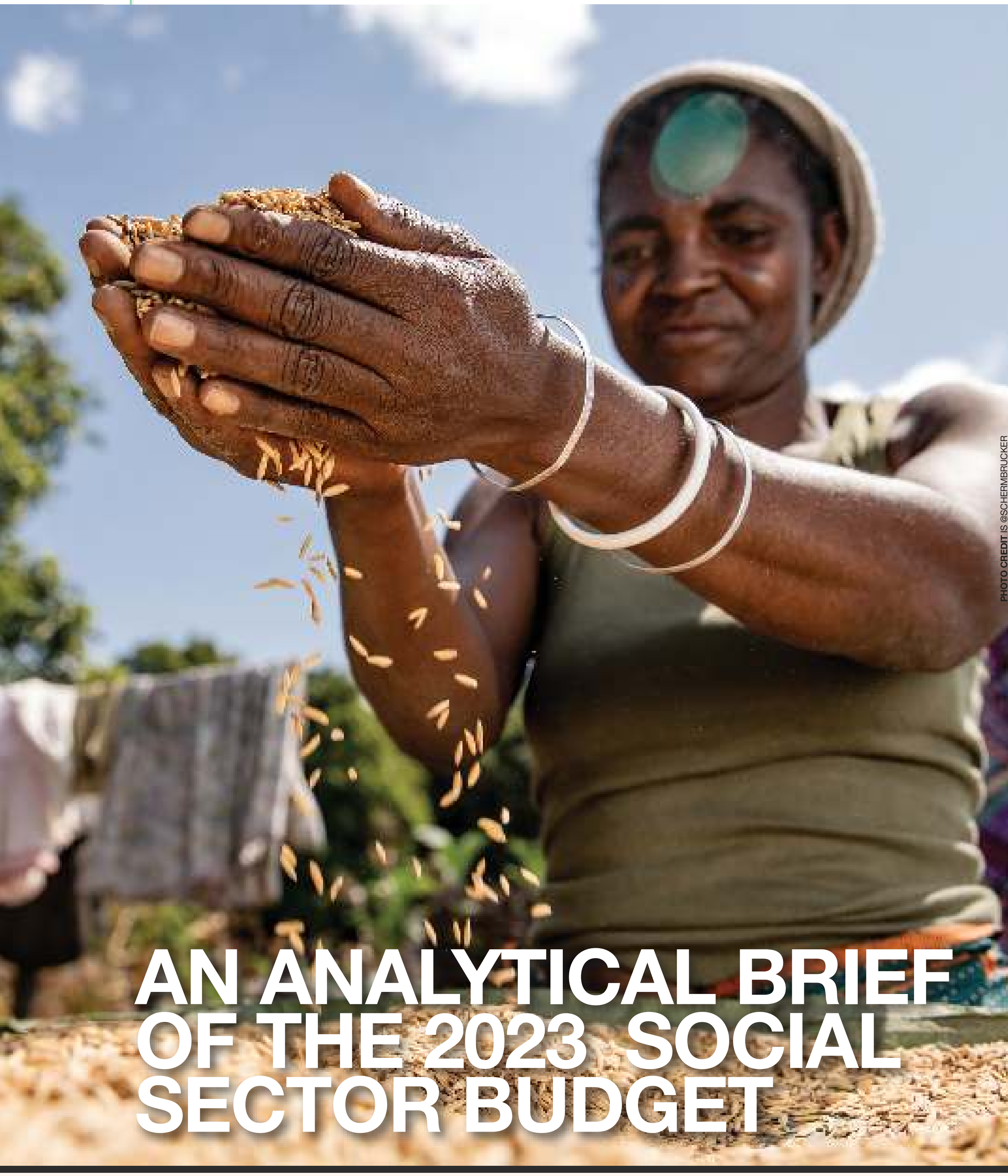
ZIPAR
Zambia Institute for Policy Analysis & Research

UNITED NATIONS
ZAMBIA



AN ANALYTICAL BRIEF OF THE 2023 SOCIAL SECTOR BUDGET

October 2022

Theme: Stimulating Economic Growth For Improved Livelihoods

CONSOLIDATING THE GAINS IN THE SOCIAL SECTORS

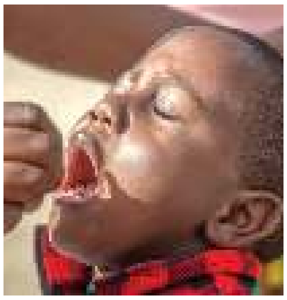
This Social Sector budget brief explores the extent to which the Government of the Republic of Zambia (GRZ) will support Social Sector needs in the country in 2023. The brief analyses the size and composition of budget allocations to the social sector for the fiscal year 2023, as well as spending trends for the past few years, in order to inform policy, strategies and legislation with the potential to save lives and sustain livelihoods. The budget brief aims to synthesise complex budget information and offer some recommendations to support budget execution to help bring about improvements for the wellbeing of the Zambian people, including children

Key messages:

1. **The National Budget.** The Government budget has declined by 3% from K172 billion in 2022 to K167 billion in 2023. The share as a percentage of GDP has declined to 31.4% in 2023 from 37.1% in 2022.

2. **Social Sectors:** The Government continues to increase allocations to the social sectors in order to safeguard the lives and livelihoods of especially the most vulnerable citizens. As a share of the total budget, social sector spending has increased to 30.5% in 2023 from 23.5% in 2022. In terms of GDP, the social sector budget has increased to 9.6% from 8.7%.

3. **Education:** Pronouncements in the 2023 Budget puts the education sector on course to sustain the gains made from 2022 as the education budget increased as a share of the total budget from 10% in 2022 to 14% in 2023. The continued teacher recruitment will improve the pupil-teacher ratio; however, consideration must be made to prioritise the recruitment of teachers for special education which currently has poor pupil-teacher ratios. The recruitments should also be matched by investment in infrastructure especially at secondary school level where access is low.



4. **Health:** Government has in the 2023 Budget increased allocation of funds to the health sector to K17.4 billion from to K13.9 billion in 2022 – representing a 10.4% share of the budget and an increase of 25% in nominal terms. The increased allocation will aid in staying the course. This will help to recruit additional health personnel thereby reducing the patient-health personnel ratio, purchase of equipment as well as continue the construction and completion of health infrastructure. The increased funds towards procurement of medical supplies will address the shortage of medicines and improve access to essential drugs.

5. **Social Protection:** The allocation to Social Protection went up by 30% to K8.1 billion in 2023 from K6.2 billion in 2022. With this increase, the Government has committed to scale up the number of beneficiaries on Social Cash Transfer (SCT) from the planned 1,021,000 in 2022 to 1,374,500 in 2023. Transfer amounts will also be increased, though the value has not been stated in the Budget. The upscaled SCT coverage extends the relative proportion of poor households covered by social assistance and provides a cushion against ongoing austerity measures and subsidy reforms and might reach over half of the poor population. As the ongoing 2022 Living Conditions and Monitoring Survey will reveal the current extent of poverty, there is a possibility that a significant proportion of poor populations will still remain without cover, which should be addressed with adequate policy measures.

6. **Water, Sanitation and Hygiene (WASH):** Major pronouncements in the WASH sector include the completion of construction and rehabilitation of water supply and sanitation infrastructure across the country. Despite these major pronouncements, the WASH budget has decreased from K2.3 billion in 2022 to K2.2 billion in 2022. This underscores the need to consolidate financing through the Zambia Water Investment Programme by leveraging of over US$5 billion for water security investments by 2030.

7. **Constituency Development Fund (CDF):** The CDF allocation will increase in 2023 from K4 billion to K4.4 billion despite the low utilization rate in 2022. The unutilized funds will not be recalled allowing for constituencies to use the fund in 2023 and consolidate ongoing system strengthening efforts. Major bottlenecks of the CDF relate to rules and guidelines; therefore, pronouncements to amend the CDF Act and simplify administration will help improve utilization. However, these changes should be addressed in 2022 to allow for smooth implementation in 2023.

Introduction

Zambia continues to face significant economic challenges, as seen by unsustainable debt and low economic growth in recent years. In order to bring down debt and foster higher, more resilient and more inclusive growth, Zambia has accessed the 38-month, US$1.3 billion Extended Credit Facility (ECF) programme supported by the International Monetary Fund. Among other things, the ECF aims to restore sustainability through fiscal adjustment and debt restructuring, creating room in the budget for much-needed social spending, and strengthening governance and reducing the risk of corruption, including by improving public financial management.

As the Government steps up its fiscal adjustment efforts, it is important that the lives and livelihoods of the most vulnerable are safeguarded by guaranteeing them access to education, health, water and sanitation as well as social protection. As part of fiscal adjustment, the Government has scrapped explicit fuel subsidies, which were known to be regressive and crowding out essential social expenditure. With the elimination of these subsidies comes the unintended consequence of a rise in the cost of most goods and services. The adjustment, however, creates the much-needed fiscal space in the budget for increased social spending.

This brief therefore explores the measures undertaken by the Government to safeguard and sustain the gains made in the social sectors in the last few years. It also considers the pitfalls and gaps that need to be considered by the authorities.

Education K23.2 Billion 2023

K18.1 Billion in 2021	K13.8 Billion in 2020

Education. The Government has scored a number of successes in the provision of education and skills development. These include free education up to Grade 12; recruitment of over **30,000 teachers**; and provision of bursaries to vulnerable learners. To sustain these gains, the Government, in 2023, plans to significantly increase the budget allocation to the sector in order to, among other things, recruit an additional **4,500 teachers** to be mostly deployed in rural areas, change the education curriculum to include financial literacy and anti-corruption; invest in ICT infrastructure which has the highest deprivation and use of innovative methods of delivering education; and increase the supervision and inspection of schools to ensure adherence to standards. Other measures include the construction and rehabilitation of schools and introduction of meal allowances in public universities.

Health K17.4 Billion 2023

K13.9 Billion in 2021	K9.7 Billion in 2020

Health. As with the education sector, Government plans to recruit an additional **3,000 health personnel in 2023.** Other measures in the health sector include increased allocation for the purchase of drugs and other medical supplies, equipping and re-equipping health facilities with modern medical equipment, complete the construction of a specialized hospital in Lusaka for women and children, complete the construction of 36 district hospitals, **16 mini-hospitals and 83 health posts**, and undertake the rehabilitation and maintenance of health facilities across the country.

Water and Sanitation. To increase access to water and sanitation services, Government plans to accelerate the completion of construction and rehabilitation of water supply and sanitation infrastructure, including the Kafulafuta Dam project on the Copperbelt to connect water supply to over 1 million households. To enhance hygiene in public places, such as, markets and bus stations, Government will commence the construction of water borne sanitation infrastructure across the country. The Government also launched the Zambia Water Investment Programme to increase access to clean water and sanitation services especially in the rural areas.

Social Protection K8.1[illegible] Billion 20[illegible]

K6.3 Billion in 2021	K4.8 Billion in 2020

Social Protection. Government will continue to scale up and enhance social protection programmes with improved targeting and selection mechanisms to uplift the wellbeing of the vulnerable. This includes increasing the number of beneficiaries on the **Social Cash Transfer scheme to 1.3 million by the end of 2023,** provision of education grants under the Keeping Girls in School programme and extending the reduction of waiting time for pensions from the Local Authorities Superannuation Fund.

Constituency Development Fund. Government will continue to empower women, youths and other vulnerable populations and providing bursaries to vulnerable learners through the Constituency Development Fund. To this end, the allocation to the CDF has been increased.

Financing. To secure payment of these critical social services, the Government has put in place several measures to increase fiscal space. These include instituting debt restructuring to reduce interest and principal payments on debt and eliminating costly and poorly targeted fuel subsidies. Public resources freed up from the removal of subsidies and debt restructuring will be invested in socioeconomic development. **Total social spending has increased by K10.3 billion to K51.0 billion in 2023 from K40.6 billion in 2022.** As a share of the total budget, social sector spending has increased to 30.5% in 2023 from 23.5% in 2022. In terms of GDP, the social sector budget has increased to 9.6% from 8.7%.

Total social spending has increased by

K10.3 billion to

K51.0 billion

in 2023 from K40.6 billion in 2022.

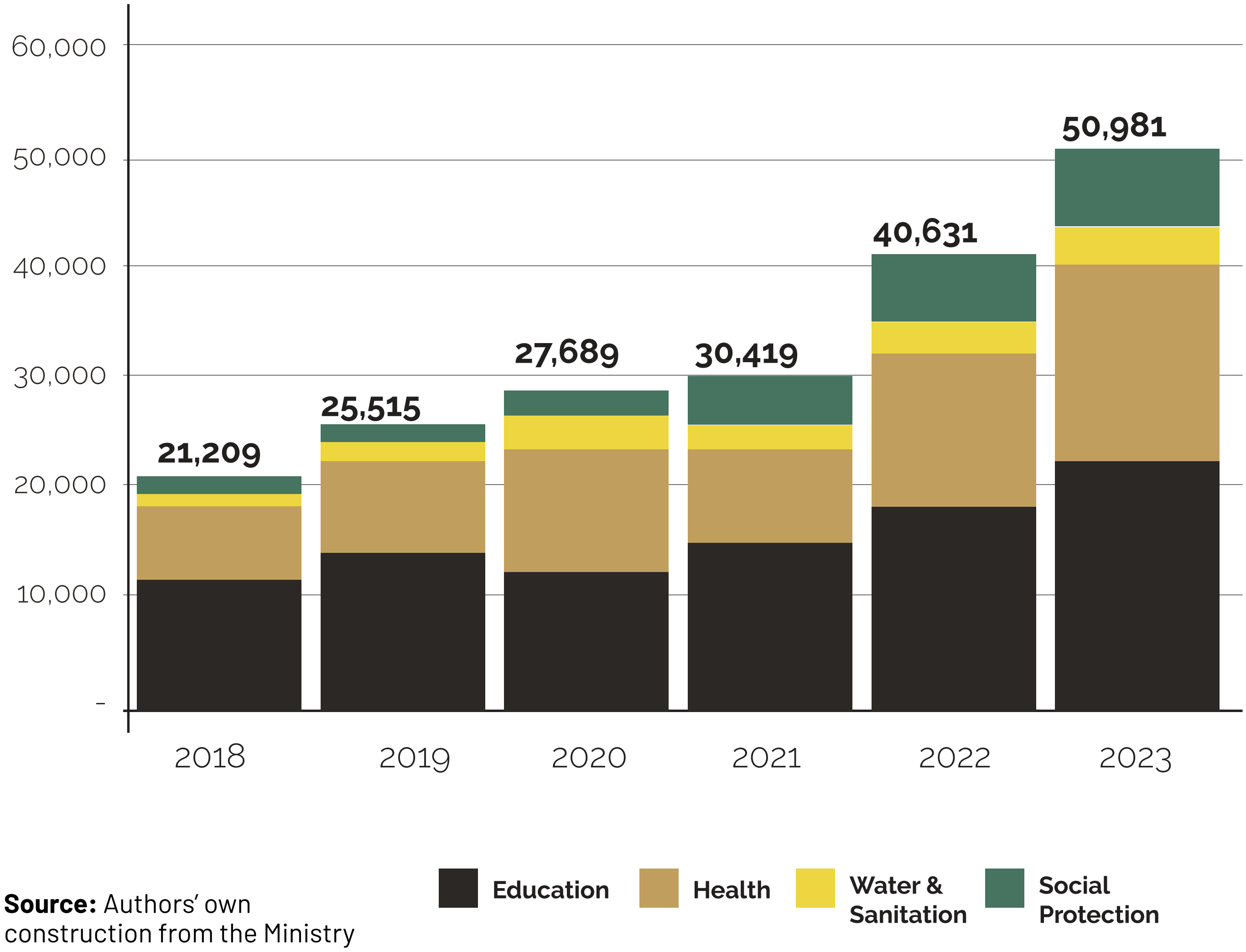
Social sector spending has increased to

30.5% in 2023 from 23.5% in 2022.

In terms of GDP, the social sector budget has increased to

9.6% from 8.7%.

Figure 1: Budget allocations to the social sectors, 2018-2023 (K'million)



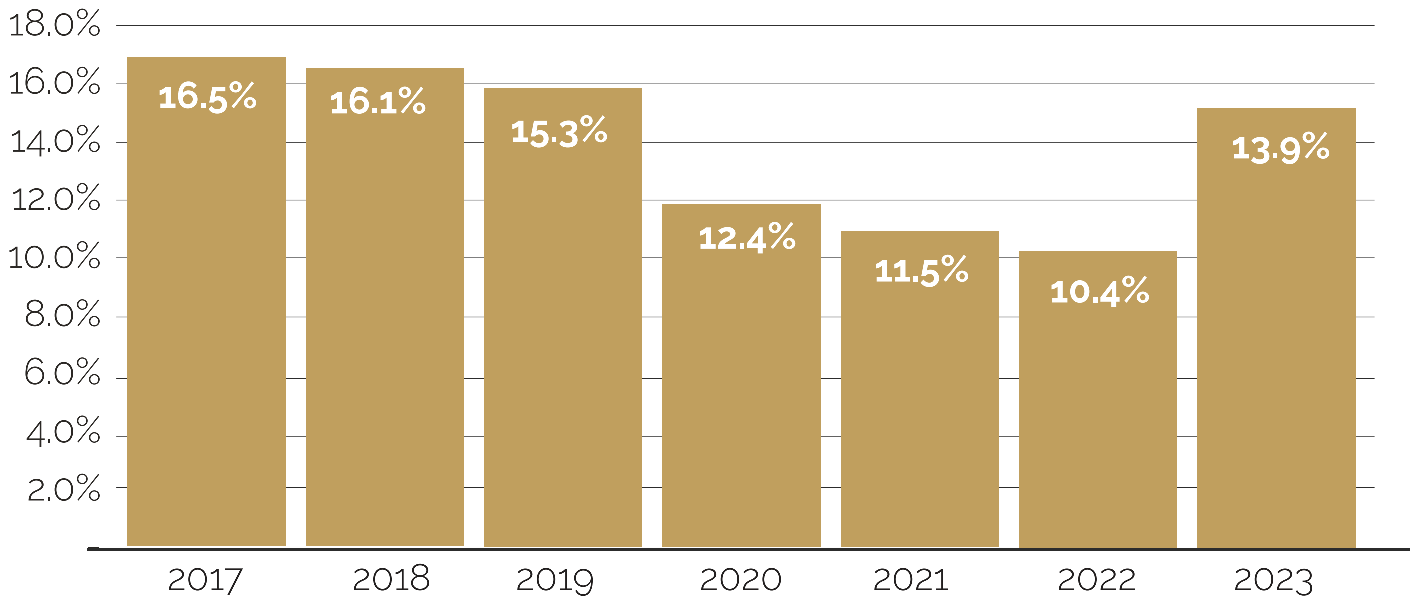
Source: Authors' own construction from the Ministry of Finance Budget Speeches

Education: Sustaining gains through continued recruitments and investment in school infrastructure

The 2023 education budget registered significant gains continuing on the path of 2022 Budget that was characterised by significant pronouncements in the sector such as the recruitment of 30,000 teachers. Key pronouncements in the 2023 Budget include the continued recruitment of teachers, completion and construction of the secondary schools and early childhood centres. The Government also commits to reinstating meal allowances for government-supported students in public universities. The major pronouncements in 2023 are consistent with the Governments medium- to long-term plans as espoused in the Medium-Term Budget Plan (MTBP).

In 2023, the Government proposes to increase the allocation to education in both nominal terms and as a share of the total budget. A total of K23 billion will be allocated towards the education sector in 2023. This represents an increase of 28% compared to the 2022 allocation. It also represents an increase in the share of the education budget from 10.4% in 2022 to 13.9% in 2023, a turnaround from the downward trend experienced in the last few years as shown in Figure 2, but still remains below the level of the mid 2010s.

Figure 2: Percentage share of expenditure by function for education spending, 2017-2022



Source: Authors' own construction from the Ministry of Finance Budget Speeches

In 2023, the Government proposes to continue with the teacher recruitment by employing an additional 4,500 teachers. The 2023 recruitment will prioritise rural schools. The 2022 recruitments prioritised primary school teachers as these account for more than 80% (26,594) of the new recruitments, while a paltry 4% (1,435) were secondary school teachers. Further, Early Childhood Education (ECE) teachers accounted for 6% of new recruitments.[1] The continued recruitment will be critical in reducing the teacher-pupil ratio which stood at 1:60 in primary schools to the recommended 1:40. Worryingly, both 2022 and 2023 recruitments are silent about the recruitment of teachers for Learners with Special Needs (LSEN). The current pupil teacher for LSEN is 1:80. This is alarmingly high as it is above the Ministry of Education recommendation of 1:15, and above the pupil-teacher ratio for ordinary learners at both primary and secondary levels.

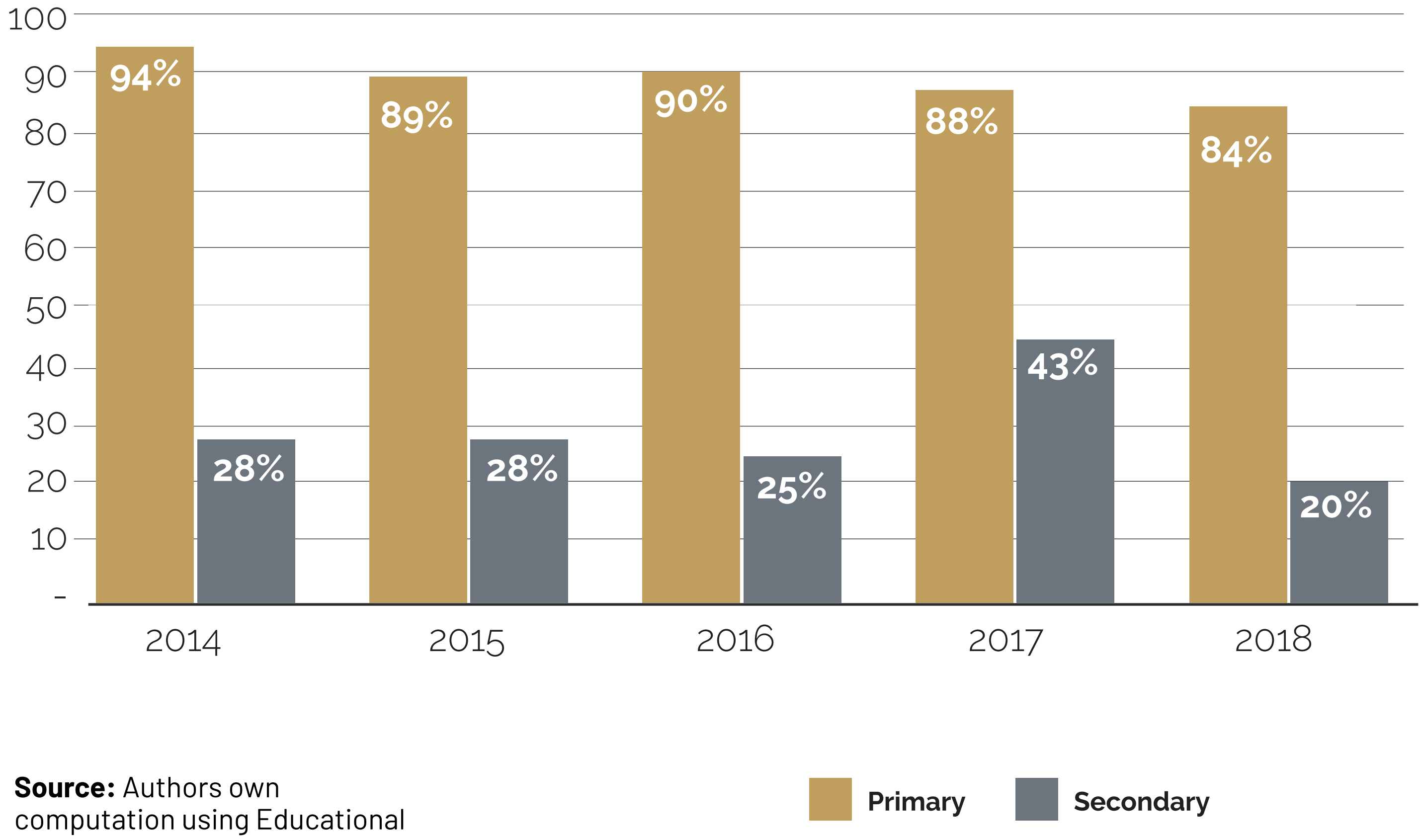
Improving school infrastructure is critical in providing quality education. The recruitment of teachers must be met by improvements in infrastructure. In 2023, K1.5 billion will be allocated for school infrastructure. The funds will be allocated towards the completion of 56 Early Childhood Education Centres and 115 secondary schools. The funds will also go towards the construction of 120 new secondary schools, which will be done with the support of the World Bank.

Continued investment in infrastructure is critical especially as the free education policy has increased demand for school places. In 2022, several schools across the country reported that the free education policy had put pressure on the schools' limited infrastructure. This pressure could be explained by the high number of children that are out of the school system. A multi-dimensional poverty analysis conducted by ZIPAR in 2020 revealed that at household level, the proportion of households with children in the secondary school age bracket who were not in school increased from 13% in 2014 to 16% in 2018. Further, statistics from the Ministry of Education showed that on average, only 29% of children

1. www.moge.gov.zm

eligible to be in secondary schools were actually enrolled during 2014-2018 as is shown in Figure 3. That rate was far below the now-ended Seventh National Development Plan (7NDP) target of increasing the net enrolment to 60% by 2021.

Figure 3: Net Enrollment Rates, 2014-2018



Source: Authors own computation using Educational Statistical Bulletin 2014-2018

The Government also commits to re-instating meal allowances for Government-supported students in public universities. The move stands to improve the welfare of vulnerable university students. This commitment is also consistent with the objective set under the education chapter in the 2023-2025 MTBP.[2] While the move is positive, the additional meal allowances increase the students' indebtedness as they add to the value of the student loans. However, the MTBP also commits to reducing the loan repayment amounts and increase the payment period for working graduates. This is missing from the 2023 Budget and must be actualised to provide relief to graduates and students who will have to make repayments in the future.

Meal Allowances and Student Loans

The meal allowance is paid to student in public universities that are supported by Government through student loans. The size of the student loans varies depending on the actual fees paid to the university, length of program and other costs such as accommodation, book and meal allowances. A beneficiary's Loan Repayment starts within one year of completion of studies, further, the loan must be paid back in monthly instalments at a compound interest rate of 15%.

2. The 2023-2025 Medium Term Budget Plan and the 2023 Annual Budget Green Paper

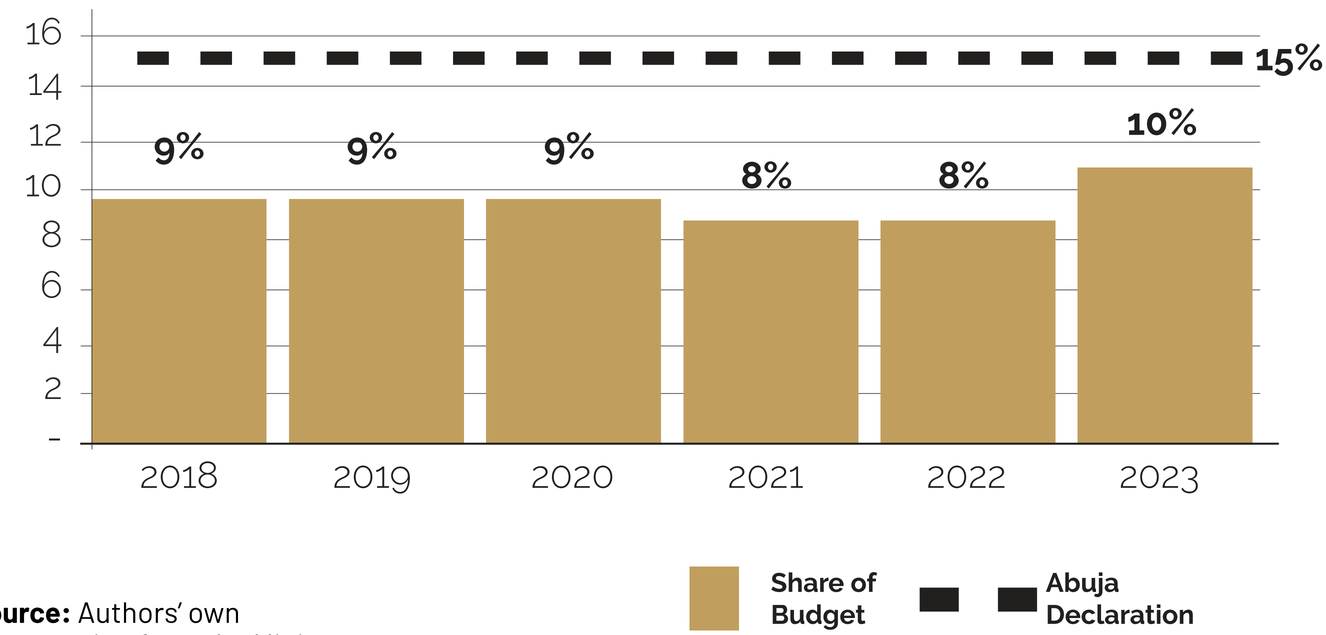
Health: Staying the Course on Gains Made in the Health Sector

Zambia's key national health indicators have improved over the years with improvements in areas such as infant mortality rate, under five mortality and maternal mortality among others. However**, the neonatal mortality increased from 24 per 1, 000 live births in 2013/14 to 27 per 1,000 live births in 2018 (after it reduced from 34 per 1,000 live births in 2007).**[3] Thus, while important improvements have been achieved, challenges in the delivery of quality health services remain and services do not yet adequately result in reduced levels of morbidity and mortality. The challenges include lack of consistency in the delivery of essential medical supplies, high patient-health personnel ratios, inadequate health infrastructure and equipment among others.[4]

To sustain the gains and address the health sector challenges, **Government has in the 2023 Budget increased allocation of funds to the sector to K17.4 billion from to K13.9 billion in 2022 – representing an increase of 25% in nominal terms.** This increase also represents an upward adjustment as a percentage of the budget, from 8% in 2022 to 10% in 2023.

While the upward adjustment of the allocation to the health sector is commendable, and a step in the right direction, incremental allocation to the sector is still necessary for building a resilient health system as envisioned by the Abuja Declaration which Zambia is signatory to, which recommends allocations of 15% of annual national budgets to healthcare. The necessity for this needs no emphasis, more so given the lessons learnt from the COVID-19 outbreak which exposed the healthcare systems' unpreparedness in African countries (including Zambia) to respond adequately to shocks such as pandemics. While Zambia has over the past years failed to meet the aspirations of the Abuja Declaration, the 2023 budget points to a reversal in the previously downward trend in its budgetary allocations to the health sector (Figure 4).

Figure 4: Healthcare budget allocations vs the Abuja recommendation



Source: Authors' own construction from the Ministry of Finance Budget Speeches

3. Eighth National Development Plan (8NDP)
4. 2020 Annual Economic Report/ Ministry of Health/ https://docs.google.com/spreadsheets/d/1kzqEeK8FmV8bilv-XvJBf0SJq2sWTcZ5/htmlview

The Government proposed to recruit an additional **3,000 health personnel from the 11,200 recruited in 2022.** This is commendable as it will help address the high patient-health personnel[5] ratio which as at 2020 stood at **6,750 per health personnel.** It should however, be noted that as at 2021, the health sector had a staff compliment of 63,000 against an approved structure of 139,590 – this entails a need for continuous health personnel recruitment drive to close the staffing gap of more than 50%.[6]

additional **3,000 health personnel** from the 11,200 recruited in 2022

In addition to recruitment of health personnel, the Government has committed to completing the construction of a specialized women and children's hospital in Lusaka, 1**6 mini hospitals, 36 district hospitals and 83 health posts across the country.** K1.1 billion has been committed to health infrastructure development - representing a reduction of 30% from the 2022 budget allocation to health infrastructure development. While we recognise the Government's balancing act, especially coming from dampened growth, health infrastructure should remain a priority area.

procurement of medical supplies, representing an increase of **35.7%** from the previous year and a **K900 million allocation towards procurement of medical equipment** (an increase of 383% from 2022).

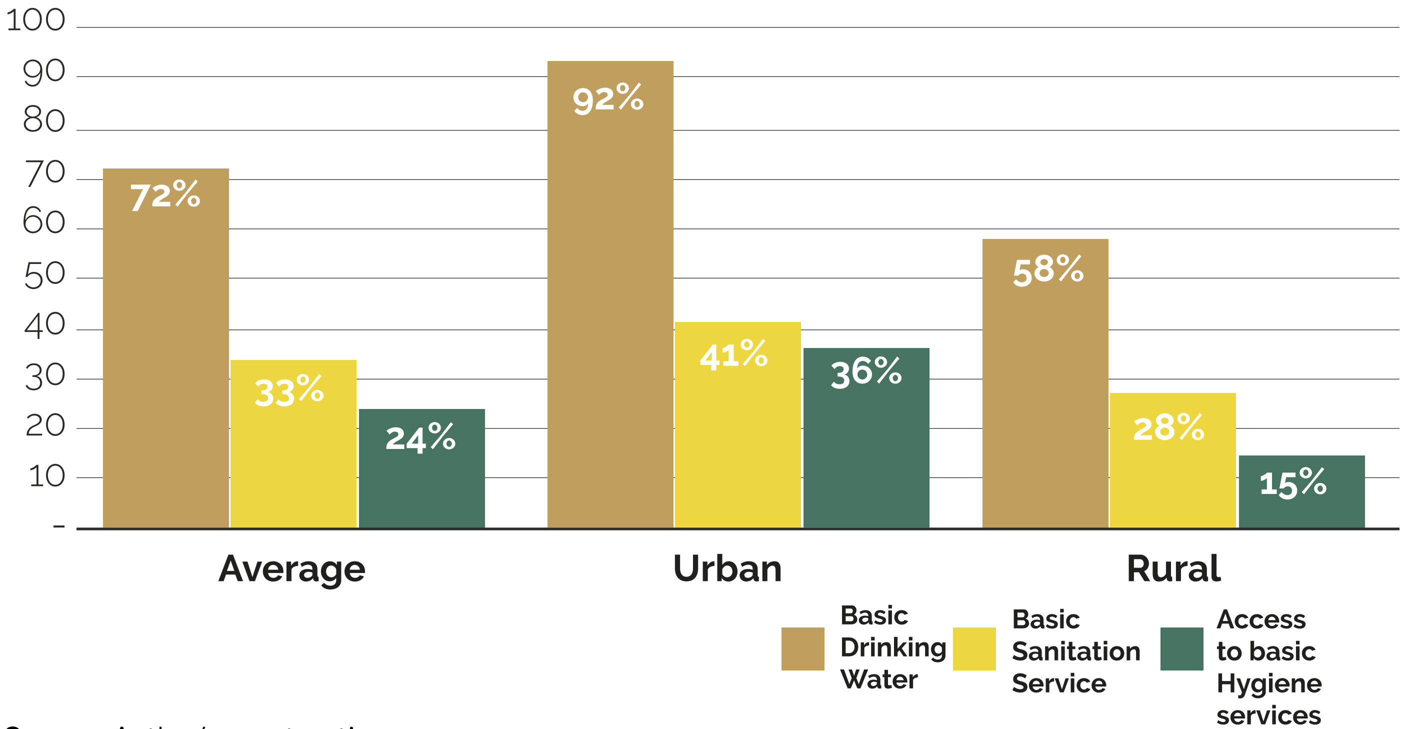
Further, K4.6 billion is to be channelled towards procurement of medical supplies, representing an increase of 35.7% from the previous year and a K900 million allocation towards procurement of medical equipment (an increase of 383% from 2022). This move will help increase access to essential drugs and also result in increasing the proportion of hospitals with fully functional recommended equipment to 85% by 2026 from 20% in 2020 as espoused in the 8NDP.

5. Eighth National Development Plan (8NDP)

WASH: Improving the Future of Water Sanitation and Hygiene

The provision of adequate safe water, sanitation and hygiene (WASH) remains an essential component in improving the livelihoods in society and alleviating poverty. In recent years, the water sector has heavily focused on the provision of WASH to urban and peri- urban areas, thereby overshadowing delivery of services to the rural areas. This has led to an increase in inequalities regarding access to basic water supply and sanitation services for the rural population who are more likely to have unimproved WASH services as illustrated in Figure 5.

Figure 5: Share of the population with access to WASH by rural and urban areas, 2018



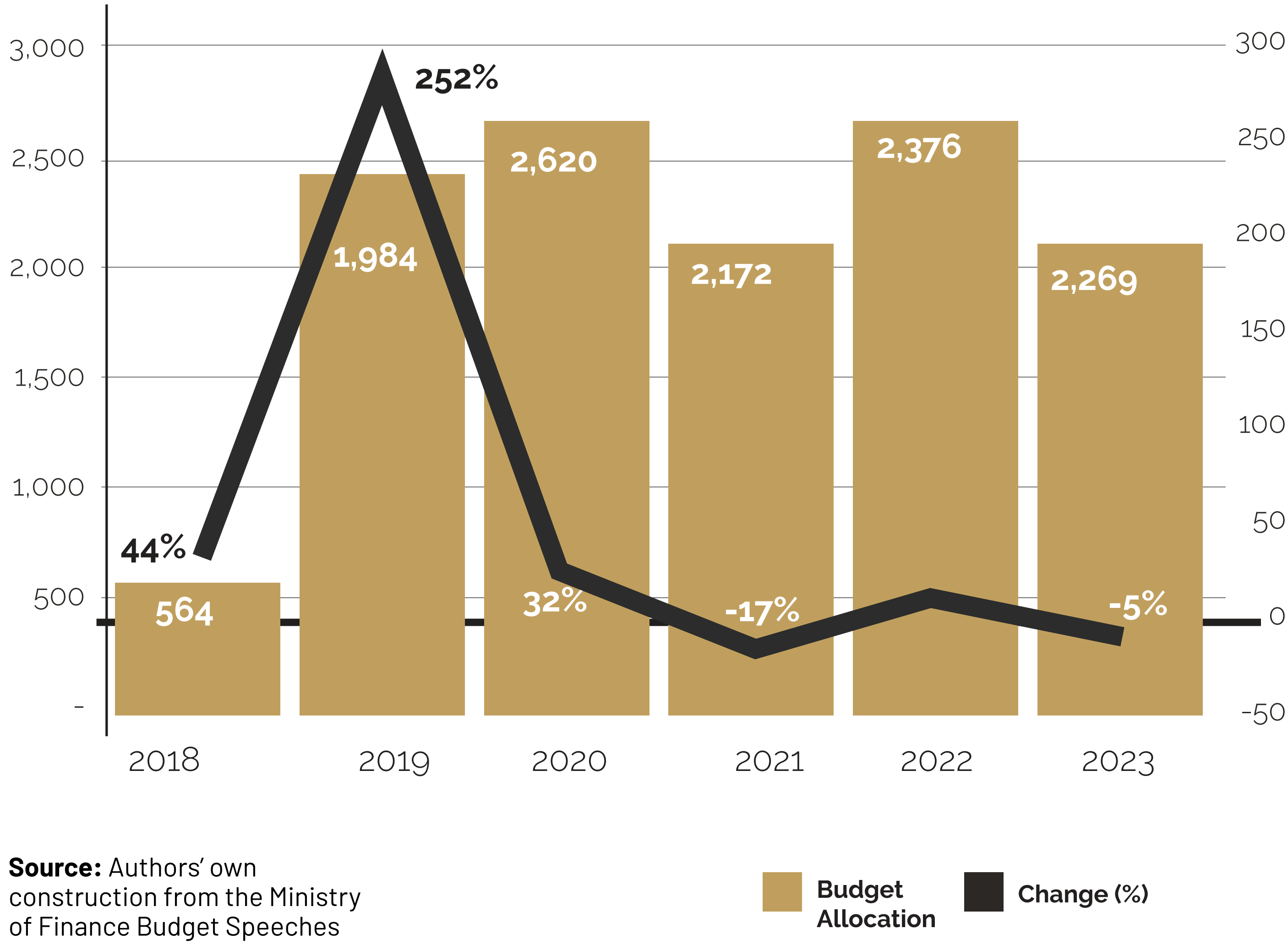
Source: Author's construction using the Zambia Demographic and Health Survey, 2018

Figure 5 reveals that 72% of the total population have access to an improved water source (92% in urban areas and 58% in rural areas).[7] Regarding access to sanitation services, 41% of the rural population have access compared to the rural population at 28%. The rural population continues to lag behind in access to basic hygiene services with only 15% with access compared to 36% of the urban population. To reverse this trend, in 2018, the National Water Supply and Sanitation Council (NWASCO) developed a framework for the provision and regulation for Rural Water Supply and Sanitation. This led to the Commercial Utilities (CUs) operating licenses being amended to include rural areas in line with the 2019-2030 National Rural Water Supply and Sanitation Program (NRWSSP).[8]

6. 2020 Annual Economic Report/ Ministry of Health/ https://docs.google.com/spreadsheets/d/1kzqEeK8FmV8bilv-XvJBf0SJq2sWTcZ5/htmlview
7. https://dhsprogram.com/pubs/pdf/FR361/FR361.pdf
8. Water Sector Overview (nwasco.org.zm)

In 2023, a total of K2.3 billion has been allocated towards water supply and sanitation, this allocation represents a marginal decline in nominal terms. In nominal terms, the budget declined by 5% from K2.4 billion in 2022 to K2.3 billion in 2023. However, the share of the WASH budget to the total budget slightly increased from 1.4% in 2022 to 1.5% as share of the total budget as shown in Figure 6. The declining trend over the recent years indicates low priority in the allocation of financial resources towards the sector. Therefore, significant effort and investments are required to improve access to water and sanitation services, both for the rural and urban populations.

Figure 6: Water and Sanitation Budget Allocation 2018-2023 (Millions)



Source: Authors' own construction from the Ministry of Finance Budget Speeches

Given the limited resources allocated to the sector, it is critical to develop a sustainable financing mechanism for the sector. As such, the Government will embark on the Zambia Water Investment Program to increase access to clean water and sanitation that will equally service the rural as well as the urban population. The program, supported by external funding, includes the leveraging of over $5 billion dollars for water security investments that will ensure that the social and economic aspect of water are taken into consideration. This will effectively contribute to sealing existing water investment gaps in Zambia while also providing 200, 000 formal jobs by 2030.[9]

9. Press Release: Launch of the Zambia Water Investment Programme | AUDA-NEPAD

Key pronouncements in the budget include allocations towards the completion of construction and rehabilitation of water supply and sanitation infrastructure. This will include the completion of the $499 million Kafulafuta Dam project in the Copperbelt, which commenced in 2018 but was halted for three years due to inadequate funding. The project, which will be completed in 2023, will ensure access to water and sanitation for over 1 million people in the surrounding communities.

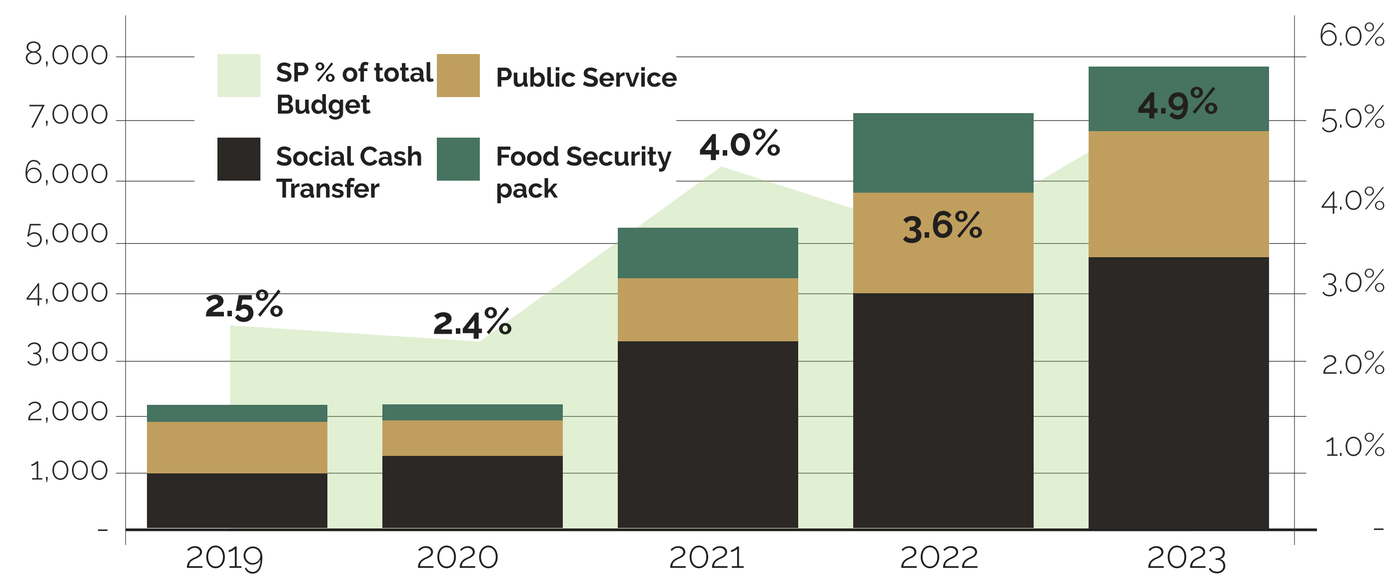
In addressing the challenges faced by the rural populations, the budget indicates that priority will be on improving water and sanitation at health and education facilities. With the pronouncements of monumental policies such as free education that has seen significantly high enrolments in schools especially by girls, the Government needs to be intentional about the allocation of resources towards WASH infrastructure. This will enable improved access to water and sanitation in schools in both the rural and urban areas and will further enhance the effectiveness of social protection programmes such as the Keeping Girls in Schools Initiative by reducing dropout rates among young girls.

Social Protection: Widening the reach of Social Protection

The continuous expansion of the Social Cash Transfer programme, the Food Security Pack, and the dismantling of pension arrears will all seek to mitigate unintended consequences that the removal of subsidies could have on vulnerable population groups. The delivery of social protection financing will be key to support the deserving population in 2023 to cushion the impact of the projected changes in living costs as indicated in the national budget.

The amount allocated to social protection has increased. In nominal terms, it increased by 29% from K6.2 billion in 2022 to K8.1 billion in 2023. As a percentage of the total budget, the allocation has risen from 3.6% in 2022 to 4.9% in 2023. As a share of GDP, it increased from 1.3% in 2022 to 1.5% in 2023. As seen in Figure 7, all the major Social Protection programmes have seen a considerable rise in funding, with SCT seeing the biggest increase from K3.1 billion in 2022 to K3.7 billion in 2023. The other notable increases include the Food Security Pack which increased from K1.1 billion in 2022 to K1.2 billion in 2023, and the Public Service Pension Fund, which rose from K2.0 billion in 2022 to K2.3 billion in 2023.

Figure 7: Budget Allocation to Social Protection 2019-2022 (in millions Kwacha)

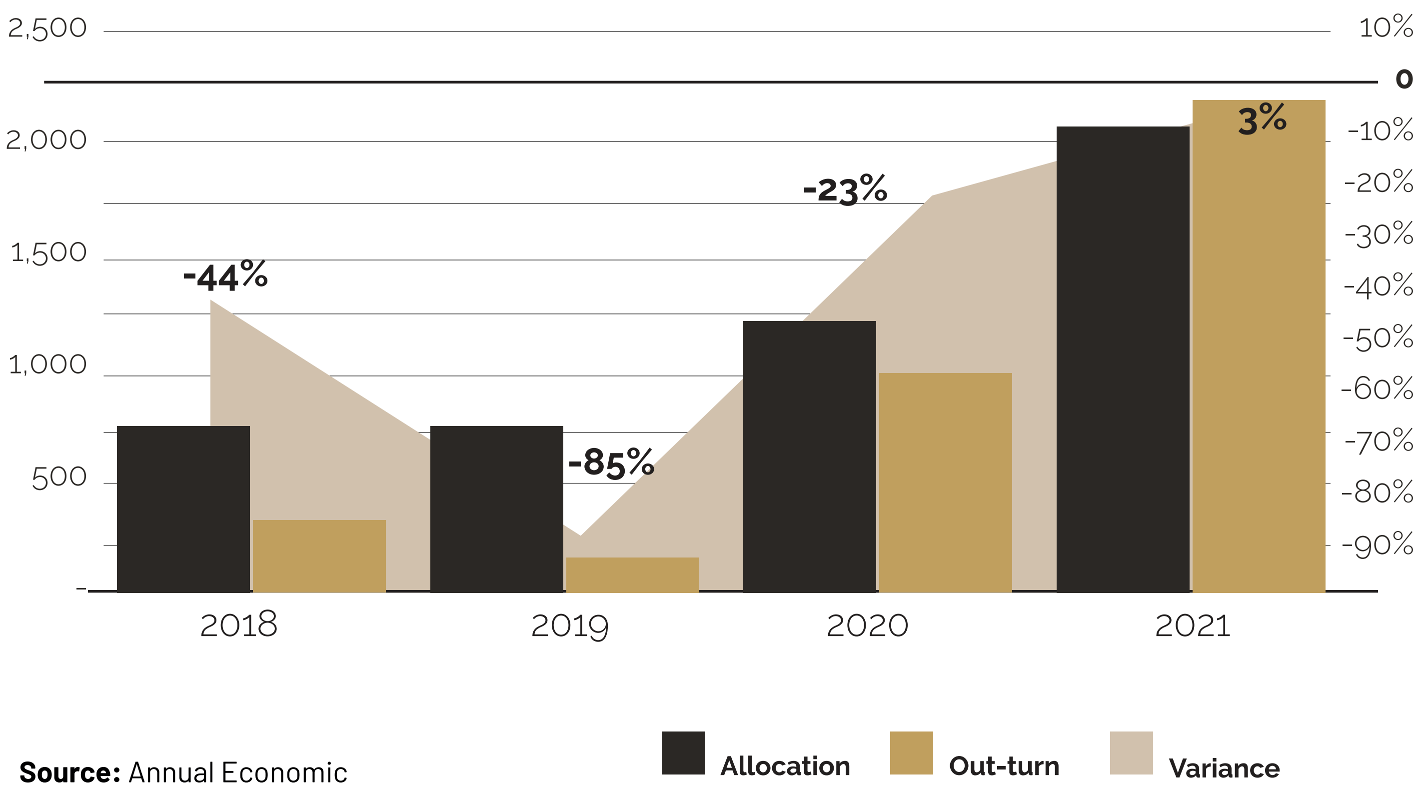


Source: Authors' own construction from the Ministry of Finance and National Planning 2019-2023 Budget Speeches

Nearly half of the social protection budget has been allocated to Social Cash Transfer. The allocation towards the Social Cash Transfer programme, which increased by 20% from K3.1 billion in 2022 to K3.7 billion in 2023, accounts for 45.8% of the proposed social protection budget. With this increase, the Government commits to scale up the number of beneficiaries by 37% from the current 973,323 households to 1,374,500 and further commits to increasing the transfer amount (but has not yet indicated the value of the transfer increment).

The Government has improved disbursements towards social sector spending for SCT. It is also worth noting that payments to beneficiaries in 2022 were regular and predictable. By August 2022, the Government disbursed 74% of the budgeted SCT allocation. In former years, the disparity between SCT allocations and out-turns had caused concern. However, this difference has substantially decreased as shown in Figure 8, indicating that the Government has improved commitments towards social sector spending for SCT.[10]

Figure 8: Social Cash Transfer Budget Allocations vs Out-turns



Source: Annual Economic Report 2018-2021

The upscaled SCT coverage extends the relative proportion of poor households covered by social assistance and provides a cushion against ongoing austerity measures and subsidy reforms and might reach well over half of the poor population. Using the current population projection and poverty assumptions, 2022 might already have covered half the poor population in line with the corresponding 7NDP target. However, the recently completed Population and Housing Census may indicate a larger population and the ongoing Living Conditions and Monitoring Survey may indicate updated poverty prevalence. But even so, it can be expected that there is a risk that a significant proportion of poor populations will still remain without cover even after the 2023 scale-up; the unprotected part will require being addressed with adequate policy measures.

10. Analytical Brief of Social Sector Budget 2022.indd (unicef.org)

The Keeping Girls in School (KGS) programme provides bursaries to secondary school girls from poor households who receive social cash transfers, with the intention of addressing gender and poverty-related inequalities. The KGS will receive K133.5 million in 2023, which will result in more girls being enrolled in school, assist to reduce barriers to education for disadvantaged girls and contribute to long-term human capital development.

Pensions: The allocation to pensions increased by 16% from K2 billion in 2022 to K2.3 billion in 2023. The increase is largely attributed to Government's commitment to dismantling arrears that are owed to pensioners as well as reducing the waiting period for pensioners. Additionally, the Government has pledged to avoid the accumulation of pension arrears in 2023 and beyond by paying off the backlog of arrears up to December 2021, since they currently date back to December 2018.

Food Security Pack: In 2023, the Government has allocated K1.2 billion to the Food Security Pack scheme which translates into a 10% increase from the K1.1 billion allocated in 2022. The programme is meant for the benefit of vulnerable but viable farming households. As of August 2022, the Government had released a total of K903.3 million towards FSP or 75% of the total budget amount allocated to FSP.

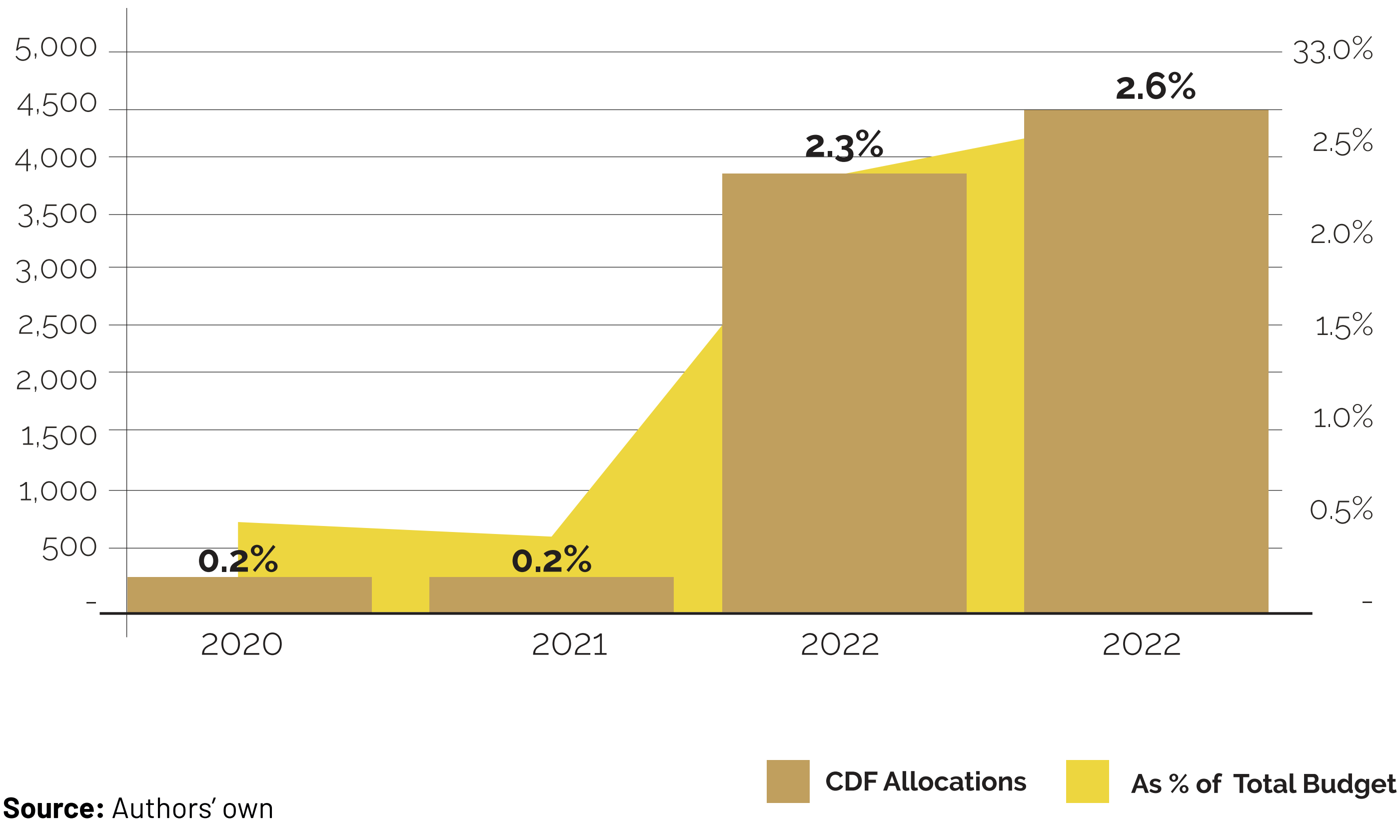
To safeguard the lives and livelihoods of the poor and vulnerable, the Government should maintain the upward trend of increasing resource allocation to social protection. It is strongly recommended that the Government make fiscal commitments for providing social assistance to the poor and vulnerable households, and consider deepening linkages from social assistance to social insurance. Through a cash plus initiative, the legal framework of the National Health Insurance that provides SCT beneficiaries with access to the Health Insurance scheme. Once this translates into improved uptake (and improved health), however, there may be need for higher budgets on social protection interventions, and owing to the limited fiscal space, the Government will need to create new ways to raise resources to ensure that this is sustainable.

Constituency Development Fund: Bringing even more funds closer to the people

An important opportunity to improve service delivery, empower local institutions with a decentralised system, and promote economic growth is presented by the Government's continued increase in the Constituency Development Fund (CDF). In 2022, the Government significantly increased the allocation of the CDF by 1500%, and 10% in the 2023 National Budget. The CDF is mainly intended to support the implementation of community development projects which receive 60% of the allocation while youth and women's empowerment, and bursaries for secondary education and skill development receive 20% each.

In the 2023 Budget, the allocation to CDF increased by 10% from K4.0 billion in 2022 to K4.4 billion. As a share of the total budget, the CDF increased from 0.2% in 2020 and 2021 to 2.3% and 2.6% in 2022 and 2023 respectively (Figure 9).

Figure 9: Percentage Share of CDF allocation 2020-2023



Source: Authors' own estimates based on 2020-2023 Budget Speeches

Of the total CDF allocation, K3 billion or 75% has been released in 2022.[11] However, utilisation has been unsatisfactory as less than 10% of the released amount has been utilized. The underutilization has been due to administrative challenges such as highly centralized approval processes required under the law; cumbersome procurement procedures; and limited capacity in project preparation, among others.[12] Additionally, the Government commits that the Treasury will not recall unutilized fund by the end of the year.

In order to address part of these challenges related to CDF, the Government commits to firstly, amend the Constituency Development Fund Act in order to simplify the approval procedures and delegate decision-making to the local authorities. Secondly, the 2022 CDF guidelines will be simplified while capacity building and awareness in communities will also be undertaken. Finally, the Government from 2024 will consider population and poverty levels of each constituency and CDF disbursements will be based on utilization as a way of ensuring equity.

We recommend that the Government should start the amendment of the Constituency Development Fund Act and prioritise simplifying of the CDF guidelines while building capacity before the first quarter of 2023. This will result to the higher utilization of the funds from the first to the last quarter of the year, more children benefiting from the bursaries, more women and youth empowerment and more development in the constituencies in 2023.

11. 2023 Budget Speech
12. 2023 budget speech

Financing: Creating fiscal space to finance social spending

The Government plans to undertake debt reforms in 2023. While this is going on, there will still be need to ensure the provision of essential public goods and services, including to the social sectors. There are a number of measures instituted in the 2023 Budget to increase fiscal space that will guarantee funding to the social sectors. These include (i) increased domestic revenues; (ii) rationalizing expenditure by eliminating costly and poorly targeted fuel subsidies; (iii) rationalizing expenditure through debt restructuring to reduce interest and principal payments; (iv) IMF Extended Credit Facility; (v) restricting external borrowing to concessional loans; and (iv) drawdowns from the IMF Special Drawing Rights general allocation.

Increasing domestic resource mobilisation. Domestic revenues are poised to increase by 13% to K111.6 billion in 2023 from K98.9 billion in 2022. This will mostly come from tax revenues which are projected to increase to K93.6 billion in 2023 from K77.8 billion in 2022, buoyed by increases in income taxes (mostly company tax), value added taxes (including standard rating the supply of petrol and diesel) as well as customs and excise duties (including the reinstatement of excise duty on petrol and diesel and increasing excise duties on tobacco and cigarettes). However, the revenue performance is largely contingent on the performance of the mining sector - if the cooling down of the global economy persist, the prices of copper will likely drop, leading to decreased profits and subsequently decreased mining company tax.

Rationalising expenditure through the removal of fuel subsidies. The Government has made the decision to phase out the costly and poorly targeted fuel subsidies. By standard rating of Value Added Tax and reinstating excise duty on petrol and diesel, the long-standing fiscal pressures brought about by subsidising fuel have been eliminated. However, a key concern has been the adverse welfare impact of the removal of fuel subsidies on households, particularly low-income households. The results from various studies support the Government's decision. According to IMF (2017), 92% of the fuel subsidy goes to the wealthiest 10% of the households. By contrast, the poorer half of households only receive less than one percent of the benefit.[13] Cheelo and Hantongo-Masenke (2018) find little additional direct adverse effects on the poor relative to the non-poor, mainly on account that the poor were largely already excluded from the benefits of the subsidies to begin with.[14] The Government intends to channel the savings from the removal of subsidies towards social spending or poverty alleviation interventions.

Restructuring external debt. The securing of an Extended Credit Facility with the International Monetary Fund on 31 August 2022 anchors the debt restructuring process which will help reduce debt service payments. Given that expenditure on debt servicing is projected to reduce to K48.8 billion in 2023 from K78.7 billion in 2022, the 'savings' on principal and interest payments will amount to K29.9 billion.

IMF Extended Credit Facility (ECF) and concessional borrowing. The ECF not only anchors the debt restructuring process, but it also helped to unlock resources from bilateral and multilateral development partners to support Zambia's development agenda. Government's current debt strategy for the medium term to restrict all external borrowing to concessional loans characterized by low interest rates and long repayment periods of over 25 years means that they are likely to prioritise borrowing from multilateral institutions which offer such terms, including the World Bank and the African Development Bank. Concessional borrowing carries significantly lower borrowing costs.

13. International Monetary Fund (2017). Zambia – Selected Issues: Distributional Impact of Subsidies and Proposed Reforms
14. Cheelo, Caesar & Haatongo-Masenke, Rabecca (2018). "Blanket" Fuel and Electricity Subsidies Did Not Offer Much Benefit to Zambia's Poor. Zambia Institute for Policy Analysis and Research. 18 October 2018

Drawdowns from the general allocation of Special Drawing Rights. The new general allocation of US$1.3 billion in Special Drawing Rights (SDRs) implemented in August 2021 is an expedient mechanism to provide concessional liquidity. The Zambian Government has used it for direct budget support. In 2023, the Government will continue to draw down from the SDR allocation in order to fund critical goods and services, including social sectors.

Conclusion

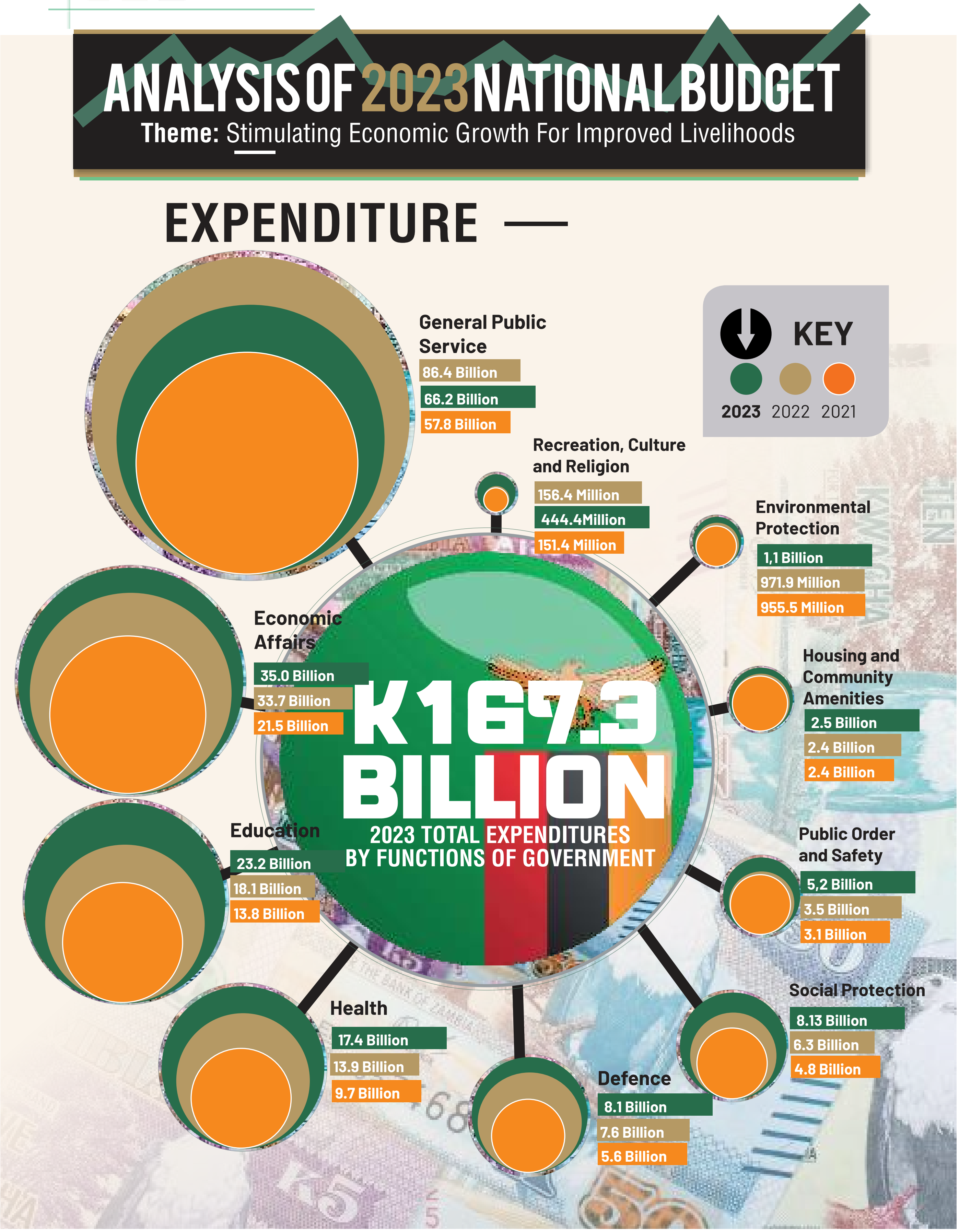
The increase in allocations to the 2023 Social Sector Budget signal that Government remains committed to safeguarding the lives and livelihoods of the most vulnerable citizens. Key pronouncements in the sector such as the continued recruitment of health workers and teachers and investment in infrastructure will contribute to improving service delivery. The commitment to expand the coverage of the SCT and revise the transfer value will be critical in safeguarding livelihoods while the increase in CDF will also result enhanced redistribution of public resources. The debt restructuring and the IMF programme which will lead to enhanced external support which will free up resources that are critical for improving execution rates in the social sector. However, Government is urged to expedite the revision of the CDF regulations to improve the utilization of the fund. The recruitments of public workers must also be matched adequate investment in infrastructure to ensure the delivery of quality services to the public. Finally, there is need expedite the development of a sustainable financing mechanism for the provision of Water and Sanitation services, the sector heavily relies on external support and was the only sub-sector in the social sector that recorded a reduction in allocation in 2023.

ZIPAR
Zambia Institute for Policy Analysis & Research

Zambia Institute for Policy Analysis and Research (ZIPAR)
P.O. Box 50782, Lusaka, Zambia, CSO Annex Building
Corner of John Mbita and Nationalist Road, Lusaka

Email: info@zipar.org.zm
Website: www.zipar.org.zm
www.facebook.comOfficialZIPAR
Twitter: @ZiparInfo

Tel: +260 211 252559
Fax: +260 211 252566



ZIPAR
Zambia Institute for Policy Analysis & Research

Zambia Institute for Policy Analysis and Research (ZIPAR)
P.O. Box 50782, Lusaka, Zambia, CSO Annex Building
Corner of John Mbita and Nationalist Road, Lusaka

Email: info@zipar.org.zm
Website: www.zipar.org.zm
www.facebook.com OfficialZIPAR
Twitter: @ZiparInfo

Tel: +260 211 252559
Fax: +260 211 252566

ANALYSIS OF 2023 NATIONAL BUDGET

Theme: Stimulating Economic Growth For Improved Livelihoods

REVENUES —

DOMESTIC REVENUES
K111,643,321,261

Income Tax
50,427,134,700

Value Added Tax
29,209,212,374

Customs and Excise
13,810,455,588

Non-Tax Revenues
18,087,017,627

TOTAL FOREIGN FINANCING & GRANTS
K38,397,127,945

Programme Loans
31,488,496,390

Project Loans
6,908,631,555

Foreign Grants
1,705,414,457

DOMESTIC FINANCING
K15,575,869,900

K167.3 BILLION
2023 NATIONAL BUDGET

PHOTO CREDIT

All images ©UNICEF/Zambia/2020-2022 (Siakachma, Schermbrucher)

ZIPAR IN PARTNERSHIP WITH THE UN SYSTEM IN ZAMBIA

"WORKING TOWARDS THE FORMULATION OF SOUND PUBLIC POLICIES"

Zambia Institute for Policy Analysis and Research (ZIPAR)
P.O. Box 50782, Lusaka, Zambia
CSO Annex Building
Corner of John Mbita and Nationalist Road, Lusaka

Email: info@zipar.org.zm
Website: www.zipar.org.zm
www.facebook.com OfficialZIPAR
Twitter: @ZiparInfo

Tel: +260 211 252559
Fax: +260 211 252566