain represent a determined effort to expand the cotton industry in Zambia. With the emphasis on longer tax breaks for processes such as spinning and weaving, there is a clear push to transition from exporting raw cotton to manufacturing and exporting cotton products. This change can foster local value addition and increase export revenues.

Direct Taxes – Corporate Income Tax

Local content allowance extended to Sorghum and Millet

The Hon. Minister proposes to extend the 2% local content allowance on income earned from value addition to sorghum and millet.

The local content allowance aimed at sorghum and millet may have the following purposes:

1. promoting local grain production and supporting local industries;
2. bolstering domestic grain production; and
3. Ensuring a steady supply of raw materials for brewers and the animal feed industry.

By encouraging farmers to grow these crops, this measure could provide grain price stability and sustained growth for both the beverage and animal feed industries.

The extension is in addition to the other products already benefiting from this incentive namely: cassava, mango, pineapple and tomato.

Extension of accelerated depreciation up to 100 percent

Further, the Hon. Minister proposes to introduce accelerated depreciation of up to 100 percent in respect of any new implement, plant or machinery for developers of Multi-Facility Economic Zones (MFEZ).

The Government proposes extending the 100% accelerated depreciation benefit to developers of an MFEZ within the already designated economic zones. Previously, this benefit was restricted to investors and did not extend to the developers.

This proposal is intended to ensure that both investors and developers of the zones receive equitable treatment, thereby promoting equity and possibly accelerating the development of infrastructure within these economic zones.

Other MFEZ incentives

The Hon. Minister indicated that the Government should continue learning from experiences of other countries that have successfully used special economic zones to attract more investment. In this respect, the Hon. Minister proposes non-tax concessions as summarised below:

- Reduce and harmonise land rates levied by Local Authorities;
- Review of the provisions of the Employment Code Act, 2019 ("ECA") that impose onerous financial obligations and conditions on employers. One of the aims of this review is to reduce the burdens imposed by the ECA on employers within the MFEZ; and
- To ease the work permit requirements for expatriate workers within the MFEZs. The proposal is to automatically grant a quota of expatriate workers to businesses within the MFEZs.

The above proposed measures have the goal of easing conditions within the MFEZ. The plan is to monitor whether the measures attract investment and expand job creation. If they are are successful the Hon. Minister proposes to extend the MFEZ measures to the rest of the country.

Direct Taxes – Housekeeping Measures

Appointment of Mineral Royalty Tax Withholding Agents

Specific provision is to be introduced under the Mines and Minerals Development Act, empowering the Commissioner-General to appoint agents for the collection of Mineral Royalty Tax.

By collecting the tax at the point of sale, the Government hopes to raise additional revenues from artisanal and small-scale mining.

This measure could promote formalisation, improved regulation, access to capital, and practices that promote sustainable development in the sector.

As the number of artisanal and small-scale miners who comply grows, the ZRA will be able to collect taxes without having to deal with a large number of individual miners. However, some miners may seek to find buyers who are not withholding agents in order to avoid paying taxes right away, creating a parallel market.

The success of the measure will therefore be dependent on the strict implementation, ongoing monitoring, and acceptance by all parties involved.

Alignment of specific penalties for offences in the artisanal and small scale mining tax regime with those for turnover tax

There will be an alignment of specific penalties for offences in respect of omission or understatement of income arising from acts of negligence, wilful default or fraud in the artisanal and small-scale mining tax regime with those for Turnover Tax.

The measure seeks to align the penalties applicable to the artisanal and small scale mining sector with those for Turnover Tax.

The current applicable penalty regime is punitive to artisanal and small-scale miners relative to similar businesses in other sectors with a turnover of K800,000 or less.

Direct Taxes – Housekeeping Measures

Exemption from the mandatory use of electronic invoicing systems

Following the proposed change to the definition, this measure seeks to provide exemption to certain persons that may not be required to use the electronic invoicing system because of the nature of their business or special circumstances as may be determined by the Commissioner-General.

Revision of the definition of 'Approved pension fund'

The proposed revision to the definition of 'approved pension fund' is intended to clarify that approval is to be granted by the Pensions and Insurance Authority (PIA) and not the Commissioner General.

This measure seeks to update the definition of 'approved pension fund' following the repeal of the Fourth Schedule pursuant to Income Tax (Amendment) Act, 2022, which required approval by the Commissioner General.

Removal of the requirement for taxpayers to notify the Commissioner-General within 30 days of receiving their first income

The measure seeks to clarify that businesses or individuals need to obtain a Taxpayer Identification Number (TPIN) and ultimately register for the appropriate tax types when the business commences and not wait until actual income is received.

Currently, businesses that register with the Patents and Companies Registration Agency (PACRA) are automatically assigned a TPIN at the time of registration and, thereafter register for applicable tax types.

Direct Taxes – Transfer Pricing

Selection of a Transfer Pricing Method

Transfer Pricing ("TP") methods are used to establish whether the conditions imposed in the commercial or financial relations between associated enterprises are consistent with the arm's length principle.

The selection of a TP method always aims at finding the most appropriate method for a particular case.

The measure intends to require taxpayers to seek permission from the Commissioner-General for the use of a transfer pricing method other than the TP methods recommended in Regulation 12 of the TP Regulations for substantiating the arm's length pricing of transactions between related entities.

Thus, this requirement to seek approval for the selection of an alternative pricing method that is not outlined in the TP Regulations will ensure that taxpayers use the most appropriate method and substantiate its suitability.

Country-by-Country Reporting

The Hon. Minister proposes to amend the definitions of "Surrogate Parent Entity", "Reporting Entity" and "Reporting Fiscal Year" to align them with the OECD TP guidelines.

Specifically, the definitions adopted in the TP Regulations will now be amended to replace the word "state" with "jurisdiction" wherever it appears in line with the OECD model legislation.

This measure may have an impact on entities that can submit the Country-by-Country reports in Zambia.

Statute of Limitations

The Hon. Minister proposes to remove the statutory limitation of not assessing a taxpayer after the prescribed six years for transfer pricing audits that are delayed due to exchange of information between the taxpayer and the ZRA.

This proposal has been introduced to safeguard tax revenue that may not be subject to assessment on account of the statutory limitation of six years following undue delay in the conclusion of a tax audit.

The measure will ensure that taxpayers do not delay provision of information to run down the clock such that by the time the audit is finalised the six year period would have elapsed.

Date of assessment

Section 97A (11A) of the Income Tax Act provides that a credit arising from a transfer pricing adjustments may be claimed within a period not exceeding twelve months from the date of assessment. However, this would not include cases under litigation.

The Hon. Minister proposes to amend the Act to include cases under litigation and specify that the date of determination or the final ruling shall be considered as the date of assessment.

The proposed amendment will clarify the start of the 12-month period required to file a claim for a corresponding adjustment following the date of assessment for cases currently in litigation.

Direct Taxes – Transfer Pricing

Tax transparency and the exchange of information

The Zambian government is considering joining the Global Forum on Tax Transparency and Information Exchange to improve international taxation and combat tax evasion.

This initiative will enhance collaboration with other member nations, sharing experiences, best practices, and technical assistance in taxation matters. Increased access to cross-border financial information will discourage individuals and organisations from hiding assets and income, improving compliance and revenue collection.

The ZRA will benefit from enhanced capacity and skills exchange, demonstrating its commitment to enforcing consistent and equitable tax regulations..

Base Erosion and Profit Shifting 2.0

The Base Erosion and Profit Shifting ("BEPS") 2.0 proposes a two pillar approach by the OECD to develop a solution to the tax challenges of a digitalising economy.

This project has been conducted in conjunction with the G20 and developing countries, including Zambia. The plan attempts to protect tax bases in jurisdictions where economic activities take place while offering more transparency and certainty to taxpayers.

In his address, the Hon. Minister made reference to the opportunity that the growing digitalised economy presents for Zambia to further expand the tax base and collect more revenue from non-resident suppliers.

Our reading and understanding of this is that Government may put in place a legal framework and strategies to implement taxation of the Cross-Border Electronic Services.
In light of the above and of the growing global momentum surrounding BEPS 2.0, Zambia should actively participate in this initiative to avoid falling behind in the ever changing international tax landscape. This has the potential to improve Zambia's reputation as a country that adheres to international tax rules and promotes transparency, thereby fostering an environment conducive to attracting foreign investments.

The implementation of BEPS 2.0 introduces numerous opportunities and complexities to Zambia's tax landscape. To optimise the tax base and advance equitable taxation, it is important to exercise caution when implementing measures, particularly when dealing with non-resident digital service providers. Ensuring a harmonious alignment between the newly imposed tax obligations and the pre-existing incentives will play a crucial role in maintaining Zambia's competitive edge in the eyes of prospective investors while simultaneously fostering the growth of priority sectors.

Value Added Tax

The Hon.Minister has proposed a variety of changes to the VAT regime aimed at actualising the revenue mobilisation strategies of the Zambia Revenue Authority ("ZRA") as outlined in the latest Medium Term Budget Plan ("MTBP") as well as ZRA's Corporate Strategic Plan in respect of tax administration that is efficient at collecting taxes by leveraging technology.

The expected fiscal benefits of the changes include:

- Improve business efficiencies and reducing the cost of compliance by implementing the Electronic Invoicing System (EIS);
- Use of technology to monitor transactions in real time and reduce on any VAT leakages; and
- Promote exports through value addition and integrated value chains in priority sectors.

The proposed changes will come into effect from 1 January 2024 if assented into law.

Revenue concession measures

Intending trader-hydroelectricity generation

The Hon. Minister proposes to amend the VAT Act to increase the period in which a business which invests in hydroelectricity generation can claim a refund on VAT incurred on eligible goods before the commencement of commercial operations to seven years from four years.

Extending the VAT claim period to seven years provides businesses with a longer window to claim the VAT paid on inputs, considering the extensive time such projects take from inception to commercial operations. Given the capital-intensive nature of hydroelectricity projects, this measure can alleviate financial strains on businesses by enabling them to recoup a portion of their development cost outlays over a longer period.

This measure is also intended to enhance energy security by incentivising investments in hydroelectricity, thereby mitigating the effects of energy shortages. This is consistent with global sustainable development goals and could reduce a country's carbon footprint and environmental degradation.

This measure may also make investments in hydroelectricity more attractive relative to other energy sources, anticipating that the long-term economic and environmental benefits will outweigh the short-term fiscal consequences. The Government must ensure a balanced approach to energy development and also provide incentives for other renewable energy sources.

Indirect Taxes – Value Added Tax

Implementation of Electronic Invoicing system

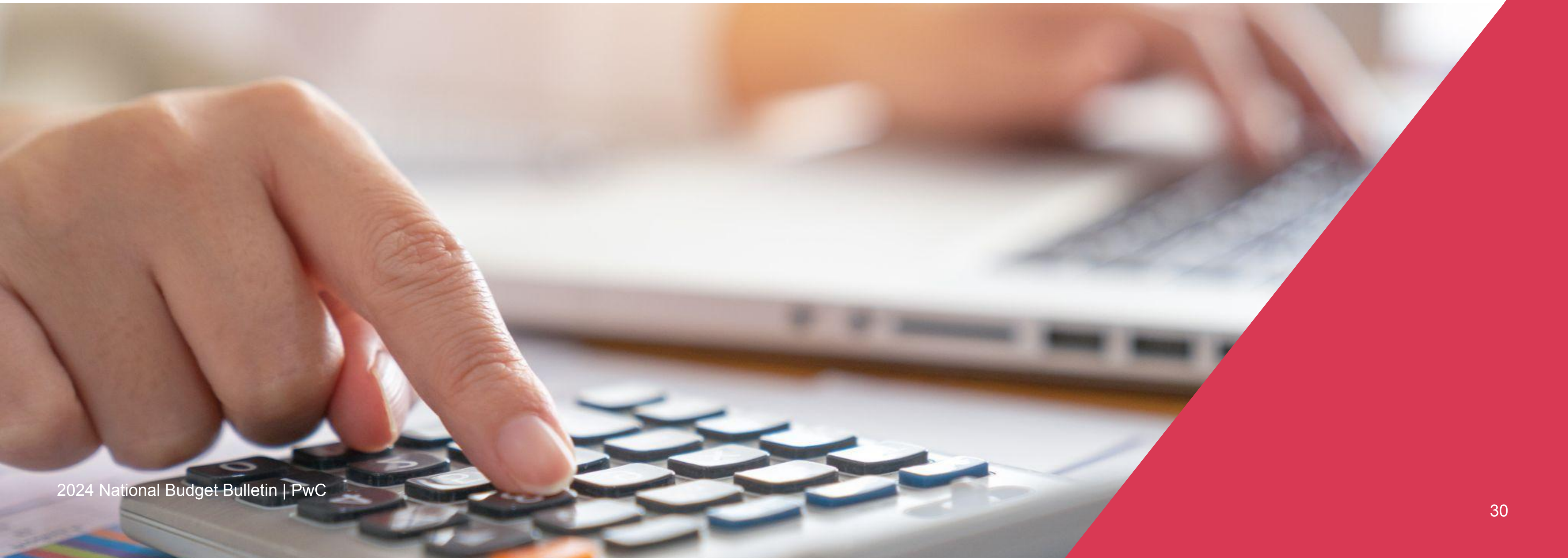
The Hon. Minister proposes to implement an Electronic Invoicing System (EIS). VAT registered taxpayers will be required to adopt EIS to enable the ZRA to have real time access to business transactions.

The measure is intended to curb fraudulent VAT refund claims and to ensure only qualifying transactions are claimed as deductions. To comply with the new requirement, a VAT registered taxpayer should ensure their invoicing system is approved and certified by ZRA as will be prescribed by the Commissioner General. The measure will result in ZRA leveraging on technology and data analytics to enhance VAT compliance.

To manage the transition, ZRA should consider collaborating with other African countries that have implemented similar systems to ensure that the implementation is accelerated and effective at minimal disruption of business operations, premised on the challenges noted with the Electronic Fiscal Devices (EFD) Project.

To achieve the intended objective, it is expected that the ZRA will publish detailed guidelines to enable taxpayers to fully comply with the new requirement. This may entail ZRA taking the following into consideration:

- ensure that the Tax Online 2.0 (ZRA's current tax compliance platform) is able to seamlessly integrate with the EIS;
- cyber security measures are taken into account for data protection purposes;
- connection between the taxpayer's computer system and the EIS is managed effectively such that the EIS has restricted access to the necessary information/processes in the taxpayers computer system;
- engage relevant stakeholders during the pilot testing phase and aggressive sensitisation of the benefits of EIS among taxpayers; and
- provide taxpayers with a reasonable transition period to allow taxpayers streamline any inefficiencies resulting from the switch to EIS.



Indirect Taxes – Value Added Tax - HouseKeeping Measures

Amendment to Section 2 of the VAT Act

The Hon. Minister proposes to amend Section 2 of the VAT Act by introducing definitions for the following:

- Cross border electronic services;
- Electronic services;
- Prescribed invoicing system;
- Imported services;
- Electronic invoicing system;
- Certified invoicing system; and
- Sales data controller.

The proposed amendments are aimed at clarifying the nature of services that can be termed to be electronic services whether rendered locally by a resident or by non-residents to recipients in Zambia.

Furthermore, the amendments seek to provide clarity on appropriate systems and support documentation used to account for VAT on electronic services.

Remove reference to "electronic fiscal devices" from the VAT and Insurance premium Levy Acts

The proposed change intends to clarify that the implementation of the electronic invoicing system will be done through an approved invoicing system that is prescribed by the Commissioner General.

Currently, the respective Acts prescribes the use of electronic fiscal devices for electronic invoicing purposes.

Use of prescribed invoicing systems to claim input VAT or deductions

The proposed change will require taxable suppliers to use an invoice issued from a prescribed invoicing system in order to reclaim input VAT.

The above change aligns with the proposed implementation of the EIS and aims at ensuring that input VAT is claimed against declared output VAT and allow for detection of fraudulent VAT refund claims.

Removal of requirement to appoint local tax agent by foreign suppliers of electronic services

The proposed change will remove the obligation on non-residents to appoint a VAT agent to account for VAT on the supply of electronic services to a recipient in Zambia.

This is aimed at reducing the administrative burden and costs on the non-resident supplier. In addition, by facilitating voluntary compliance by the non-residents, the ZRA will widen the tax base for collection of VAT on electronic services.

Indirect Taxes – Value Added Tax - Housekeeping Measures

Prescribed format for provision of third party information

The VAT Regulations are to be amended to introduce a requirement for persons to provide third party information to the Commissioner General in a prescribed format.

This seeks to improve tax administration and enhance tax compliance. The measure will align with Section 48 of the Income Tax Act which requires persons to furnish information determined necessary relating to residents and non-residents.

Reinstate VAT exemption on supply of mains water and sewerage services

The proposed change seeks to reintroduce the VAT exemption status of water and sewerage services from the current standard rate of 16%.

Prior to 2022, water and sewerage services were exempt from VAT.

Mining companies permitted to keep books of accounts in United States dollar (“US$”)

It is proposed that mining companies earning 75% or more of their gross income in US$ in the form of foreign exchange may be allowed to maintain their accounting records in US$.

Currently, the VAT Act provides that all accounting records for purposes of VAT compliance must be maintained in the Zambian Kwacha.

This measure will align with the current provisions of the Income Tax Act under Section 55 (4) which allows companies carrying out mining operations to maintain books of account in US$.

A further amendment will be the introduction of a conversion rate of the Kwacha to the US$ for translation purposes. The proposed rate being the spot rate on the date of the transaction.

This measure will allow for easier reconciliation between the income/expenses reported in the income tax return against those reported in the VAT returns during the same period.

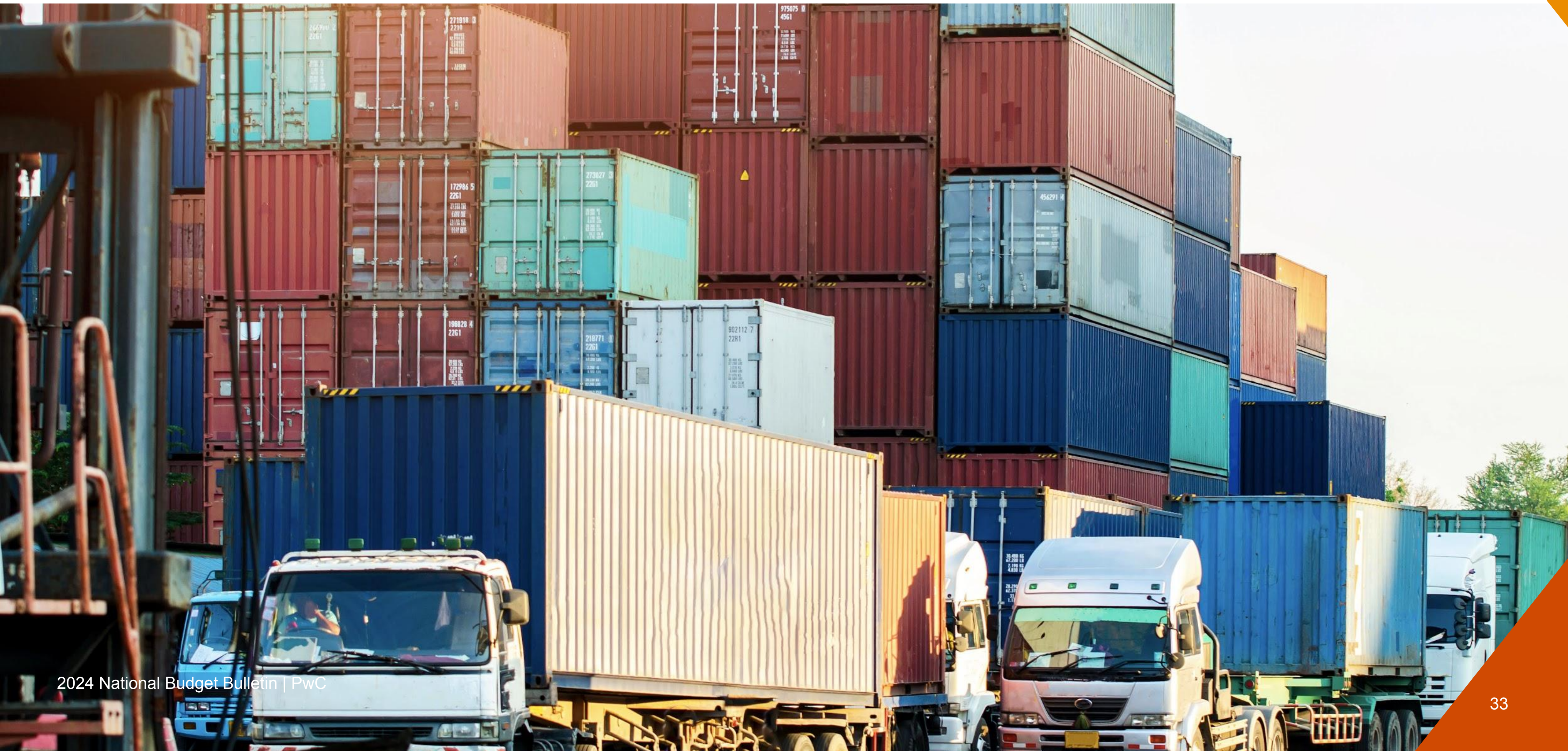
Introduction of threshold for deregistration of dormant taxpayers

The proposed change intends to introduce a deregistration threshold of dormant taxpayers. The provision will empower the Commissioner General to deregister dormant VAT accounts with outstanding liabilities or refunds of K200 or less.

Currently, taxpayer accounts can only be deregistered once all pending liabilities or refunds are cleared. This measure seeks to reduce the administrative burden of final reconciliations for accounts with minimal balances.

Indirect Taxes – Customs and Excise Duty

The Hon. Minister proposes changes to the Customs Duty, Excise Duty and Surtax rates applicable on importation of specified goods.
The changes under Customs and Excise aim to stimulate local manufacturing and promote the use of environmentally friendly means of transport.
We provide details of these changes in subsequent pages.



Indirect Taxes – Customs and Excise Duty

Manufacturing sector

Assembly of motorcycles and tricycles

The Hon. Minister proposes to remove customs duty on motorcycles and tricycles provided they are imported in a complete 'knock down form' for assembly in Zambia. Further, the importer should source at least 5% of inputs locally to qualify for the incentive.

We expect this measure to incentivise investment in local assembly of these products, boost local demand for the required raw materials and create employment opportunities. There is also a potential to improve population skills through knowledge transfer and foreign currency inflows from exports.

Locally produced clear beer

The Hon. Minister proposes a 50% reduction of the excise duty rate on clear beer that is locally produced by small and medium manufacturers with an annual production of less than 500,000 litres.

We expect this measure to attract new small and medium manufacturers of this product as well as spur growth for the existing ones by allowing them to set more competitive prices compared to big local and foreign players.

Multi-Facility Economic Zone
Currently, developers in the Multi-Facility Economic Zone (MFEZ) can access certain customs incentives which are valid for 5 years.

To promote the development of MFEZs, the Hon. Minister proposes to extend the validity period of these incentives to 15 years upon meeting the prescribed conditions.

The development of MFEZs requires significant capital investment. That said, this is a welcome change as it extends the period in which MFEZ's developers can enjoy the incentives thereby reducing the cost of setting up these facilities.

Overall, this proposal should make MFEZ development more appealing to investors.

Ethyl alcohol and other spirits, denatures (strength less than 80%)
The Hon. Minister, proposes to reduce the excise duty rate from 125% to 60% on Ethyl alcohol and other spirits, denatures of alcoholic strength of less than 80%. This change aims to harmonise the excise duty on these products with other similar alcohol.

This is a positive step towards creating a level playing field for the producers of ethyl alcohol, other spirits and denatures.

Protectionist measures
To support local manufacturers and protect them against imported competing products, the Hon. Minister has proposed the following measures:

- The Hon. Minister proposes to increase customs duty on electronic panels from 15% to 25%.
- The Hon. Minister proposes to remove a 5% surtax on certain inputs such as high carbon ferro chrome, carbon paste, float glass, etc. that are not locally produced and are important in the manufacturing sector.

Further, the Hon. Minister proposes to increase surtax levied on the importation of the following imported products that are produced locally:

- Tiles - From 5% to 30% (HS Code 6904.90.10) and from 20% to 30% (HS code 6907);
- Mattresses - From 5% to 20%;
- Laminated panels for building and cold storage insulation - From 0% to 5%;
- Glass - From 0% to 5%; and
- Baby diapers - From 0% to 5%.

For the manufacturing sector to prosper, there has to be a sufficient market for the products, both locally and abroad. As a start, it may be crucial to limit the importation of cheaper competing products until the domestic manufacturing sector matures.

Indirect Taxes – Customs and Excise Duty

Transportation

The Hon. Minister, proposes to remove a 10% customs duty on importation of wagons and locomotives. The change aims to promote railway infrastructure.

This measure is intended to encourage investments in rail transport and the diversion of heavy goods transportation from the road network, thereby reducing maintenance costs and enhancing road safety.

Oil and gas exploration

In an effort to attract investments in exploration of oil and gas in Zambia, the Hon. Minister proposes to remove customs duty on machinery, equipment and other goods intended for exploration activities.

Given significant capital requirement in oil and gas exploration, exempting capital and other necessary goods from customs duty should go a long way to enhance feasibility of exploring oil and gas in Zambia.

Clean energy

In line with Government's green economy initiatives and to encourage the use of clean energy, the Hon. Minister proposes certain measures as outlined below.

Geothermal energy
The Hon. Minister proposes to remove customs duty on machinery, equipment and other goods intended for geothermal energy projects.

Electric motor cycles, vehicles, buses and trucks
The Hon. Minister proposes to remove customs duty on importation of electric motorcycles, electric vehicles, electric buses (HS Code 8702.40.90), electric trucks (HS code 8704.60.90) and accessories e.g. charging systems for such vehicles.

Hybrid passenger vehicles
The Hon. Minister proposes to reduce excise duty from 30% to 25% on hybrid vehicles meant to transport passengers.

Solid fuels made from coal
In 2021 the Government introduced excise duty on coal at 5%. In this budget, the Hon. Minister proposes to introduce excise duty at 5% on coal solid fuels* to mobilise domestic revenue. The introduction of this tax may also discourage the use of this energy source.

* Coal solid fuels consist of coke and semi-coke of coal, of lignite or of peat, whether or not agglomerated of HS Code 2704. Coal on the other hand consists of briquettes, ovoids and similar solid fuels manufactured from coal.

Entertainment industry

To drive investment in the entertainment industry and create employment opportunities, the Hon. Minister proposes to suspend customs duty on specified media, film and music equipment for a period of three years.

There is a need to attract more investment in the entertainment industry as one of the key sectors in creating employment opportunities for the youth.

Considering the future of this entertainment industry, the proposed change is an encouraging for industry players.

Indirect Taxes – Customs and Excise Duty

"Sin" tax

The Hon. Minister proposes to increase specific excise duty on: non-alcoholic beverages from 30 ngwee to 60 ngwee per litre; on tobacco and tobacco products from K361 to K400 per mille.

Calculation of excise duty on certain beverages

The Hon. Minister proposes to determine the value of spirits, liqueurs and other spirituous beverages on the basis of market price as opposed to the value of inputs at the time of importation.

Calculating excise duty on market prices, which are usually higher than input costs, may increase the exercisable base. This could lead to increased revenue collection from the sale of spirits and spirituous beverages.

Producers may struggle to predict excise duty obligations due to market price fluctuations due to demand, branding, marketing and other factors.

This measure could simplify tax administration and boost revenue but it could also change industry competition, pricing, and consumer behaviour. To achieve desired outcomes and avoid unintended consequences, proper implementation and clear guidelines will be necessary.

Housekeeping measures

The Hon. Minister proposes to introduce the following housekeeping measures to remove ambiguities and enhance tax administration:

- To reduce the time limit for goods to stay under bond from 15 days to 5 days;
- Introduce the requirement for a bond guarantee or security deposit on exports from a bonded warehouse;
- Bonded warehouse licence renewal to be made at least 90 days before the end of the financial year;
- Importation of alcohol with alcoholic content of above 80% to be done by licenced manufacturers or other users approved by the Commissioner-General;
- Introduce conditions for the Commissioner-General to remit irrecoverable debt; and
- Introducing the time limit to pay the customs agent licence fees (i.e. within three months of receiving the approval.

Housekeeping Measures - Other

Introduction of a levy on person-to-person mobile money transfers

The Hon. Minister proposes to introduce a levy of between K0.08 and K1.80 on the transaction value for person-to-person mobile money transfers.

The following is the proposed fee structure:

Amount range (K)	Proposed levy (K)
Between 1 to 150	0.08
Above 150 to 300	0.10
Above 300 to 500	0.20
Above 500 to 1,000	0.50
Above 1,000 to 3,000	0.80
Above 3,000 to 5,000	1.00
Above 5,000 to 10,000	1.50
Above 10,000	1.80

As noted in the National Budget, the value of mobile payments grew by 38% to K199.5 billion while the volume of transactions grew by 7.1% to 976.4 million in the first half of the year.

This suggests a desire to capitalise on mobile money usage, potentially generating government revenue. The measure reflects a trend of regulatory scrutiny on digital transactions and could have implications for mobile money consumers and providers.

This measures also underscores Government's intention to rebalance that the tax systems to one that is more dependant on indirect taxes (taxes on expenditure) rather than direct taxes (taxes on income).

Introduction of a whistleblower reward

The Hon. Minister proposes to amend the Zambia Revenue Authority Act in order to implement a reward system for whistleblowers.

Tax evaders may be deterred by the possibility of being reported by any member of society, resulting in a higher level of compliance among taxpayers.

The potential effectiveness of a whistleblower reward system in combating tax evasion depends on the complexities of its design, implementation, and safeguards against misuse.

Housekeeping Measures - Other

Exemption of the ZRA from the provisions of the Data Protection Act No. 3 of 2021.

The Hon. Minister proposes for the ZRA to be exempt from the provisions of the Data Protection Act No. 3 of 2021.

The Data Protection Act 2021 was enacted to provide an effective system for the use and protection of personal data; regulate the collection, use, transmission, storage and otherwise processing of personal data amongst other things.

The ZRA)being granted exemption from the Data Protection Act is intended to improve tax compliance, fraud detection, and revenue collection.

This exemption allows the ZRA to access data from third parties like the Bank of Zambia and the Zambia Information and Communication Technology Authority, facilitating system interfaces for tax compliance.

However, this exemption raises concerns about taxpayer rights, data privacy, and potential misuse of information. Balancing these objectives against the fundamental rights of taxpayers will be crucial, and robust safeguards and oversight mechanisms are needed to ensure the exemption is in line with taxpayer rights and data privacy.

Introduction of a provision to compel the taxpayer to pay the tax liability after imposition of a fine by the courts for tax evasion.

The proposed amendment seeks to clarify that upon conviction by the court the taxpayer is required to pay the tax liability on evaded taxes in addition to the fine imposed by the courts,

Further, where there is a reason for goods to be forfeited, such goods should also be forfeited to the State.

Introduction of a provision to allow a tourism enterprise or tourism facility use a prescribed invoicing system to record all transactions relating to Tourism Levy and issue an invoice.

It is proposed that the Tourism Levy Act under Regulation 4 be amended to allow a tourism enterprise or tourism facility use a prescribed invoicing system to record all transactions relating to Tourism Levy and issue an invoice.

In line with the digitisation and transparency drive it appears this measure seeks to introduce a requirement for registered taxpayers in the tourism and hospitality sector that are captured within the scope of Tourism Levy to use the electronic invoicing system to issue tax invoices.

Sector analysis

04

Agriculture

Look back

The agriculture sector continues to be a key sector and plays a key role in unlocking Zambia's economic potential. Over the past years, crop and livestock production has generally been below potential. This has been due to a number of factors such as adverse effects of climate change, high cost of inputs, unaffordable finance, inadequate irrigation and other agricultural support infrastructure, poor livestock and crop management practices, as well as inadequate mechanisation.

Given the sector's significance to the Government's ambitions of economic growth and diversification, a number of stimulation measures were planned in the 2023 budget. According to a Ministerial Statement by the Minister of Agriculture on 16 March 2023, Nansanga, Luena, and Luswishi farm blocks have had some support towards infrastructure development that stood at about 85%, 40%, and 15%, respectively. The situation in the other farm blocks such as Mushindamo, Kalumwange, Manshya, Musokotwane, Chikumbilo, Shikabeta and Kalungwishi is not as developed; only land identification and consent from the chiefs has taken place.

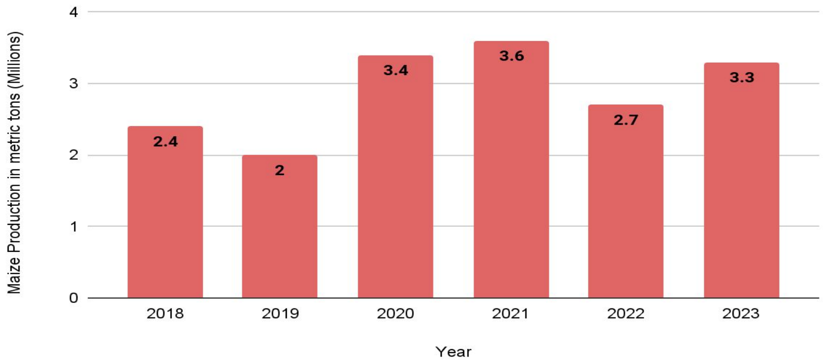
Historically the primary challenge faced around the development of farm blocks has been failure to attract credible investors due to lack of infrastructure and an unorganised public support service.

During the 2022/2023 farming season, 1.02 million farmers were provided with the farming inputs under FISP. However, the maize supply was under immense pressure due to regional and global supply deficit arising from factors such as climate change. The Government during the 2022/2023 farming season also increased the floor price of the staple food from K180 to K280 to stimulate more production of the staple food. The main project slated for 2023 yet to be actioned is the construction of the sixteen of the forty dams across the country and actualisation of the Chiansi Irrigation Scheme in Kafue District.

With regards to the performance of the crop season in current year, maize production increased by 22% from 2.7 million tons recorded during the 2021/2022 to 3.3 million. Crop production, namely, maize,soya beans and mixed beans increased from the previous farming period with the main reasons for the increase being attributed to the increase in the number of small scale farmers from, who increased from 1.8 million in 2021/2022 farming season to 2.5 million in the 2022/2023 farming season.

The Government realised a cost saving of US$153m in 2022/2023 farming season under the FISP on account improved procurement mechanisms including local production and supply.

Maize production analysis



(Source: ministerial statement on the farmer input support programme status of the 2022/2023 farming season)

Agriculture

Building on

As one of the key contributors to the country's GDP, the agriculture sector's GDP contribution has been been on a decline since 2020 reducing by an average of 10% each year. In its bid to stimulate the of growth of the sector, the Government is proposing to implement the following measures in the three main sub-sectors:

Crop agriculture

- Launch of the Comprehensive Agriculture Transformation Support Programme as part of the FISP reform programme to include extension services;
- Increase accessibility within farm blocks that were planned in the 2023 budget. The Government will, in 2024, construct 300 kilometres of roads and 10 bridges in Nansanga, Luena and Shikabeta farm blocks;
- Construction of 200 kilometres of powerlines in Luena, Luswishi and Shikabeta farm blocks to facilitate the installation of power to farms; and
- Continued implementation of smart agricultural technologies such as conservation agriculture, water harvesting, adaptive research, on-farm research programmes, agricultural insurance, as well as early warning systems in collaboration with Cooperating Partners.

Livestock

- Improving animal health, animal identification and traceability as well as livestock breeding programme through development of an online system which is being piloted in Central, Lusaka, Northwestern, Southern, and Western Provinces. It is expected that five million cattle will be captured by December 2024;
- Enhancement of the disease surveillance and response system by making the regional veterinary laboratories operational; and
- Implementation of a community-based livestock breeding programme through a pass-on scheme to support livestock farmers with high quality breeding stock.

Fisheries

- Promoting the establishment of fish hatcheries.In 2024, the Government will establish 3 hatcheries in 3 aquaculture parks in Kasempa, Mushindamo and Samfya Districts in addition to the 18 hatcheries already established. This is expected to increase fingerling production from the current 302 million to 433.4 million; and
- Promoting sustainable capture fisheries through enforcement of fishing ban and enhanced surveillance of our water bodies.

Other measures

- Establishment of an agriculture credit window to support small scale farmers; and
- Release of maize stocks held by FRA to communities to lessen the impact of high mealie meal prices.

Our view

The 2024 budget shows that the Government continues to make heavy investments in agriculture. In current year, the allocation to this sector has increased by 23% (K2.6 billion) from K11.2 billion to K13.8 billion.

It is encouraging to see that the Government recognises the importance of incorporating technology in this sector. The plan to enhance smart agriculture is commendable as this is part of the solution to addressing challenges associated with climate change. The sector remains heavily reliant on rain, leaving the crop yields dependant on the changes that come with climate change such as drought or floods. The likelihood of the occurrence of an El Niño event later this year may negatively impact agricultural output.

The infrastructure plans around the farmings blocks should go a long way in attracting the investment required for the development of the farm blocks, and actualising the 2023/24 budget plans.

The plans around the livestock and fisheries sub sectors would go a long way in expanding the ability of this sector to contribute to the country's economic development if robust follow-through is ensured.

Finally access to cheap capital continues to be a challenge and the benefits of the credit window, which will offer public sector participants and access to funding at concessional rates, facilitating their engagement in agriculture and contributing to the nation's agricultural output, is yet to be seen. In the short term however, it is anticipated that the measures planned around the releases of FRA stocks to communities and millers will reduce the cost of mealie meal.

Mining

Look back

Whilst the mining sector accounted for only 12.9% of the country's Nominal GDP in 2022, the sector remains the largest contributor to the country's tax revenues and national export earnings. As of the end of August 2023, the sector contributed over K22.3 billion in total tax revenues generated, representing 30.41% of total tax revenues (*source: Ministry of Finance and National Planning - Economic Developments publication*). In addition, copper exports accounted for more than 70% of the total export earnings during the same period.

Despite the country's annual copper production standing at 763,300 metric tonnes in 2022 from 804,000 recorded in 2021, representing decrease of 5%, the Government remains committed to increase production levels to 3 million metric tonnes by 2032. Interventions aimed at maximising the mining sector's contribution to the economy included the following:

- The Government committed to resolving the challenges at Konkola Copper Mine (KCM) and the Mopani Copper Mine. As at September 2023, Government resolved the ownership challenges at KCM, having handed back the mine to Vedanta Resources, with specific terms agreed upon.

- In 2022, the Government through the conducive and predictable policy environment, unlocked the landmark investment of US$1.35 billion for the enterprise Nickel Project in Kalumbila district and expansion at Kansanshi mine in Solwezi district. As at June 2023, the enterprise Nickel Project had commenced production. Furthemore KoBold Metals earmarked to spend US$150 million on exploration at the Mingomba project on the Copperbelt; with a focus on copper and cobalt.

- Investments in new mines such as Kashime, Mwekera (Macro link) and Kitumba (Intrepid) Copper Mines were expected to bring on board an additional 50,000 metric tonnes over the medium term. As at September 2023, the stated mining investments had not yet commenced production.

- Mineral diversification policy - the Hon. Minister stated that preliminary surveys were conducted for lithium in Mapatizya and sugilite in Chembe,

- Government introduced an incremental approach for the determination of mineral royalty. The measure was intended to eventually increase the overall tax collection as a function of total copper earning, but the reverse seem to have happened in 2023. For the first half of 2023, Mineral royalties tax collections totalled K3.7 billion, representing 6% of total national copper export earnings which stood at US$3.4 billion (approx- K64.8 million); compared to first half of 2022, mineral royalties tax collections totalled K6.2 billion, representing 8% of total national copper export earnings which stood at US$4.4 billion (approx - K76.8 billion). (*source: Ministry of Finance and National Planning - Mid year economic report publications*). This represent a 2% drop in mineral royalty tax collection, caused mainly by lower average copper price between the 2 periods representing a 11.3% drop, with January to June 2023 average copper price been US$8,648 against US$9,754 over the same period of 2022.

- Government continued to encourage the formation of cooperatives among artisanal and small-scale miners as well as facilitate access to support services to enhance their productivity and value addition.

Mining

Building on

The Government will continue promoting mining of traditional and non traditional minerals. To achieve this, the Government's 2024 actions and beyond, would include:

- **Continued stability in the sector**

  The Government has projected to attract more investors in the mining sector due to the attractive tax policy regime; building on an increase in investments in the sector from US$1.7 billion in 2022 to US$3.4 billion in 2023.

  Furthermore, in the bid to achieve the target of 3 million metric tonnes by 2032, in 2024 and beyond, the sector is expected to boost production following the resolution of the ownership and financing challenges with Konkola Copper Mine, and conclusion of Mopani Copper Mine equity partner selection, coupled with possible onboarding of new mines.

- **Mineral exploration and regulation**

  Undertaking of high resolution country wide geophysical surveys and aerial surveys in Copperbelt, Lusaka, North-Western, Southern, Western and parts of Central province to enable accurate data on the country's mineral endowment. K160 million has been allocated towards geological mapping aimed at supporting exploration and investments.

  Establish a minerals regulation commission to address, among others, issues pertaining to production reporting, mineral content analysis, illegal mining and illicit trade of minerals.

- **Mineral beneficiation and value addition**

  In the medium term, Government intends to formalise and reorganise artisanal and small-scale mining cooperatives, to increase participation of the local citizens in the mining sector.

Increase in investments from US$1.7 billion (2022) to US$3.4 billion (2023)

K160m allocated for geological mapping

Mining

Our view

Whilst it is noted that copper production has reduced due to operational challenges faced by the mining companies, Government is commended for enhanced investor confidence in the sector as seen from the increase in the committed investments which have doubled from US$1.7 billion in 2022 to US$3.4 billion in 2023; this is expected to spur production towards the target of 3 million tonnes, if such investments get fully implemented to full commercial production by 2032. New 8 similar sized of FQM Sentinel mine at 300,000 tonnes per annum will be required to get to the 3 million target (source:https://www.first-quantum.com)

With headway made on KCM to re-engage Vedanta Resources as the main shareholder, and eminent conclusion of Mopani Equity partner, it will be key for Government to ensure that all terms are agreed and implemented within reasonable time, to ensure that the 2 mines are back in operation at full production capacity. Based on the current processing capacity, the 2 mines once back to full production capacity, can add to the national copper production, a combined copper production of 520,000 tonnes per annum (source: https://mopani.com.zm/ - future, http://kcm.co.zm/our-operations/mining-process/)

To achieve the increased production targets, it is important that other elements of the mining value chain receive investment. These include: level of exploration, mining processing capacity as well as level of in-country electricity capacity.

Lastly, there is need for Government to intensify efforts to attain mineral geological mapping exercise to more than 80% National coverage (currently at not more than 55% as at December 2021), by putting in place targeted investor incentives for exploration activities and publicly sharing such results; key to this include the making public, current exploration data which informed the target of the 3 million metric tonnes of copper production. Furthermore, given the lengthy period it takes to set up a copper mine in Zambia, which according to *S&P Global report - "discovery to production"* can span an average of 14 years from exploration stage to full production, the geological mapping exercise has to be completed fairly swiftly.

Average period of 14 years from exploration to full production stage

Energy

Electricity

Look back

In its continued efforts to improve access to electricity for the country, the Government increased allocation to the Rural Electrification Programme from K362.2 million in 2022 to K743.6 million in 2023. As at 30 September 2023, Government, through the Rural Electrification Authority had embarked on 62 Grid-Tied Electrification Projects and 19 Solar Mini-Grid Projects.

To improve the energy mix in the medium term, the Government planned to engage Maamba Collieries to increase thermal power generation capacity from 300 MW to 600 MW. As at 30 September 2023, the Government had facilitated the conclusion of the debt settlement between Maamba and ZESCO of which ZESCO would sette over US$400 million to Maamba by 31 August 2023.

Regarding the Government's non-support of the CoSS study recommendation which places a heavier tariff burden on residential customers, the Board of directors of ZESCO in February 2023 approved the multi-year tariff adjustment framework which reduced tariffs for low income households from 47 ngwee to 40 ngwee/kWh. This is consistent with the Government's aspiration to make electricity accessible to all Zambians.

(Source:ERB Press statement- Board decision on ZESCO's application to adjust electricity tariffs for retail customers for the period 2023 to 2027)

Building on

To enhance growth in the energy sector, the Government is implementing measures to increase electricity generation capacity which currently stands at 3,790 megawatts as at August 2023, through provision of incentives to attract investment in power generation. The Government proposes the following incentives:

- increase the period in which a business can claim a refund on VAT incurred on eligible goods before the commencement of commercial operations, for hydroelectricity generation, to 7 years from the current 4 years, to allow for sufficient time for the investment to materialise; and
- remove customs duty on machinery, equipment and other goods designed for geothermal energy activities.

To ensure remote areas have increased access to electricity, the Government is also promoting the use of alternative green and renewable energy sources to make the energy sector more resilient and supportive of industrialisation and continued investment in rural electrification initiatives.

In addition, to improve access to regional power markets, the Government will continue to implement the cost reflective pricing based on the multi - year tariff adjustment framework and accelerate the integration of transmission projects.

Furthermore, to enhance efficiency and attract investment in the sector, the Government intends to establish and operationalise a one stop shop that will facilitate the coordination of all institutions involved in the permitting and licensing process in the development of energy projects.

(Source: 2024 Budget speech and 2024 -2026 medium term budget plan Green paper)

Our View

With hydro electricity continuing to account for more than 80% of the national power generation capacity and the warning from the Ministry of Green Economy and Environment that El-nino has started, stakeholders are encouraged to adopt energy-efficient practices throughout this period to guarantee stability. This may be accomplished by putting in place policies that encourage predictability and hastening the development of renewable energy programmes at the governmental, commercial and industrial sector level, and households. Furthermore, It may also be critical to alter the calendar for agricultural production, embracing numerous green agricultural activities, and to explore ecologically friendly mining operations via greater efficiency and the generation of less waste.

Despite a 12% increase in national electricity usage since the last El Niño event in 2015/16, Zambia's power generation has increased by 37%, which signifies that the country is now able to produce more power

Energy

Petroleum

Look Back

The Government had announced plans to transform the Tanzania-Zambia Mafuta (TAZAMA) 1,710 Km pipeline from being a petroleum feedstock carrier to a low sulphur diesel carrier. As at September 2023, the transformation of the Tazama pipeline had been completed and this had resulted in reduced pump price of diesel by about 19%.

Furthermore, in 2023, the Government completed the move to remodel Indeni Petroleum Company Limited, for which the Company will now be able to blend diesel with ethanol which is produced from local sugar cane, maize and cassava. This will not only reduce the price of fuel but also create a better price for Industrial cassava and maize for the peasant farmers.

Building on

In a bid to promote oil and gas exploration, the Government has proposed to remove customs duty on machinery, equipment and other goods designed for petroleum exploration.

To ensure wider participation and enhanced competition in the supply of petroleum products, the Government has developed regulations to enable players in the sector to have third party access to the TAZAMA Pipeline. The Government is also calling for the private sector to take advantage of the open access to the pipeline and participate in the supply of petroleum products.

Our view

Zambia has been experiencing high fuel prices in the last two years mainly due to the general increase in international oil prices and depreciation of the kwacha against the United States Dollars . In September 2023, the average prices of petrol, diesel and kerosene increased by 3.89%, 6.36% and 7.21% respectively. These movements are mainly attributed to the declining global oil inventories following the extended oil production cuts by the Organisation for the petroleum exporting countries (OPEC) and its alliance,coupled with the implementation of a voluntary export cut of diesel and petrol by Russia. Further, the Kwacha depreciated against the United States Dollars by 7.21% between August 2023 and September 2023. The depreciation of the kwacha is attributed to heightened demand for foreign exchange against a low supply.

The cost of refined oil/crude accounts for about 80% of the cost components of the fuel pump price. To reduce the price of fuel in the short to medium term , Government should look for other cheaper sources of refined fuel, with Angola been a prospect for this, given its fuel been the cheapest in the region . Government should also continue promoting oil and gas exploration to be able to extract oil locally and reduce the price of fuel in the long term .

Manufacturing and international trade

Look back

Zambia's vision is to secure the future of the manufacturing sector and meet national aspirations such as increasing the contribution of general manufacturing to GDP to 36.12% and manufacturing exports as a share of merchandise exports to 71% by the year 2030.

The manufacturing sector has continued to record steady progress, as evidenced by the 4.7% growth rate in 2022; with a target to get to 5% by 2026.

The Government has continued to promote the multi-facility economic zones as a means of broadening the country's industrial and manufacturing base. To this end, the Lusaka South Multi-facility Economic Zone (MFEZ) is one of the successful initiatives, having attracted 52 companies with a total investment value of US$864.5 million, out of which 30 are local companies. However, the US$50,000 threshold required to operate in an MFEZ, or industrial yard still remains a barrier to entry for potential Zambian investors.

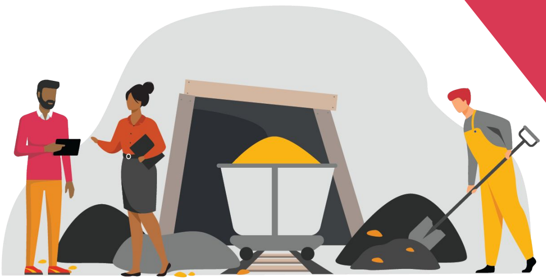
A joint monitoring exercise by the Zambia Development Agency (ZDA) and the Ministry of Finance and National Planning, of a sample of companies which had been granted fiscal incentives highlighted poor infrastructure, with electricity provision, limited road access as the key challenges to their activity. Other issues highlighted were land ownership within MFEZs/IPs, delays in getting VAT refunds, and access to finance.

(source, IMF Country Report No. 23/257, July 2023)

Building on

Whereas the current tax incentives in the MFEZs are acceptable, the zones still suffer from other inadequacies which reduce their attractiveness. To address the weaknesses, the following measures will be introduced by the end of first quarter of 2024:

- land rates levied by Local Authorities will be harmonised and reduced;
- In the MFEZs, an enterprise will automatically be granted a quota for expatriate employees, at whatever level, whose ratio will be based on the total number of jobs created;
- Extend the 2% local content allowance on income earned from value addition to sorghum and millet;
- Increase company income tax relief to 20% from 14.2% of the taxable profits for the first five years of operation for businesses in rural areas.
- Provide for the allowance of losses of up to 1% on cut rug (shredded tobacco) in the production of cigarettes;
- Remove customs duty on importation of motorcycles and tricycles imported in complete knock down form for companies that assemble and source at least 5% inputs locally;
- Introduce, remove and increase selected Goods Surtax on some products;
- Increase the customs duty rate to 25% from 15% on electrical panels; and
- Reduce excise duty rate by 50% on locally produced clear beer for small and medium manufacturers that produce less than 500,000 litres per annum.



Manufacturing and international trade

Our view

Zambia's manufacturing sector remains a necessary means of promoting strong backward and forward linkages with other sectors, such as agriculture and mining, which are catalysts for sustainable economic growth. Manufacturing can contribute more to economic transformation and job creation with enhanced support. The 8NDP indicated a target of an annual growth rate of at least 5% for the manufacturing sector over the plan period and from the growth attained in 2022 (4.7%), it can be seen that the Government is on track.

However, the increase in fuel pump prices during the year has had a negative impact on manufacturers as it has led to increased production and transportation costs. And to remain competitive against imported products, manufacturers are unable to hike their prices but rather just settle for lower profits. It can also be noted that export earnings declined by 11.6% to US$5.3 billion. This was largely due to reduced copper export earnings on account of lower export volumes and prices.

Government should continue being deliberate in creating relationships with developed countries such China to encourage investments. It is also vital to keep drawing lessons from other countries that have managed to successfully overcome significant challenges, including war and economic instability, to achieve progress and stability. While every country is unique and faces its own set of circumstances, there are some general principles and strategies that can be applied to promote stability and economic development.

Transport and Logistics

Look back

The transport sector continues to be a key part in driving economic growth; facilitating trade for goods and services, including the movement of people. In this regard, the Government had prioritised the development and maintenance of the the transport and logistics infrastructure.

The Government committed to continue to prioritise Public Private Partnerships (PPPs) by encouraging the private sector to take the lead in funding road projects and infrastructure with good traffic volumes. As at 30 September 2023, the upgrading and rehabilitation of the Lusaka-Ndola road to a dual carriageway and Chingola- Kasumbalesa road had commenced while the concession agreement for the Lumwana-Kambimba road has been signed. Furthermore, negotiations for the Ndola-Sakania-Mufulira and Mufulira-Mokambo roads will be concluded before the end of October this year.

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1,000 km of feeder roads to be rehabilitated in 2024

The Government planned to rehabilitate and maintain rural roads across the country to improve access to communities. In the medium term, the Government targeted to construct, maintain and rehabilitate 4,300 kilometres of feeder roads across the country. So far, 1,700 kilometres of feeder roads have been rehabilitated and routine maintenance is being undertaken.

The Government’s policies including lifting of visa requirements in key tourist markets as well as opening of new routes such as Lusaka–Maputo and Lusaka–Cape Town spurred growth in the aviation sector. As at 31 August 2023, about 1.3 million passengers were recorded, a recovery of 106 percent from the pre-Covid-19 period at 31 August 2019. On the domestic front, traffic has recovered and exceeded the pre-Covid19 level by 33 percent in the air transport sub sector. Furthermore, upgrading and rehabilitation of Kasama Airport has been completed in 2023.

Building on

Several road projects under the PPP model are in the pipeline to improve connectivity with the Democratic Republic of the Congo and relieve congestion at specific borders. In 2024, the Government aims to roll out five road projects under the PPP model.

As the Government continues to target rehabilitation and maintenance of 4,300 kilometers of rural roads across the country, 500 kilometres of these roads will be rehabilitated in 2024. Additionally, another 700 kilometres of feeder roads will be constructed by the Zambia National Service and the Ministry of Local Government and Rural Development.

Furthermore, the Government will rehabilitate and upgrade trunk and district roads including Chipata-Lundazi, Mansa-Nchelenge, Monze-Niko, Mpika-Chinsali and Tateyoyo-Katunda roads.

Transport and Logistics

Building on (continued)

Through the Constituency Development Fund, many constituencies have procured road construction equipment, and this will aid in the rehabilitation of an extra 1,000 kilometres of feeder roads in 2024.

To improve efficiency at the borders, the Government will introduce electronic data exchange for customs, make pre-clearance of goods mandatory, introduce a Single Payment Point for fee collection, and extend the operating hours at specific border posts.

In the air transport sub sector, the Government plans to commence the construction of airports at Kasaba Bay, Chinsali and Choma.

In the railway transport sector, the commitment to revamp the railway line that connects Zambia and Tanzania, is yet to bear much fruit. To encourage the use of rail,, government has proposed the removal of customs duty on the importation of rolling stock such as wagons and locomotives,

Our View

It is commendable that the Government has continued to pursue collaboration with the private sector through the PPP vehicle. It is important that they adopt strategic PPP policy choices that support a robust PPP framework to spur growth in the sector.

The Government can learn from other successful PPP models in Africa, such as in the Kigali Bulk Water project in Rwanda (a PPP between the government of Rwanda and the Kigali Water Limited) in which a 25-year concession agreement was signed to provide water to Kigali Special Economic Zone.

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While it is important to note that PPPs present a lot of opportunities, it is important for the Government to continuously address the numerous challenges faced in actualising them. Through the upcoming amendments to the PPP Act, the hope is that the Government will address the regulatory inadequacies identified in it. Furthermore, it is key to ensure that the PPP agreements allow for regular review of the terms and conditions to ensure that they are favourable to both parties.

The Government's efforts to accelerate the completion of the Kasama and Mbala airports again through PPP, will further open up the northern region of Zambia to trade and tourism not only locally but also internationally. Existing airport infrastructure such as that at Kenneth Kaunda and Simon Mwansa Kapwepwe International is part of the vision to make Zambia a regional hub.

> “Amendments to the PPP Act upcoming

Tourism

Look back

The tourism sector in Zambia has seen a commendable rebound in recent years after the effects of the COVID-19 outbreak. Globally, the pandemic significantly impacted tourism, causing a 50% drop in its contribution to the World's GDP in 2020 (World Bank, 2022). Zambia also experienced a downturn, with its tourism contracting by 23.7% in 2020 primarily due to supply chain disruptions and travel restrictions. This downturn negatively affected government revenue and employment rates in the sector.

Post COVID-19 pandemic, the Government has implemented several measures which have aided the sector's recovery and this includes streamlining the sector with the introduction in 2023 of 26 services on the Government Service Bus which include licenses such as Bird Hunting, Casino, and Professional Hunting among others. Furthermore, import duties were suspended on selected fixtures and fittings, capital equipment, machinery and safari gaming vehicles up to 31 December 2025.

A pivotal move that led to immediate success was the waiver of tourist Visa requirements for visitors from a host of countries, including the UK, USA, Canada,China and parts of the European Union, effective from 1 October 2022. This saw a surge in international tourist arrivals with the first half 2023 registering a 22% increase in international tourists to 605,650 compared to 496,456 in the same period in 2022.

"Tourism budget allocation doubled from K366 million to K769 million

Building on

The tourism budget allocation has more than doubled from K366 million to K769 million representing 0.43% of the total budget up from 0.22% in the previous budget indicating increased Government commitment to uplift the sector. Such a shift suggests Government's recognition that investing in tourism could potentially lead to the sector contributing significantly to the country's economic growth.

Having secured a US$100 million loan from The World Bank in 2023, under the Green, Resilient, and Transformational Tourism Development Project, the focus is to use these funds in developing tourism facilitation infrastructure at Kasaba Bay, Liuwa National Park and the source of Zambezi river by improving accessibility and broadening the scope of tourism offerings.

To diversify tourism products and increase the length of stay of tourists, the Government plans to establish Eco-Tourism Centres across the country.To support this, reform measures that will stimulate improved wildlife conservation and management, sustainable tourism development and promotion, as well as cultural preservation and development will be undertaken.

The Government plans to continue promoting the hosting of meetings, international conferences and exhibitions (MICE) as another way of boosting tourism.

The Government further plans to refine the regulatory and licensing framework in the sector and this will involve reviewing current legislation to reduce the cost of doing business, paving way for a conducive business environment designed to attract transformative investments in the sector.

Our View

Overall, the Government's commitment to boost tourism in is commendable but there is still scope for further improvement. By prioritising sustainable practices, promoting cultural experiences, improving accessibility, and implementing effective marketing strategies, tourism in Zambia can reach its full potential and contribute significantly to the country's economy.

Comprehensive advertising, participation in travel fairs, and utilising social media can also help to push Zambia towards becoming a prime tourist destination.

It is essential that the funds that have been secured in the sector are appropriately used to achieve the intended purpose.

Decentralisation - CDF Focus

Understanding the evolution of CDF

The Constituency Development Fund (CDF or the “Fund”) was first established in 1995 with the aim of driving decentralization and community empowerment. It has been viewed as a key facilitator of the decentralization agenda and has since been better formalised through the enhancements of key CDF legislation, policies and guidelines since 2006.

1995

Establishment of CDF

The first appropriation and disbursement of this fund was done in 1995 by Parliament.The Fund was provided for under Section 45 of the Local Government Act Cap 281 of the Laws of Zambia.

2006

First CDF Guidelines

The purpose of the guidelines was to guide on the Management and Utilisation of the Fund.

2018

CDF Act Enacted

The Act provides for the management, disbursement, utilisation and accountability of the Fund

2022

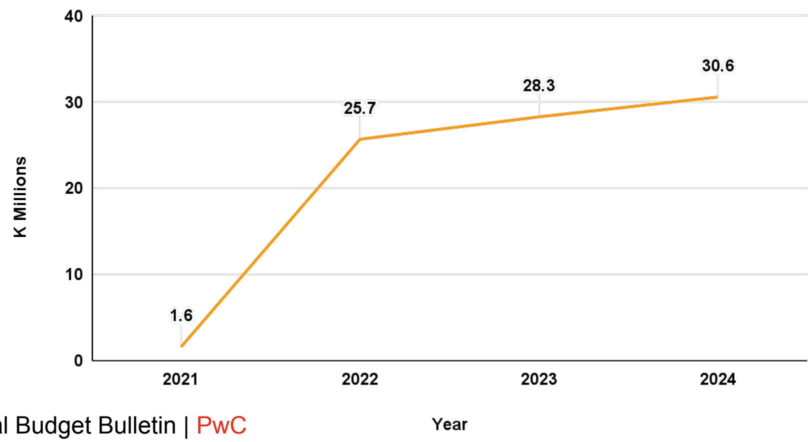
Second CDF Guidelines

Provided further guidance on the management, disbursement, utilisation and accountability of the Fund

CDF vs Budgeted Expenditure

CDF allocation has increased as a percentage of total national budgeted expenditure from 0.21% (2021) to 2.3% (2022) to 2.6% (2023) and 2.7% (2024). These increases, along with increases in the Constituency allocation underscore the importance that this program has in relation to the development and decentralisation agendas.

CDF Per Constituency (2021 to 2024) - K Millions



CDF allocations

Total CDF allocation has increased from ZMW 250 million in 2021 to ZMW 4 billion in 2022 (1,503% increase) to ZMW 4.4 billion in 2023 (10% increase) and ZMW 4.8 billion in 2024 (9% increase).

This increases have translated into increases CDF allocations per constituency.

CDF Focus

Looking back

In his 2023 budget address, The Hon. Minister announced that at the time of his address, a total of K3 billion (75%) of the allocated funds was released. He further stated that less than 10% was utilised as at end of September 2022. This challenge was attributed to the following reasons:

1. Highly centralised approval processes required under the law
2. Cumbersome procurement procedures
3. Limited capacity in project preparation

The following proposed measures were announced to address the highlighted challenges:

i) Amendment of the CDF Act to streamline the approval process and give more decision making powers to the local communities
ii) Simplification of guidelines relating to the management of CDF budget
iii) Undertaking Capacity building and awareness in communities.

Building on

The Hon. Minister has announced the following measures in the 2024 budget aimed at ensuring the efficient utilization of the CDF:

1. Delegating the authority to approve projects to the Provincial Administration from the Ministry of Local Government and Rural Development
2. Delegation treasury authority to Principal Officers in Local Authorities
3. The review of the CDF Act, 2018 and Public Procurement Act, 2020.

It is unclear what strides have been made regarding the improvement measures proposed in the 2023 address and progress made relating to the disbursements and utilisation of the CDF in 2023 due to the lack of publicly available information.

Building on (continued)

Other measures to support decentralisation

Implementation of the Zambia Devolution Support Program (ZDSP)
The ZDSP is a program with targeted implementation from July 2022 to June 2028; focused on strengthening the financing, institutional performance and accountability of local government agencies.

This program has an overall resource envelope of US$698 million of which US$210 Million will be funded by the World Bank.

The intended conversion of the Local Government Equalisation Fund (LGEF) into a recurrent grant in 2024 can be viewed as a key step in implementing the program. The intended conversion is purported to support the remuneration of councillors and give local authorities more power to make decisions.

Devolution in the medium term
Government targets to fully implement decentralisation by devolution in the medium term which commenced with Phase I of the devolution of eight functions under the Ministries of Transport and Logistics, Youth, Sport and Arts, Tourism, Home Affairs and Internal Security, Health, Fisheries and Livestock in accordance with Cabinet Circular No.2 of 2023.

The Hon. Minister in his address stated the Government's intentions to allocate matching financial resources for devolved functions to the local authorities in 2024 and commencement of preparatory work for the devolution of additional functions under phase II of the devolution in accordance with Cabinet Circular No.2 of 2023.

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LGEF has increased from K1.3 billion (2022 & 2023) to K1.5 billion (2024)

Decentralisation - CDF Focus

Our view

The potential of community development projects under the CDF
The significant increase in CDF allocations, 60% of which is allocated to community development funds has the potential to improve the capacity with regards to infrastructure projects.

Developing capacity at the local community level will therefore be key as it will create the potential for the devolution of the procurement and implementation of infrastructure projects from the central government to the local authorities.

The potential impact of such a devolution would be significant due to consistent increases in budget allocations to infrastructure projects relating to hospitals, clinics, schools roads, schools and universities.

Allocations in K' Millions	2022	2023	2024
Health Infrastructure	1,616	1,123	1,394
Road Infrastructure	4,929	5,156	8,337
School and University Infrastructure	694	871	1,585
Total allocation	**7,239**	**7,150**	**11,316**

CDF Empowerment funds, devolution of functions and provision of resources
The provision of empowerment grants and loans could potentially provide local Small to Medium Scale Enterprises (SMEs) who are eligible with much needed and affordable capital required to grow their businesses.

The devolution of functions to local authorities could potentially provide community based businesses to have access to growing local market driven by an increase in civil servants in the area and the provision of matching financial resources to the local authorities.

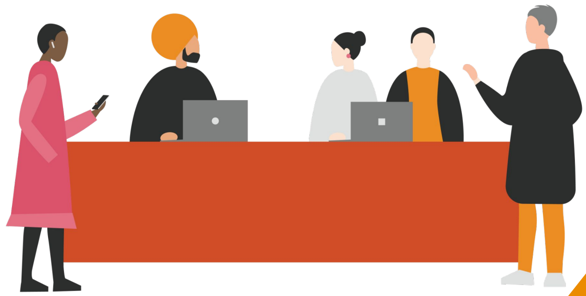
The combination of capital and a growing local market with the proper training and support to the business could lead to an increase in successful local SMEs.

Proposed measures
The current decentralization activities have the potential to increase the capacity of local authorities and SMEs which could ultimately lead resources being brought closer to the local communities.

However, the increased allocation of resources necessitates the need for effective supervision and access to information to ensure that these activities and initiatives achieve their intended objectives. It is therefore imperative that the following should be prioritised:

1. The development of a robust monitoring and evaluation process and the undertaking of a baseline assessment.
2. Implementation of reporting of the quarterly results of the CDF funds that can be easily accessed by the public to enhance accountability and transparency.

Capacity development will also be essential for beneficiaries of empowerment grants and loans. The development of a formalised entrepreneurship training or incubation program would add value for the beneficiaries.



Education

Look back

A well-educated population in both the private sector and the public sector is essential to stimulate economic growth and provide effective service delivery, respectively. Some key achievements of 2023 so far according to the UNICEF Zambia budget brief include:

Increased access to education

The Government extended the Education For All policy from primary education to early childhood education and secondary education. Under the Zambia Education Enhancement Project, the Government was able to complete construction of 69 schools out of a planned 120. The remaining 46 were delayed by the change in school designs and completion is targeted for 2025. In addition, 3,132 classrooms were built and 442,000 desks procured through the Constitutional Development Funds.

Teacher recruitment

In the 2023 budget, the Government planned to hire 4,500 new teachers. The Hon. Minister acknowledged that this has not been achieved but the process has commenced and was based on a decentralized, transparent and location-specific process that engaged all four tiers of the Ministry of Education – including the school, district, province and central Ministry of Education.

Building on

The Hon. Minister has continued to prioritise investment in education with 15.4% of the budget being allocated to this sector. Key initiatives remain around improving access to education through construction of an additional 202 secondary schools over the medium term and recruitment of 4,200 teachers and 1,200 non teaching staff. CDF will continue to be the primary funding mechanism for the achievement of some of these initiatives.

According to the UNICEF Zambia Budget bulletin for 2023, the teacher student ratio stood at 58:1 for the year 2020 and the planned recruitments will help in reducing that student teacher ratio to ensure that its close to the national policy target of 40:1.

The Hon. Minister proposed to increase the allocation to the higher education loans and scholarship board to K1.2 billion from K93.2 million in 2023.

Our view

The continued investment in education infrastructure and teacher reruitment will be important to achieve the SDG benchmarks the Government has committed towards.

Overall allocation to education has risen to 15.4% in 2024 from 13.9% in 2023 and 10.5% in 2022.
This is perhaps a good reflection of the redistribution of funding released by the debt restructuring into social sectors of the economy. However, the Government needs to respond to concerns around deterioration in key quality education statistics as well as strengthen the targeting and selection criteria of social protection programme beneficiaries.

“

K338 million towards abandoned schools

Health

Look back

Healthcare is critical to ensuring better lives for the population. The 8NDP which spells out medium term goals to achieve vision 2030, focuses on reducing inequalities to access quality health services and having adequate drugs. The cornerstone objective of the 2030 Sustainable Development agenda is to ensure the needs of people are met to sustain long healthy lives and promoting well-being for all at all ages. To ensure alignment with vision 2030 Government had in the medium term planned to focus on the following key areas: construction and completion of health infrastructure, reduce patient- health personnel ratio, provide adequate medical supplies, and reform the National Health Insurance scheme (NHIS). In this vein, the Government increased the sectors allocation to K17.4 billion from K12.42 billion in 2022 and achieved the following:

Infrastructure
To improve the access to healthcare facilities, the Government completed the construction of 12 out of the planned 16 mini hospitals and further, constructed 62 maternity annexes in an effort to reduce the maternal mortality rate to less than 100 per 100,000 live births by 2026 from a ratio of 252 per 100,000 live births in 2018 (Zambia Demographic and Health Surveys).

Health workforce
To combat the healthwork force deficit and improve the patient to healthcare ratio which stood at 1 to 12,000 for doctors and 1 to 14,960 for nurses compared to targets of 1 to 5,000 and 1 to 700 respectively (WHO,2020), the Government continued the recruitment drive with the planned recruitment of 3,000 health personnel expected to be completed by year end.

Medical supply management systems
The allocation for the purchase of drugs and medical supplies increased from K3.4 billion in 2022 to K4.6 billion in 2023 as planned. However, availability of essential medicines and medical supplies continued to be a challenge with a Q1 stock status of essential medicines and medical supplies of 42.2% (Ministry of Health) for public health supply country wide, well below the World Health Organisation (WHO) target of 70% availability. The establishment of the Drug Fund, a key strategic intervention is uncertain, which would have helped increase the availability of essential medicines and supplies in all health facilities. The fund was to be established under the Zambia Medicines and Medical Supplies Agency (ZAMMSA), to mobilise money for the procurement of medicines for health facilities countrywide.

42.2% stock status of essential medicines against WHO target of 70%

Health

Building on

The Government has made positive strides to improve the provision of quality health care services in key areas of health services delivery, and health systems strengthening. To reaffirm the Government's commitment to ensuring better lives for the population and improved access to quality healthcare in 2024, the Hon. Minister proposed to increase the sector allocation to K20.9 billion from K17.4 billion in the 2023 budget.

Infrastructure development will continue to be a key focus area to ensure the delivery of quality health services. The Government has set aside K1.39 billion to erect 30 maternity annexes and construct 135 mini hospitals. In an effort to fight the battle against cancer a major non-communicable disease, the Government will establish two cancer treatment centres (Livingstone and Ndola) to ensure patients can access the much needed services currently only being offered in Lusaka`s cancer diseases hospital (CDH).

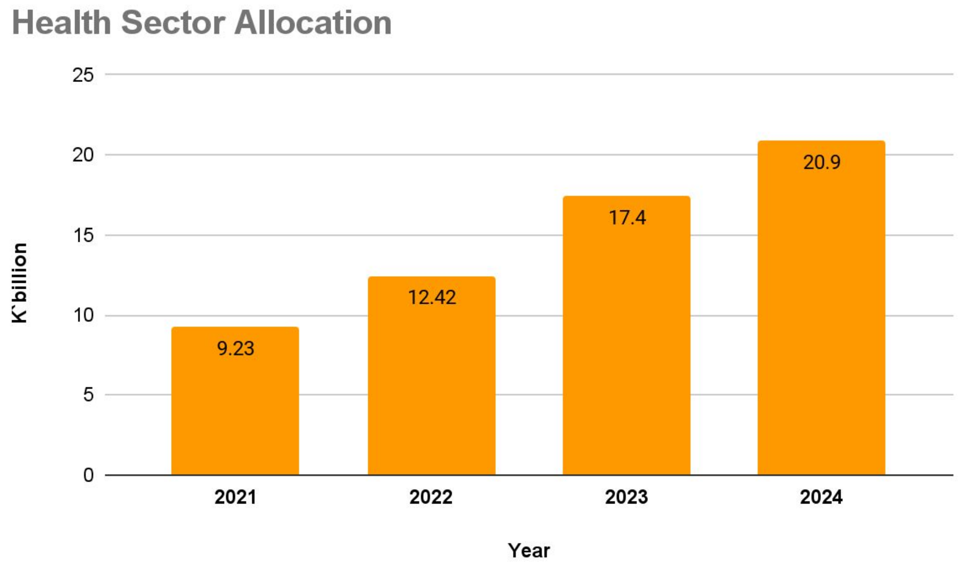
To ensure quality, accurate, timely, cost effective and appropriate diagnostic services at all levels of care by 2026, the Government will scale up the implementation of the Electronic Health Record system to 3,000 facilities in the next three years from the current 600.

The Government has committed to hire 4,000 health personnel in 2024 in order to strengthen its staff compliment and further lower the health care to patient ratio.

The Government has acknowledged the setbacks in the procurement of essential medicines and plans to address these issues by implementing a hybrid system that will combine the use of health center kits and bulk source supply systems to achieve this cause, and has allocated K4.9 billion for drugs and medical supplies, from K4.6 billion in the 2023 budget.

The Government is working with stakeholders to develop a strategy for local pharmaceutical manufacturing. This will encourage domestic pharmaceutical production, strengthen the country's supply chain, and reduce lead times.

> “ Implementing a hybrid system - the use of health center kits and bulk source supply systems



Health

Our view

The health sector is under great spotlight with the supply of essential medicines underpinning the key issues to be tackled; the 20.1% increased investment from prior year is welcomed. However like past budget cycles, the allocation fell short of the minimum investment of 15% of the total national budget to ensure alignment with the 2001 Abuja declaration being only 11.7% of the total budget.

The continuous commitment to infrastructure development is noteworthy as it will ensure citizens have improved availability and access to quality health services. However, there was no mention of the status of the planned completion of the 36 district hospitals and 83 health posts which were proposed in the prior year. The completion of these facilities is essential to the success of the overall sector as health posts and then district hospitals are primary health care (PHC) points at the community level.

The continued focus on human resources to expand the current workforce as in prior years is commendable. However this is a long journey and more still needs to be done to fill the void and reach the desired level of service provision; only 63,878 of a total establishment of 126,831 positions was filled as of 2021 *(2022-2026 National Health Strategic Plan,pg 90)*. The goal is to have 70% (88,782) filled by 2026. From the proposed additions, nurses and community health workers should be prioritised as they are critical to delivering primary health services at the community level.

The 2022 - 2026 National Health Sector Strategic plan is focused on repositioning the sector to deliver universal health coverage to the population through decentralisation of the health systems and services. By transferring the decision making authority and resources from central government to local authorities, this will ensure more efficient and effective health services. The Government is encouraged to relinquish decision making by transferring district health services function to local authorities while providing policy and strategic guidance to programmes to realise the efficiencies they seek in the health sector.

An effective procurement and supply chain is an important foundation for an effective disease control program. It ensures that key commodities, equipment and consumables reach implementation sites and beneficiaries in a timely and uninterrupted manner. However, it is complex and includes numerous complementary components and processes. Strengthening procurement and supply requires long-term investment and strategic direction due to the nature of the infrastructure, technical capacity and complex systems required to run an effective and efficient supply chain. The proposed hybrid supply chain announced in this year's budget iteration does little to address the current gaps and bottlenecks in supply of essential medicines. There is need for Government to improve its quantification, forecasting and supply planning of commodities as well as increasing coverage of its data systems for warehouse management and logistics (LMIS) which stood at just 45% *(The Global Fund grant to the Republic of Zambia audit report, November 2022)* to ensure accurate and quality data for forecasting and planning needs. Implementation of the planned drug fund would ensure availability of resources in both short and long term for future procurement while the proposed collaboration with local pharmaceutical manufacturers is a step in the right direction by reducing lead times and bolstering local supplies.

Strengthening the procurement and supply chain

Water and Sanitation

Look back

The Water, sanitation and Hygiene (WASH) budget has been on the decline in the last three years as a percentage of Zambia's GDP. The share of WASH budget declined by 0.4 % from 0.8% of GDP in 2021 to 0.4% of GDP in 2023. It also decreased by 42% in real terms and by 21% in per capita terms in the same period (UNICEF).

Access to improved sources of water and sanitation has remained low and this is attributed to low public investment in the sector. Only two-thirds of Zambians had access to basic water services, and about half had access to basic or limited sanitation in 2020 and these access rates have remained almost stagnant over a number of years (World Bank). This is an undesired trajectory in Zambia's quest to achieve universal access to safe and affordable WASH services by 2030.

Zambia's inefficient commercial water utilities (CUs) also create a financial burden on the country and make Government support for other areas in the sector more difficult. These inefficiencies have often resulted in subsidies to the CUs, thereby putting financial pressure on the Government.

Despite the funding challenges, the Government continued to implement water and sanitation projects in both urban and rural areas with 634 boreholes and 130 piped water schemes being constructed in the first half of 2023. The Government further continued the implementation of the Integrated Small Towns Water and Sanitation Projects in Luapula, Muchinga, Northern Province and Southern Province.

Furthermore, the Government commenced the construction of 16 multi-purpose dams mostly in water stressed prone areas. The dams are located in Central, Eastern, Luapula,Northern, Northwestern, and Southern Provinces.

Building on

The Government plans to continue implementing various large infrastructure projects in order to improve access to water and sanitation with following projects currently underway:

- Integrated Small Towns Water Supply and Sanitation Project
- Kafulafuta Water Supply Systems Project
- Kazungula Water Supply and Sanitation Project
- Nkana Water Supply and Sanitation Project under Phase II

In addition, the Government plans to implement the following water and sanitation projects in 2024:

- Construction of 1,374 boreholes and rehabilitation of 1,270 boreholes across the country.
- Construction of 38 dams across the country
- Rehabilitation of 6 dams in Eastern and Southern Provinces
- Connection of 6,000 households to sewer networks through utility companies in Chipata, Kalulushi, Kitwe, Lusaka, Mongu and Sesheke.
- Construction of 168 waterborne sanitation facilities in public places and institutions across the country.

Our view

The water and sanitation budget allocations have remained low with only 1.3% of the total budget being allocated to the sector in the current budget down from the 1.4% allocated last year. Considering the challenges the sector is facing and the significant investments that are required in order to meet the set goal of universal access to safe and affordable WASH services by 2030, the funding is insufficient. With the current funding levels, it will be difficult to achieve the goal of universal access to WASH services by 2030.

Social Protection

Look back

Poverty eradication as encompassed within social protection, and as a pivotal goal of the 2030 Agenda for Sustainable Development is a cardinal milestone to be met. The slow pace of eradication has been impacted by the multidimensional components surrounding it ranging from unemployment, social exclusion, and high vulnerability phenomena such as disease, climate change and poor healthcare systems which prevent productivity.

In order to safeguard the lives and livelihoods of the poor and vulnerable in Zambia, the Zambian Government has been working towards attaining the country's Vision 2030 which contemplates, 'a nation that promotes and provides sustainable security against deprivation and extreme vulnerability' speaking directly to the Sustainable Development Goal No.1: "No Poverty". In light of this, the Zambian Government increased budget allocations to Social Protection and Social Cash Transfer Programmes from K6.3 billion in 2022 to K8.1 billion in 2023 and K3.1 billion to K3.7 billion respectively, and further allocated K1.2 billion for Food Security Packs. Government continues to scale up and enhance social protection programmes with improved targeting and selection mechanisms through the provision of regular and predictable cash transfers. According to IMF Staff Country Reports, 2023(pp.256), the following steps are in the pipeline:

- the number of beneficiaries has increased to 1,100,998 households in 2023 from 1,027,000 households in 2022
- increase in the transfer value per household in 2023 to K400 bimonthly month from K200 in 2022.
- For households with a severely disabled member, the transfer value will be increased to K800 bimonthly month from K400
- The Public Sector Pension Fund received a transfer of K2 billion, ensuring it is now current on its obligations, while an annual transfer of K300 million for the next three years was agreed to resolve the arrears of the Local Authorities Pension Fund
- the Government has also cleared its contribution arrears to the National Pension Scheme (NPS) and in an effort to reduce the scheme's net liabilities, decided to liquidate the NPS' predecessor scheme, cashing out its remaining members
- the legal amendment permitting early withdrawal of 20 percent of past contributions, while undesirable from a pension policy perspective, is being implemented in a manner that ensures that NPS' net liabilities do not increase.
- increased the number of beneficiaries under the Food Security Pack Programme to 242,000 households in 2023 from 241,000 in 2022

Building on

Government has made commendable efforts towards poverty eradication and inherently, social protection. It's continuous efforts in upscaling social welfare are earmarked by the continuous expansion of the Social Cash Transfer (SCT) programme that aims at mitigating unintended consequences of shocks on vulnerable populations in 2024.

In an aim to achieve this, the Hon. Minister proposes to allocate K9.7 billion for social protection related expenditures of which K4.1 billion will cover the Social Cash Transfer Programme with an unchanged allocation Alongside is the proposed increase to the allocation to the Public Service

Pension Fund (PSPF) and Local Authorities Superannuation Fund (LASF) from K2.4 billion to K3.9 billion and from K300 million to K400 million respectively.
For the most vulnerable, Government promises to increase the allocation under the Public Welfare Assistance Scheme to cater for 40,000 beneficiaries from the current 16,000. Furthermore, Government targets to reach 129,400 Girls' beneficiaries in 81 districts under the Girls' Education and Women Empowerment and Livelihoods Project an increment from 116,891 in current beneficiaries 71 districts.
In addition to the aforementioned, Government will continue to empower women, youths and other vulnerable populations and providing bursaries to vulnerable learners through the Constituency Development Fund.

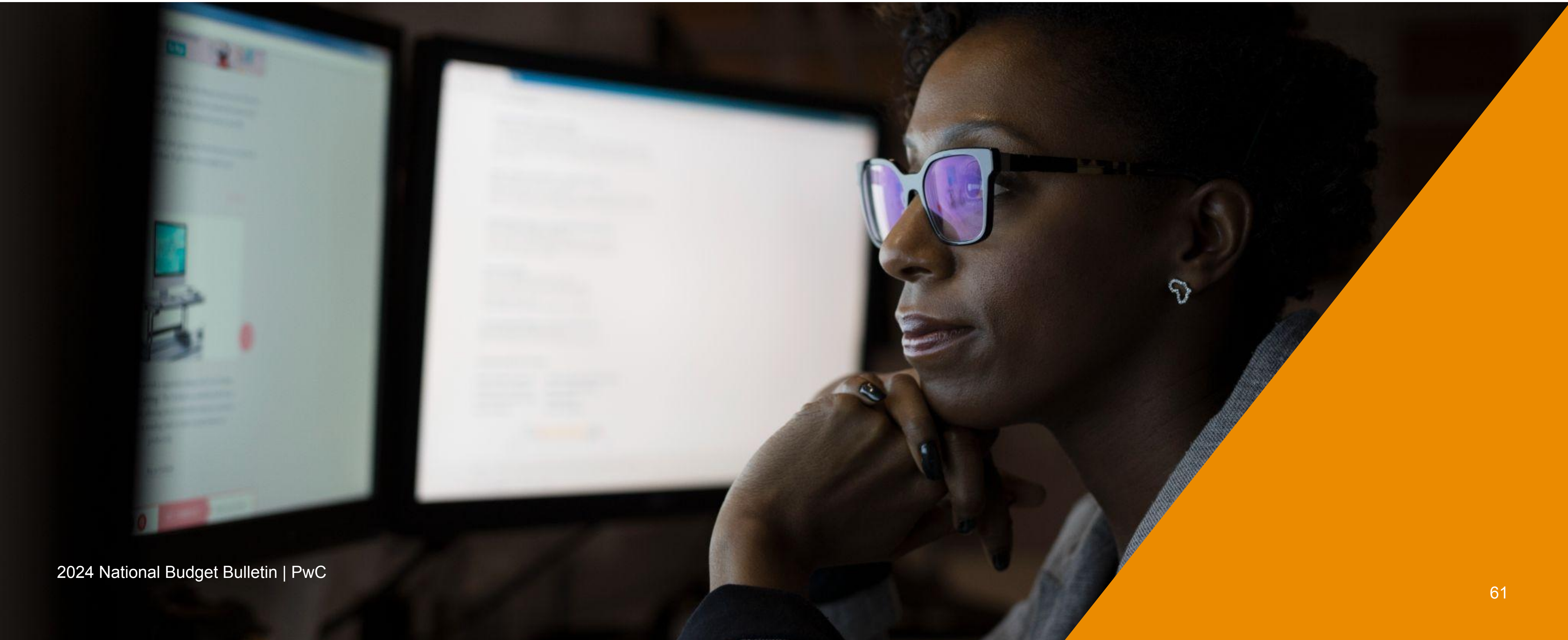
Social Protection

Our view

The upscaled budget allocations to social protection in an aim to mitigate unintended consequences resulting from the removal of subsidies, is an indication of the Government's commitment to social protection.

However, in order for a successful attainment of planned objectives, the Government needs to put measures in place that monitor and evaluate the resource utilisation ensuring that these are reaching the intended beneficiaries, at the right time and at the right amounts. Furthermore, the Government must look out for a dependency syndrome that may arise.

Despite the increased allocation to social welfare, it is worth noting that the Government has not taken into account the rise of the cost of living and inflation.



Technology and Science

Look back

In the 2023 budget, the Government prioritised Information and Communication Technology (ICT) to support digital transformation and innovation. Some of the achievements made in the year include:

- Increased investment in ICT infrastructure as evidenced by the private sector expansion of fiber networks and construction of 139 communication towers.
- Digitalization of government services by migrating public services to online Zamportal.
- Policy development evidenced by enactment of Cyber and Information Risk Management Guidelines and appointment of the Data Protection Commissioner.

Building on

The Hon. Minister has outlined the following key pronouncements in the sector.

- Implementation of the Integrated National Registration Information System (INRIS).
- Increased investments in ICT infrastructure by Constructing additional 169 communication towers in 2024 and increased investments in fibre connectivity.
- Migration of additional 102 public services to online platform ZamPortal.
- Construction of research institutions and five innovation hubs

Our view

The Government has continued to prioritise the investment in and promotion of ICT with improved connectivity infrastructure and digitisation of government services as some of the key benefits realised. As the Government plans to construct an additional 139 towers, it is important that the issue around who bears the running cost of ‘unprofitable’ sites is addressed.

The digitisation of key services, such as Agriculture, Manufacturing, Education, Health, and Taxation, have the potential to greatly enhance efficiency and reduce revenue loss. However, it is crucial for the Government to prioritize the implementation of the Integrated National Registration Information System (INRIS) as it has the potential to revolutionize Government service delivery.

The Hon. Minister has raised a valid concern regarding the low uptake of online public services. Perhaps there is a need for heightened public awareness campaigns.

Sustainability / Environmental, Social and Governance (ESG)

Look back

Like with all existential matters, sustainability requires " all hands on deck". All stakeholders have to be involved, be the Governments, Inter-governmental organisations, business, civil society organisations and individual citizens. As with most things, the Government's role includes the curation of the regulatory eco-system for environmental sustainability that would ensure that this is actualized to the fullest.

With this in mind, the New Dawn Government set the right tone by first making environmental sustainability one of the four pillars of their economic transformation agenda as articulated in the Government's 8NDP. They followed this up with the creation of the Ministry of Green Economy and Environment (MGEE), the first of its kind for Zambia, as well as ensuring that Zambia is heavily embedded in the climate change discourse in the sub-region, Africa and Globally. For example, Zambia was the Africa Chief Negotiator at COP for two years, which is not a small achievement. Over the last three years, the sustainability agenda has been steadily taking shape. It received attention in the President's Speech at the opening of parliament. In his Speech, the President reiterated the Government's commitment to the Global climate agenda and the prudent management of Zambia's environment and resources. As a demonstration of this, the President stated that the Government had developed the Nationally Determined Contribution (NDC) Implementation Framework.This framework, which covers a period of 2023 to 2030, is intended to fastrack national climate development priorities. It is intended to provide a coordinated approach to the implementation of actions by different sectors.

This is a key development that is likely to shape the direction and extent to which each sector of the economy is to embed sustainability.

Further, the Government has made pronouncements in the past that they will develop a Green Growth Strategy that is likely to be all - encompassing.

It should also be noted that the budgetary allocation to Environmental protection in the last 3 Budgets (2022-2024) has been increasing in absolute terms (maintained at 1% of the total expenditure).

In addition, the Government has over the last few years made pronouncements in other sectors such as Agriculture, Transport and Energy targeted at making contributions to the attainment of the sustainability agenda. These include programmes that are aimed at strengthening climate change adaptation and mitigation, and promoting sustainable environmental, ecosystems and natural resource management.

Some of the initiatives/achievements of Government with respect to sustainability in the last two or so years include the following:

- Developing a comprehensive regulatory framework for the carbon markets under the Paris Agreement;
- Exemption from withholding tax interest income earned on green bonds listed on the securities exchange in Zambia with maturity of at least 3 years, aimed at encouraging investment in projects with environmental benefits;
- Transformation of landscapes for resilience and development, to be implemented through setting up timber exchanges;
- Extend and enhance coverage of early warning systems to facilitate preparedness and prompt response to adverse weather events; and
- A total of 120 automatic weather stations to be installed.

"

Environmental Sustainability and Good Governance Environment

Sustainability/Environmental, Social and Governance (ESG)

Building on

In continuing from the progress made in prior years, the Government has set out actions that will contribute in enhancing the sustainability agenda in the 2024 National Budget. These include both direct intervention as well as those aligned with other actions in individual sectors such as:

- Entrenching environmentally friendly practices in the financial sector;
- Provide additional Tax incentives to promote sustainable practices in the transport and logistics and energy sectors;
- Climate change: With the adverse weather conditions, the Government will instal an additional 50 automatic weather stations in 2024 from the planned 120 to be installed by the end of 2023;
- In response to climate related risks that posed a threat to the financial system, the Government will enhance the legal and regulatory framework supporting green finance; and
- Carry out an environmental assessment leading the shorten of decision letter. This will accelerate the actualisation of investment in the country.

More awareness is required on the various sustainability reporting frameworks

Our view

Shining the light on environmental sustainability in the way that the Government has done is a great start and Government should be commended for this. This notwithstanding, there is still a great deal that still needs to be done, not just by the Government but by all stakeholders including business, and in particular, “Corporate Zambia”.
There is also a need to bring everyone on board in implementing the NDC Implementation Framework as well as ensuring rigorous monitoring, setting up accountability mechanisms in this regard.

Corporate Zambia also has to “come to the table“ in a big way as the Government will have to partner with the private sector in order to successfully implement and achieve the desired outcomes of the Framework. One such way Corporate Zambia can do so is by beginning to proactively imbed sustainability into respective business models. Further to this, Corporate Zambia should embrace sustainability reporting.This bring a whole host of benefits for the corporates and for the Country at large as Corporates would be proactively measuring their impact on the environment and society and vice versa. Sustainability reporting is not completely new to all Zambian corporates but here is still a lot of room for improvement in this area as a very significant number of corporates entities are yet to embark on the sustainability agenda, let alone sustainability reporting. More awareness is required on sustainability reporting including knowledge of the various sustainability reporting frameworks available and discussion of which ones may best suit Zambian corporates. The International Sustainability Standards (ISSB) , which is part of the International Financial Reporting Standards (“IFRS”) Foundation, in seeking to bring harmonisation to sustainability reporting, recently issued its inaugural standards. These set the tone for the new era of sustainability-related disclosures for Corporates that use the IFRS Foundations framework of standards worldwide. Zambia should seriously consider taking the steps that countries like Nigeria have taken and become an early adopter of the ISSB standards.

Overall, Zambia appears to be on the right trajectory in respect of environmental sustainability and green growth. This notwithstanding, more has to be done and to be done with haste. In this regard the Government and the private sector must work in tandem to hasten the realisation of the desired outcomes for Mother Zambia.

Tax data card

05

Corporate rates

Corporate tax rates	2024	2023
Standard rate	30.0%	30.0%
Banks	30.0%	30.0%
Telecommunication companies	35.0%	35.0%
Farming/agro-processing or export of non-traditional products from farming/agro-processing	10.0%	10.0%
Income earned by producers of organic and chemical fertilizers	15.0%	15.0%
Export of other non-traditional products*	15.0%	15.0%
Income earned by hotels and lodges accommodation and food services	30.0%	30.0%
Income earned from value addition to gemstones through lapidary and jewellery facilities	25.0%	25.0%
Manufacturing of ceramic products**	0.0%	0.0%
Income from the cotton value chain (tax holiday)***	0.0%	0.0%
Companies add value to copper cathode	15.0%	15.0%
New listings on LuSE****	2.0% discount	2.0% discount
New listings on LuSE> 33.0% shares taken up by Zambians****	5.0% discount	5.0% discount
Listings on LuSE>33.0% shares taken up by Zambians	5.0% discount	5.0% discount
Advanced Income Tax (on importation of goods in the absence of a valid tax clearance certificate)	15.0%	15.0%
Turnover tax levied on business (both corporates and individuals) with turnover below K800,000 (excludes income earned from consultancy service, property rental and VAT registered businesses)	4.0%	4.0%
Rental income above K800,000*****	12.5%	12.5%
Turnover Tax levied on rental income of K12,000 or less p.a.Turnover	0.0%	0.0%
Turnover Tax levied on rental income from K12,001 to K800,000 p.a.	4.0%	4.0%

* Excludes income from export of minerals, electricity, services and cotton lint exported without an export permit from Minister of Commerce
**The suspension was for the 2022 and 2023 charge years
***5 years income tax holiday on profits for local producers of cotton seed and ginning of cotton,
***10 years income tax holiday on profits earned from spinning of cotton and weaving of thread
****Discount applicable to corporate tax rates and only available for the first year.
****Corporates with rental income above K800,000

Tax on Casinos, Lottery, Betting and Gaming

Tax on Casinos, Lottery, Betting and Gaming		
	2024	2023
Casino live games	20.0% of gross takings	20.0% of gross takings
Casino machine games	35.0% of gross takings	35.0% of gross takings
Lottery winnings	35.0% of gross takings	35.0% of gross takings
Betting (brick and mortar)	15.0% of gross takings*	15.0% of gross takings*
Betting (other than brick and mortar)	25.0% of gross takings	25.0% of gross takings
Gaming – Slot machines (Bonanza)	K250 per machine per month	K250 per machine per month
Gaming – Gaming machines (Limited pay out)	K500 per machine per month	K500 per machine per month
Withholding tax on winning from gaming, lotteries and betting	15.0%	15.0%

*The reduced rate is applicable for the 2023 and 2024 charge years

Capital deductions and losses

Capital deductions*	2024	2023
Investment allowance on industrial buildings** (one off)	10.0%	10.0%
Initial allowance on industrial buildings** (one off)	10.0%	10.0%
Industrial buildings wear and tear allowance	5.0%	5.0%
Commercial buildings wear and tear allowance	2.0%	2.0%
Implements, machinery and plant		
● Used for farming and agro-processing	100.0%	100.0%
● implement, plant or machinery for Multi-Facility Economic Zone***	100.0%	100.0%
● Used for mineral processing, manufacturing, tourism, leasing	50.0%	50.0%
● Used for electricity generation	50.0%	50.0%
● Used in mining companies	20.0%	20.0%
● Implements, machinery and plant- Other uses	25.0%	25.0%
Commercial	25.0%	25.0%
Non-commercial	20.0%	20.0%
Farm improvement/ Farm works allowance	100.0%	100.0%
Tax concession (percentage of reduction of taxable income tax) for businesses in a rural areas****	20.0%	14.2%
Local content allowance*****	2.0%	2.0%
Carry forward of trading losses		
Electricity generation and mining operation	10	10
Other companies	5	5

*Capital allowances are computed on a straight line basis.
** Investment and Initial allowance granted in the charge year in which the industrial building has been put into use. Total allowances claimed should not exceed the cost of the asset.
***Extended to developers, currently only applicable to investors
****Extended to all sectors except mining, currently only applicable to businesses in manufacturing, hotels, motels and lodges for the first 5 years
*****Extended to sorghum and millet, currently only applicable on purchase of tomato, cassava, pineapples and mangoes for processing.

Mining taxes

Corporate Income Tax rate	2024	2023
Mining Profits		
Profits earned from mining operations (for both base metals and industrial minerals)	30.0%	30.0%
Mineral Processing	30.0%	30.0%
Mineral Royalty Rate*		
On ***norm value*** of minerals/precious metals ***under*** **licence:**		
Base metals excluding copper and cobalt	5.0%	5.0%
Precious metals	6.0%	6.0%
Cobalt and Vanadium	8.0%	8.0%
On ***gross value*** of gemstones/energy minerals ***under*** **licence**:		
Energy/Industrial Minerals	5.0%	5.0%
Gemstones	6.0%	6.0%

Industrial Minerals: includes a rock or mineral other than gemstones, base metals, energy minerals or precious metals used in their natural state or after physical or chemical transformation. Examples include salt, sand, clay, talc, laterite, gravel, potassium minerals, granite and magnetite.

Withholding Tax on dividends paid by companies carrying on mining operations

	Resident	Non-resident
Dividend*	0.0%	0.0%

Income Tax individuals

Income Tax Individuals

2024 Monthly income bands

	Income from K	Income to K	Tax rate %	Tax on band (maximum) K	Cumulative tax on income (maximum) K
First	0	5,100	0.0	0	0
Next	5,101	7,100	20.0	400	400
Next	7,101	9,200	30.0	630	1,030
Above	9,200		37.0		

Income Tax Individuals

2023 Monthly income bands

	Income from K	Income to K	Tax rate %	Tax on band (maximum) K	Cumulative tax on income (maximum) K
First	0	4,800	0.0	0	0
Next	4,801	6,800	20.0	400	400
Next	6,801	8,900	30%	630	1,030
Above	8,900		37.5		

Non-cash benefits

Housing benefit :

a) Where an employer provides free housing to the employee in a house that an employer owns, then 37.5% from 30% in 2022 of the employee's annual taxable income is disallowed in the employer's tax computation. In cases where an independent and objective valuation of the rentable value of such housing can be determined, the cost to be disallowed is rentable value of that housing.

b) Where employer leases housing and provides this to one employee, then the rentals are taxed under PAYE for that employee. In cases where the leased housing is occupied by more than one employee, then the housing benefit is taxed in the hands of employer by disallowing the rentals.

Mining taxes

Mineral Royalties on Copper

2024 MRT bands - price per tonne

	Price per tonne from US$	Price per tonne to US$	Tax rate %	Tax on band (maximum) US$	Cumulative tax US$
First	0	4,000	4.0	160	160
Next	4,001	5,000	6.5	65	225
Next	5,001	7,000	8.5	170	395
Above	7,001		10.0	X = (Price - $7,000) * 10%	X + $396

Mineral Royalties on Copper

2023 MRT bands - price per tonne

	Price per tonne from US$	Price per tonne to US$	Tax rate %	Tax on band (maximum) US$	Cumulative tax (maximum) US$
First	0	4,000	4.0	160	160
Next	4,001	5,000	6.5	65	225
Next	5,001	7,000	8.5	170	395
Above	7,001		10.0	X = (Price - $7,000) * 10%	X + $396

Staff benefits and withholding tax

Non-cash benefits

Tax on car benefit is payable by the employer at the corporate tax rate based on the following scale charges:

	2024	2023
Engine size < 1,800 cc:	21,600	K21,600 p.a. .
Engine size > 1,800 cc, < 2,800 cc:	36,000	K36,000 p.a. .
Engine size > 2,800 cc:	48,000	K48,000 p.a. .

Withholding Tax (WHT)	Resident	Non Resident
Dividend	15.0%*	20.0%*
Branch profits	n/a	20.0%
Interest Coupon Income (Interest) on Government Bonds	15.0%** 15.0%	20.0% 15.0%
Management or consultancy fee	15.0%	20.0%
Royalties	15.0%	20.0%
Commissions	15.0%	20.0%
Non-resident construction and haulage contractor	n/a	20.0%
Non-resident entertainers/sports persons fees	n/a	20.0%
Reinsurance placed with non-resident reinsurers	n/a	0.0%

Note: The above rates remain unchanged from 2020

**0.0% for dividends paid by LuSE listed companies to individuals.
**interest payable to local banks and financial institutions are exempt. Interest earned by individuals from interest earning accounts and from loans advance by members under the savings group such as co-operatives and village banking is exempt. Also interest income earned on green bonds listed on the securities exchange in Zambia with maturity of at least 3 years is exempt.

Tax Treaties

Zambia has tax treaties with the following countries:
Canada, China, Denmark, Finland, France, Germany, India, Ireland, Italy, Japan, Kenya, Netherlands, Norway, Seychelles, South Africa, Sweden, Switzerland, Tanzania, Uganda, United Kingdom, Yugoslavia*, Zimbabwe*, Botswana**
*These treaties have not been ratified and are therefore infective currently.
**Status of tax treaty currently uncertain.

VAT and Property Transfer Tax

Taxable supplies- rate	
Supply of goods & services in Zambia	16.0%/0.0%*
Import of goods & services into Zambia	16.0%/0.0%
Export of goods & services from Zambia	0.0%**
*Reinstate the exemption status on the supply of mains water and sewerage services.	
Registration	
Threshold	K800,000 p.a.
Payment and return - due date	
Supply of taxable goods & services	18 days following the end of the VAT accounting period*

Property Transfer Tax (PTT)*	2024	2023
Land (including buildings)	5.0%	5.0%
Shares**	5.0%	5.0%
Transfer or sale of mining right for a mining licence;	10.0%	10.0%
Transfer of mineral processing licenses	10.0%	10.0%
Transfer or sale of mining right held by exploration companies	5.0%	5.0%
Intellectual property	5.0%	5.0%
Shares listed on the LuSE	0.0%	0.0%

*PTT is payable by the seller by reference to the realised value of property being transferred. In the case of shares the realised value is greater of open market value and nominal value.
**PTT also applies on indirect transfer or control of a Zambian entity where the value of transferred shares is more than 10.0% of the value of the Zambia company.

Carbon tax and Presumptive tax

Carbon Tax

An annual carbon tax is payable on all motor vehicles as follows:

	2024	2023
Motor cycles	K168 p.a.	K168 p.a.
Engine size < 1,500 cc	K168 p.a.	K168 p.a.
Engine size > 1,500 cc, < 2,000 cc	K336 p.a.	K336 p.a.
Engine size > 2,000 cc, <3,000 cc	K480 p.a.	K480 p.a.
Over 3,000cc	K660 p.a.	K660 p.a.
Vehicles propelled by non-pollutant energy sources	nil	nil

Validity period of the carbon emission tax certificate for vehicles in transit and those that enter for short periods is 90 days.

Presumptive Tax

Public Service Vehicle (PSV) operators are required to pay presumptive tax on each motor vehicle as follows:

Type of Vehicle	Tax per Vehicle per annum (2023	Tax per Vehicle per annum (2023)
64 Seater and above	K12,960	K12,960
50-63 Seater	K10,800	K10,800
36-49 Seater	K8,640	K8,640
22-35 Seater	K6,480	K6,480
18-21 Seater	K4,320	K4,320
12-17 Seater	K2,160	K2,160
Below 12 Seater	K1,080	K1,080

Deadlines and penalties

2024 Deadlines	Penalty	Interest
Income Tax - Companies		
Provisional tax Return deadlines: First Provisional Tax Return: 5 March 2024 (manual submission) 31 March 2024* (electronic submissions) * Returns for companies registered for income tax after 31 March are due 90 days from the date of registration	Provisional tax: Late filing of return: K600 per month or part month	N/A
Revision of Provisional Tax Return 30 June 2024, 30 September 2024 & 31 December 2024 (where applicable)		
Payment deadlines: Within 10 days following the end of the quarter	Late payment of tax: 5.0% per month or part month **Underestimation of tax: 25.0%	Late payment: 2.0% + DR N/A
**Note: 2/3 of the total tax liability must be paid by the final quarter or else the 25.0% penalty applies.		
Final tax return & payment		
Deadline: 5 June 2024 (manual submissions) 21 June 2024 (electronic submissions)	Late filing of return: K600 per month or part month	N/A
	Late payment of tax: 5.0% per month or part month	Late payment: 2.0% + DR

Deadlines and penalties

Deadlines and Penalties

2024 Deadlines	Penalty	Interest
Income Tax - Individuals		
Final tax return & payment	Late payment of tax: 5.0% per month or part month	Late payment: 2.0% + DR*
Deadline: 5 June 2024 (manual submissions) 21 June 2024 (electronic submissions)	Late filing of return: K300 per month or part month	N/A
Withholding Tax (WHT)		
Filing & payment deadlines: Within 14 days after the end of the month of accrual/payment	Late payment of WHT: 5.0% per month or part month	Late payment: 2.0% + DR*
	WHT late filing of return: K102 per month or part month (for companies) K51 per month or part month (for individuals)	N/A
Payroll (PAYE)		
Filing & payment deadlines: Electronic returns to be filed within 10 days after the end of the month of accrual/payment	Late payment of PAYE: 5.0% per month or part month	Late payment: 2.0% + DR*
Manual returns to be filed within 5 days of after the end of the month	Late filing of PAYE return: K600 per month or part month	N/A

Deadlines and penalties

Deadlines and Penalties

2024 Deadlines	Penalty	Interest
VAT		
Filing & payment deadlines: 18 days** after the end of the accounting period	VAT late filing of return: Daily penalty – higher of K300 and 0.5% x tax payable	Late payment: 2.0% + DR*
All annual Income Tax, PAYE and VAT returns should be submitted electronically to the ZRA except for certain small businesses with minimal transactions	VAT late payment of tax: Daily penalty – 0.5% x tax payable	
Turnover Tax		
Filing & payment deadlines: Within 14 days after the end of the month of accrual/payment	Late payment of tax: 5.0% per month or part month	Late payment: 2.0% + DR
	late filing of return: K75 per month or part month	N/A
Key		
*DR = Bank of Zambia discount rate **Withholding VAT agents will be required to submit returns within 16 days after the accounting period.		

Transfer pricing

The penalties for non-compliance with transfer pricing regulation is 80 million penalty units (K24,000,000)

Tax Evasion

The penalties for tax evasion on conviction is 300 thousand penalty units (K90,000) .

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