

INSTITUTIONAL 2022 NATIONAL BUDGET ANALYSIS REPORT



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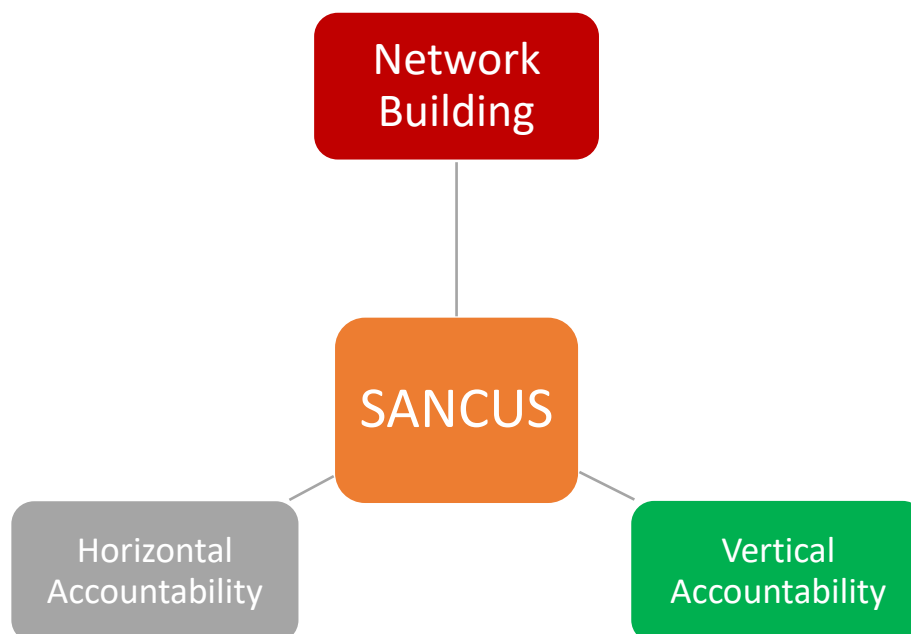
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Foreword

This report has been developed as part of evidence generation under the SANCUS project conducted by Transparency International Zambia. Strengthening Accountability Networks Among Civil Society (SANCUS) is a global project being implemented in 17 countries with the support of the European Union.

It aims to improve democratic accountability of public institutions globally by empowering CSOs to demand systematic change to address accountability and anti-corruption deficits. In Zambia, its main objective is to strengthen public participation and consultation as well as oversight in the policy and budget cycle through a three pronged approach of network building, vertical and horizontal accountability. In this context, vertical accountability is accountability between the government and citizens, whereas horizontal accountability is accountability between different branches of government.

The project is running from June 2021 to November 2023. Project approach:



1. Introduction

TI-Z is a local chapter of the global civil society movement Transparency International, which is dedicated to the fight against corruption and the promotion of transparency, integrity, accountability and generally

good governance in the discharge of public functions. TI-Z is a non-profit making non-governmental organization with a registered office in Lusaka and has been in existence since June 2000. TI-Z as a national chapter abides by the guiding principles of TI globally but has adopted its own vision, mission and core values to guide its operations. The main goal of TI-Z is to contribute to the reduction of corruption through promotion of good governance in Zambia with the vision of a Zambia anchored on citizens and institutions of integrity.

As an organization, TI-Z has three operational programmes namely, the People Engagement and Advocacy Programme (PEAP), Democracy and Governance (DG) programme and the Environment and Natural Resource Governance (ENRG) programme. In addition, TI-Z has commenced implementing a project on strengthening accountability networks among civil society (SANCUS) project as well as two Covid-19 related projects namely, Transparency and Accountability in the Covid-19 response (TRA_C19) and Transparency, Accountability and Equity in the Covid-19 Vaccine Distribution (TRAE-C19VD).

Each of these programmes and projects have particular objectives which contribute towards the overall focus of the organisation. The strategic objectives of these programmes and projects are as follows:

PEAP: Empowered people demanding for and taking action against corruption

DG: Enhanced Policy and Legal Frameworks, Institutional Processes and Structures as well as Compliance and Enforcement Mechanisms that Promote Good Governance

ENRG: Improved Environmental and Natural Resource Governance for improved livelihoods

Institutionally, TI-Z recognizes that the 2022 Zambia National Budget has implications for each of its operational programmes and projects. This calls for an in-depth analysis of the budget to delve into its context, the changes in the budget and the implications the 2022 budget will have for the institution and for the nation at large. Thus, this budget analysis will follow this format:

- Macroeconomic analysis
- The budget process
- Democratic governance, anti-corruption and governance issues
- People engagement and accountability
- Environment and natural resource governance

The budget and COVID-19 response in Zambia

2. Macroeconomic Analysis

2.1 Background

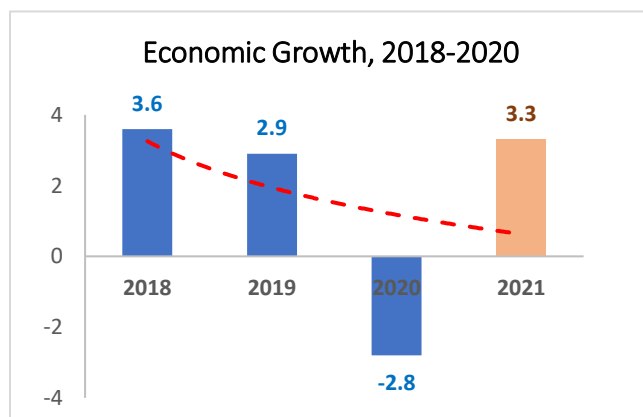
2.1.1 Growth and Employment

The UPND government won the 2021 general election on a promise of change to the macroeconomic environment which was characterized by low economic growth, high unemployment, debt unsustainability, and high cost of living as a result of rising inflation and a depreciated exchange rate. Zambia's economic growth reduced from 3.6 in 2018, to 2.9% in 2019, to a contraction of 2.8% in 2020. For the year 2021, economic growth was projected to increase to 3.3% (MOF, 2020 & GRZ 2021). This low economic growth has resulted in a rise in unemployment. In 2020, Zambia's unemployment rate was at 30.2% and the youth unemployment rate was at 19.9%, this is compared to 12.5% and 17.5% respectively, in 2019. (ZSA, 2021). Owing to these macroeconomic developments, the country has significantly deviated from VISION 2030: where growth is supposed to be between 6 and 10%.

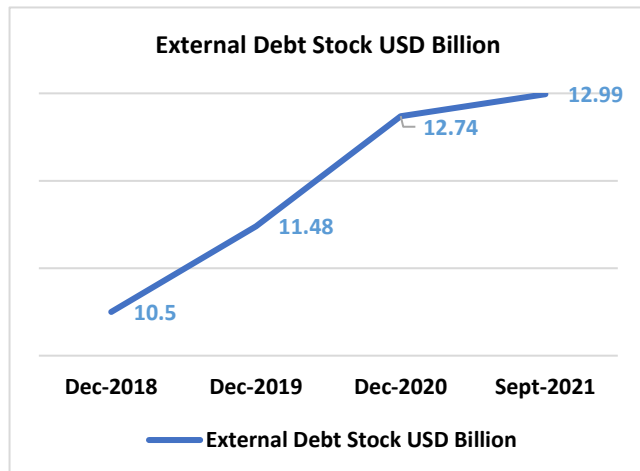
2.1.2 Private Sector Crowding out

Zambia's poor economic performance is partly due to a subdued private sector. Over the past 10 years, Government has steadily accumulated domestic arrears and increased its domestic borrowing. On one hand, the increased domestic borrowing resulted in a rise in interest rates or the cost of borrowing, thereby making it more expensive for the private sector to access credit. On the other hand, the accumulation of domestic arrears, i.e., government debt obligations due to receiving goods and services from the private sector without making payment, have led to the collapse of many SMEs. From 2015 Zambia also experience severe power cuts which directly affected the productivity of businesses due to reduced production time. The COVID-19 pandemic also did not spare the private players as demand plummeted following lockdowns and restrictions.

2.1.3 Debt Management



Zambia's external debt stock increased from US\$10.05 billion at the end of December 2018 to US\$ 11.48 billion at the end of 2019 and US\$12.74 billion at the end of December 2020. As at September 2021, the external debt stock was reportedly at US\$12.99 billion. This rapid accumulation in debt resulted in the depreciation of the Kwacha and triggered higher inflation.



Zambia’s 2017-2019 Medium Term Debt Strategy sought to alter the debt-mix in order to reduce external borrowing and prescribed that commercial debt should only be considered for projects with high economic returns. Contrary to this, the PF regime contracted commercial loans for road construction projects which failed to generate high returns.

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economic returns. Contrary to this, the PF regime contracted commercial loans for road construction projects which failed to generate high returns.

2.1.7 Fiscal Position

Due to the high interest payments associated with the commercial loans such as the 3 Eurobonds, the cost of debt servicing has been on the

rise. The share of debt servicing increased from 20% in the 2018 budget to 27% in the 2019 budget. It further increased from 32% in the 2020 budget to 38% in the 2021 budget. This increase has resulted in the crowding out of the social sectors, as a share of the total budget. If Zambia's debt situation is not addressed, there will be less and less resources available for health, education, social protection, as well as water and sanitation. Currently, Zambia's debt service and public service salaries exceed domestic tax revenues. This means the country is required to borrow in order to finance social sector spending and investments.

2.1.8 Legal Framework

Zambia's rapid debt accumulation can be linked to ineffective parliamentary oversight. The role of the National Assembly remains limited to approving the debt ceilings and the Money Bills even though the Constitution requires the National Assembly to approve all contracted debt. According to Zambia's Constitution (Amendment) Act No 2 of 2016, "the National Assembly shall oversee the executive function by scrutinizing public expenditure, including defence, constitutional and special expenditure; [and] approving public debt before it is contracted;" The Loans and Guarantees (Authorization) Act No. 13 of 1994 is the primary legislation used for public debt in Zambia and it is the Act through which the broad pronouncements of the Constitution are to be prescribed.

However, the Act only provides for the approval of loan ceilings and not the rationale for contracting the loan. Under this Act "The Minister may raise from time to time, in the Republic and elsewhere, on behalf of the Government such loans as he may deem desirable, not exceeding in the amount outstanding at any one time-such amount as he shall from time to time be authorized by resolution of the National Assembly to prescribe by statutory instrument." Consequently, there has been limited transparency in the debt contraction process, thereby opening the door for rent seeking, where government officials have an incentive to negotiate and contract loans on behalf of the public with no regard for sustainability.

2.1.9 IMF program

Government has been pushing for an IMF program in order to assure the debt stockholder of an effective debt restructuring of the Eurobonds and other loans. The previous regime failed to secure an IMF program due to high debt accumulation owing to a massive infrastructure development agenda. So far, it appears that the UPND government has made progress in securing the much-needed support. Since the IMF offered direct guidance during the formulation of the 2022 national budget, it is assumed that a program is finally on the horizon.

There are three key institutions responsible for macroeconomic stability and economic management in Zambia. These are the Zambia Revenue Authority (responsible for tax collection) the Bank of Zambia (which is the central bank and responsible for financial stability and monetary policy) and the Ministry of

Finance (responsible for fiscal policy and overall economic management). The Bank of Zambia and the Zambia Revenue Authority are both statutory bodies under the Ministry of Finance.

2.1.10 Zambia Revenue Authority

The Zambia Revenue Authority (ZRA) a body corporate and an agency of Government responsible for the collection of taxes. It was established in 1994 as a semi-autonomous agency under the Zambia Revenue Authority Act, now Chapter 321 of the Laws of Zambia. The Commissioner General who is appointed by the President, is the chief executive of the ZRA, and is responsible for the execution of functions as directed by the Board. The Board members, who include the Secretary to the Treasury and the Bank of Zambia governor, are appointed by and are under the direct supervision of the Minister of Finance.

2.1.11 The Bank of Zambia

The Bank of Zambia (BoZ) is the Central Bank of the Republic of Zambia and derives its functions and powers from the Bank of Zambia Act, no 43 of 1996 and the Banking and Financial Services Act, Chapter 387 of the Laws of Zambia. The Mission Statement of the Bank is to achieve and maintain price and financial system stability to foster sustainable economic development. The head of the Bank of Zambia is appointed by the President and reports to the Minister of Finance. The Board of the Bank of Zambia is composed of the Governor, who is the Chairperson, and six other Directors appointed by the Minister of Finance and National Planning. The Directors are appointed from among people with professional or academic experience in business or financial matters and who are not officials or employees of the Bank.

2.1.12 Ministry of Finance

The Ministry of Finance is charged with the responsibility of economic management to foster sustainable national development in Zambia. It is therefore the government entity responsible for the overall health of the economy and fiscal policy. It also oversees Zambia's central bank and therefore by extension the monetary policy direction. The Ministry is headed by a Minister whose mandate is drawn from the Minister of Finance (Incorporation) Act, Chapter 349 of the Laws of Zambia. The administrative and technical team is headed by the Secretary to the Treasury who is assisted by four Permanent Secretaries.

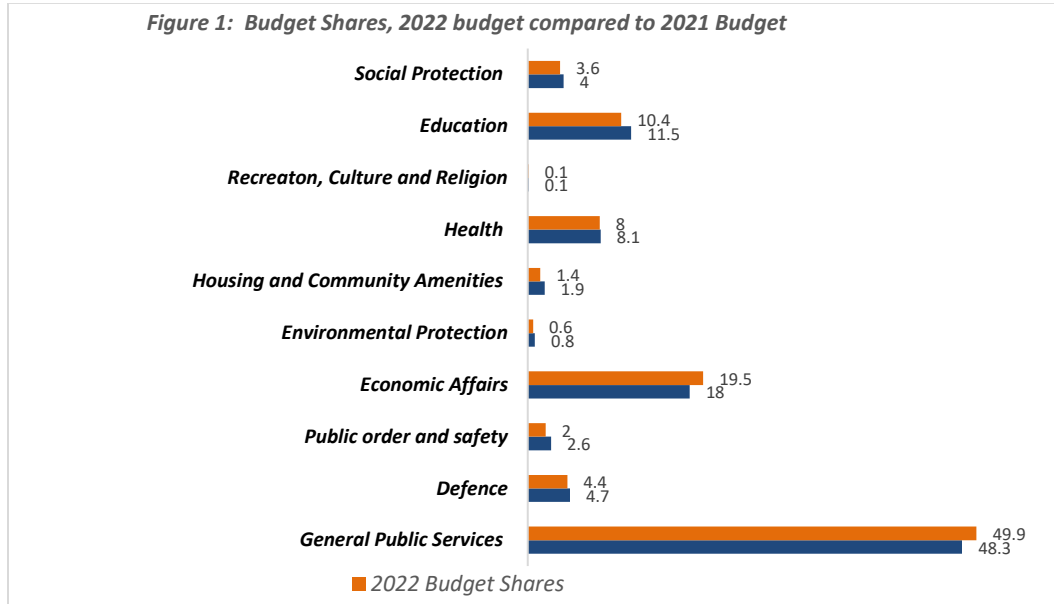
2.2 Budget Changes

2.2.1 Overview of allocation changes and revenue measures or budget financing

The total budget increased from K119.62 billion in 2021 to K172.99 billion in 2022, this represents an increase of K53.37 billion or 44.6% in the total budget as compared to the 2021 budget. Owing to this huge increase in the total budget, the 2022 budget increased the allocation to all the main budget items, with General Public Services receiving the largest increases of K28.5 billion (49.4% increase) followed by Economic Affairs which received an increased allocation of K12.2 billion (56% increase) as compared to the 2021 budget allocations. Due to this, the share of General Public Services increased from 48.3% in 2021 to 49.9% in the 2022 budget and the share of Economic Affairs increased from 18% in the 2021 budget to 19.5% in the 2022 budget.

Most of the main budget items recorded a reduced share in the 2022 budget as compared to the 2021 budget; Defence reduced from 4.7% to 4.4%, Public Order and Safety reduced from 2.6% to 2%,

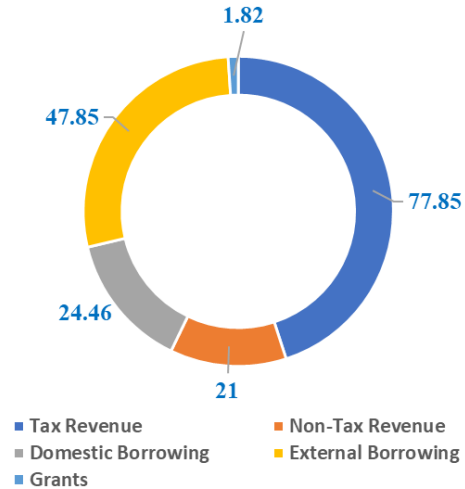
Environmental Protection reduced from 0.8% to 0.6%, Housing and Community Amenities reduced from 1.9% to 1.4%, Health reduced from 8.1% to 8%, Education reduced from 11.5% to 10.4% and Social Protection reduced from 4% to 3.6%. The share of Recreation, Culture and Religion was maintained at 0.1% in the 2021 and 2022 budgets.



A more detailed assessment of the sub-budget items indicates that the allocation to the Constituency Development Fund (CDF) for development interventions increased from K249.6 million in 2021 to 3.22 billion in the 2022 budget. Furthermore, an extra allocation of K792 million to the CDF has been allocated for secondary school and skills development bursaries. The total allocation to the CDF, for both development interventions and bursaries is therefore K4.0 billion or K25.7 million per constituency.

The new government has also reduced the allocation towards road infrastructure from K6.2 billion in the 2021 budget to K4.9 billion in the 2022 budget. The Farmer Input Support Programme (FISP) allocation has also been reduced from K5.7 billion in 2021 to K5.4 billion in 2022. Government has increased the allocation to Water Supply and Sanitation (K2.2 billion to K2.35 billion), Social Cash Transfer (K2.3 billion to K3.2 billion), the Public Service Pension Fund (K1.1 billion to 2.1 billion) and Drugs and Medical Supplies from K1.4 billion in the 2021 budget to K3.4 billion in the 2022 budget.

Figure 2: Budget Financing-2022 (KBillion)



In order to finance the 2022 budget, the government plans to borrow a total of K72.3 billion or 42% of the budget from domestic and foreign lenders. This is compared to K51.7 billion or 43.2% of the 2021 budget. Figure 2 shows that government has not been able to significantly increase budget support through grants. Grants will reduce from K1.99 billion to K1.82 billion in the 2022 budget as compared to the 2021 budget. Essentially, the financing plan indicates that government will continue to operate under a tight fiscal space. The total projected tax revenue of K77.85 billion will not be able to cover the debt servicing amounting to K78.7 billion with the shortfall being covered by non-tax revenue, grants and additional debt.

2.2.1 Increased commitment to macroeconomic stability

As part of the national budget speech, government outlined the broad macroeconomic objectives, policies and measures to be undertaken in 2022. The following are the macroeconomic objectives for the year 2022 as compared to the 2021:

- Increase economic growth from 1.8% to 3.5%
- Tighten the fiscal deficit from 9.3% of GDP to 6.7% of GDP.
- Increase the domestic revenue mobilization from 18% of GDP to 21% of GDP.
- Reduce inflation towards the 6 to 8% target by mid-2023.
- Increase international reserves from 2.5 months to 3 months of import cover
- Limit Domestic Borrowing to 5.2% of GDP.

Government has therefore committed to improved macroeconomic stability in order to restore the health of the economy.

2.2.2 Drive towards Economic Transformation

In order to address the current macroeconomic challenges, Government plans to implement an economic transformation programme (ETP). The UPND manifesto notes that “the ETP will be the overarching framework that will bring together our interventions in the various sectors of the economy to create more and better jobs and to eliminate poverty.” A drive towards Entrepreneurship is also posed to generate

more employment for the youthful population. In the 2022 budget, Government plans to create jobs through increasing productivity in the mining sector, setting up farming blocks in the agricultural sector, and revitalizing the Multi-Facility Economic Zones in the Manufacturing sector.

2.2.3 Debt Management and IMF support

In terms of budget financing, the Government plans to borrow a total of K72.3 billion (US\$ 4.3 billion) or 42% of the budget from domestic and foreign lenders. This is compared to K51.7 billion or 43.2% of the budget in 2021. Since government has also committed to a lower fiscal deficit target. It is hoped that the debt financing will be reduced as the country restructures its loans in order to reduce debt servicing costs. Government also plans to reach an agreement with the IMF by the end of November 2021. The Minister of Finance noted that “there is no option to securing an IMF program otherwise the debts we owe will choke this nation to a stand-still.” The 2022 budget also acknowledges the support from the IMF, the condition-free Special Drawing Rights gift equivalent to US \$1.33 billion which was extended to Zambia in August 2021. Part of the Special Drawing Rights will be used to support the 2022 Budget.

2.2.4 Cost of Living

In order to cushion the rise in the cost of living, Government has proposed to increase the exempt threshold for Pay-As-You-Earn (PAYE) income tax to K4,500 from K4,000 and adjust income tax bands. This means that Government will be putting K600 million in the hands of employees. However, this extra income is likely to be offset through the looming increase in local fuel pump prices and electricity tariffs. Government believes that “in the electricity sub-sector, tariffs are not cost reflective hence the low private sector investment. In the petroleum sub-sector, the procurement of petroleum products has been plagued by inefficiency and non-cost reflective prices.” This means that Government is likely to increase electricity tariffs and fuel pump prices. With reference to fuel prices, the Minister noted that fuel arrears have significantly risen due to the price differential between the landed cost of petroleum products and the pump price. The stock of fuel arrears as at end-August 2021 stood at US \$477.79 million.

2.2.5 Mining Sector Tax Changes

There has been a shift in government policy within the mining sector towards a more production-focused approach. Government believes that focusing on increasing productivity is the key to higher earnings, more jobs, business opportunities, higher tax revenue and increased foreign exchange earnings. In order to attract investment and boost production in the mining sector, government has planned to re-introduce the deductibility of mineral royalty for corporate income tax assessment purposes. This means that mining companies will now be able to reduce their income tax obligations through deducting mineral royalties. The revenue loss from this measure is projected at K3.2 billion.

2.3 Implications

- a) Government has committed to improved macroeconomic stability through a higher growth target, lower fiscal deficit target and higher target for gross international reserves. This will increase public confidence and generate greater support which can be used as a basis for implementing unpopular economic measures such as increasing fuel prices and electricity tariffs.

The greater commitment to macroeconomic stability is also likely to increase investor and donor confidence for increased investment and budget support.

- b) Government has targeted steps to address the unemployment challenges through plans to directly recruit 44,200 public service workers and encourage job creation in the agricultural, manufacturing and mining sectors.
- c) The 2022 budget shows signs of IMF influence. Government has relaxed corporate income taxes, made mineral royalty deductible for income tax purposes and indicated its plans to remove fuel subsidies and increase electricity tariffs. There are also plans to transform FISP into a more cost-effective agricultural support programme.
- d) The 2022 budget will only be effectively implemented if Zambia obtains an IMF program. Attaining an IMF program will provide a basis for effectively addressing the current debt crisis. This will in turn free up resources for social sector spending.
- e) Government has relaxed its tax policy in the mining sector in preference for increased investment. Government is trading off K3.2 billion in the hope that the change in the tax regime will attract more investment, increase productivity and employment and then generate more tax revenue while maintaining the tax regime.
- f) The increase in the overall budget total as compared to the 2021 budget indicates that the UPND government has not taken sufficient action towards demonstrating fiscal discipline. The 2022 budget increased by 44.6% as compared to the 2021 budget increase of 12.8%, 2020 budget increase of 22.1% and 2019 budget increase of 21.1%. The 2022 budget is consequently too ambitious and has resulted in unrealistic revenue projections. Government is projecting a significant increase in PAYE and Mineral Royalty while at the same time increasing the exempt threshold for PAYE and making Mineral royalties deductible.

2.4 Recommendations

2.4.1 Observations

The 2022 budget is overly ambitious and depends heavily on the anticipated IMF support. Government should therefore take urgent action to secure an IMF program in order to guarantee budget credibility.

2.4.2 Transparency

The Minister of Finance and National Planning did not outline how much of the Special Drawing Right (SDR) will be used to support the 2022 budget. There is need to explain to the public how government plans to utilize the SDR given to Zambia in order to enhance transparency.

2.4.3 Accountability

Government has opted to make mineral royalty deductible from income tax in order to stimulate growth in the mining sector. There is need for CSOs to hold government to account in the event that this concession results in no growth and limited increase in revenue. Government should be made to account for the K3.2 billion lost due to this tax change. 2022 mid-year economic reviews should be able to reasonably indicate whether this measure has been successful.

2.4.4 Corruption Risks

The increase in the Constituency Development fund will present significant corruption risks at local government level. Government should take steps to improve the capacity of local authorities and sensitize relevant stakeholders on the guidelines for the utilization of CDFs.

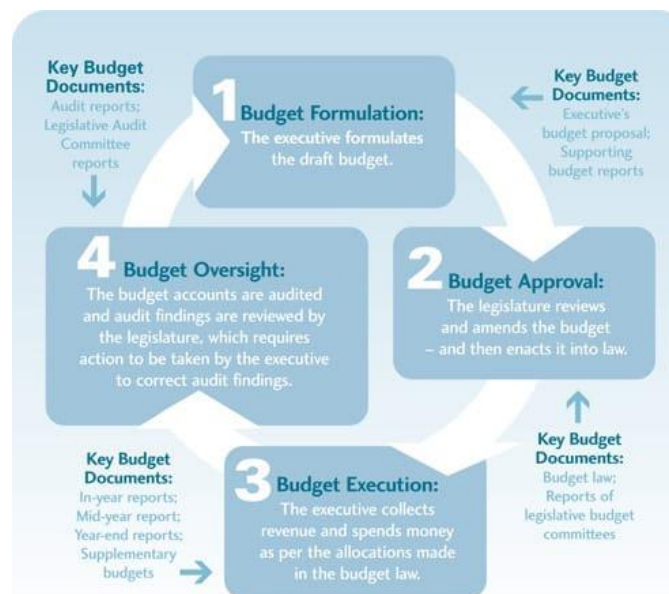
There is need for civil society organizations to complement government efforts in increasing the capacity of local authorities in managing the CDF and to enhance citizen participation, prudent management and inclusiveness.

3. The Budget Process

3.1 Background

The budget process in Zambia is guided by the Constitution of Zambia (Amendment) No. 2 of 2016 in addition to other pieces of legislation including the Planning and Budgeting Act No. 1 of 2020 as well as the Public Finance Management Act No. 1 of 2018. On the policy front, Zambia developed its Planning and Budgeting Policy in 2014. This legislative and policy framework contains provisions supporting public participation at various levels. For instance, the Constitution of Zambia Article 205 (d) guarantees the participation of citizens at all levels of government in the formulation of financing frameworks, development plans and preparation of national budgets.

The budget cycle itself also contains four main stages, all of which are key opportunities for public participation and consultation. However, this budget analysis will concern itself with the first two stages, namely budget formulation and budget approval.



Despite the 2014 policy and the legal framework providing for public consultation on the budget, this is not complete. Budget processes are still characterized by limited transparency and public participation as well as minimal scope for influence in budget formulation. The Ministry of Finance has not always engaged the public for input into the development of the green paper. For instance, the Green paper is now seen as an internal paper. The year 2018 is when the last green paper was uploaded on the MoF website. Further, in 2021 the Call circular was only shared on MoF website in September, after the window for engagement on it had passed.

The legislative framework for parliamentary debate after the budget has been presented to parliament provides little scope for amendment before the budget is passed into law. Article 202 (5) of the Constitution (Amendment) No. 2 of 2016 states that the National Assembly shall pass the budget into law before end of the year.

The budgeting process is also linked to the national development planning processes as guided by both the Planning and Budgeting Act and policy. Each National Development Plan is designed as a 5-year plan detailing the development objectives, sectors, output indicators and financing requirements. The national budget is meant to draw from the national development plan and contribute to its milestones within a particular year.

Zambia is now concluding its 7th National Development Plan and the development of an 8th National Development Plan is still on-going. Following the elections, the draft plan is undergoing revision to place it in line with the direction and priorities of the new Government. The current lack of a completed, clear and detailed development plan is not ideal.

3.2 Budget Changes

3.2.1 Policy Direction

The Minister of Finance began his budget speech by referring to the Republican President's opening address to the first session of the Thirteenth National Assembly of Zambia which he said was an outline of the new Government's policy direction for the next five years (2022 Zambia National Budget Speech, 2021). This was an attempt to provide developmental direction for the national budget in the absence of an 8th National Development Plan as per the Planning and Budgeting Act No. 1 of 2020. 2021 being the concluding year of the 7th National Development Plan, the next plan is still under development. However, as stated earlier, the 8th National Development plan is expected to follow the direction set out in the President's National Assembly address as well as the United Party for National Development manifesto. These are expected to be expanded upon and drawn out in the national development planning framework.

3.2.2 Structure of the budget

Since 2021 and continuing in the 2022 budget, Government has utilized the full Output Based Budgeting which provides an emphasis on the expected outcomes from each of the various allocations throughout the budget. Further, the 2022 budget indicates the linkages to national development framework for each MPSA head of expenditure making it possible to determine what each expenditure is contributing to in national development. These national development indicators were drawn from a draft of the 8th national development plan which is currently under revision.

The structure of the OBB Budget comprises six (6) main sections, namely Mandate, Strategy, National Development Plan Framework (Cluster, Cluster Outcome, Immediate Outcome and Strategy), Budget Summary, Budget Programmes (includes Sub-programmes and Outputs) and a Geographic Location Annex. The rationale under each of these sections is outlined below:

Meanwhile, the legislative and policy framework for the 2022 budgeting processes have remained the same.

3.2.3 Legislative Changes

The 2022 budget highlights as housekeeping measures a number of legislative changes to update, strengthen and reduce ambiguities concerning certain provisions of the tax laws as well as to attempt to make tax administration more effective. These measures include amendments to the Income Tax (Amendment) Act No. 20 of 2020, Customs and Excise (Amendment) Act No. 21 of 2020, Property Transfer Tax (Amendment) Act No. 22 of 2020, Insurance Premium Levy (Amendment) Act No. 16 of 2018 and the Value Added Tax (Amendment) Act No. 23 of 2020.

Other changes include amendments to the guidelines and standards of the Constituency Development Fund (CDF) for their utilization, management, monitoring and evaluation of resources as well as capacity building following their increase from K1.6 million to K25.7 million per constituency and inclusion of new functions.

3.2.4 Key allocations under Ministry of Finance and National Planning

The Ministry of Finance and National Planning has key functions which will be cardinal in the efficacy of the budgeting process in the 2022-year period. The main function relating to this being development planning and coordination.

The allocation towards development planning and coordination programme has moved from no allocation in 2021 to K208 million due to the incorporation of the Ministry of National Development Planning into the Ministry of Finance following the 2021 General Elections. However, interrogating the 2021 allocations under the Ministry of National Development planning reveals that development planning and coordination was a sub programme at the ministry with an allocation of K759 million showing a 72.6% reduction in allocations. The high figure for development planning and coordination may be attributed to the development of the 8th National Development Plan which reached an advanced stage but can only be concluded after revisions to place it in line with the new Government policy direction.

3.3 Implications

3.3.1 Positive Implications

TI-Z commends the continuation of the full Output Based Budgeting in the 2022 budget and the efforts to ensure clear linkages are outlined between expenditure and the national development framework. This provides an opportunity for citizens to appreciate the expected outcomes of each expenditure allocation.

The completion of the 8th National development plan is important for clearly outlining the details of the policy direction already mentioned in the President's address to Parliament and the UPND manifesto. The revision of the draft 8th national development plan to include the new Government's direction could also potentially provide a fresh occasion for public involvement in providing input before its finalization. TI-Z will seek to engage other CSOs in pursuing this avenue.

TI-Z will further benefit from the OBB through its provision of clear output indicators of each expenditure head making it easier for vertical accountability at local level.

3.3.2 Negative Implications

On the other hand, the allocations in the development planning and coordination programme at Ministry of Finance and National Planning might not be sufficient considering the drastic reduction in allocations even though the 8th National Development Plan is not yet in place.

3.4 Recommendations

- a) There is need for Ministry of Finance and National Planning to expedite the completion of the 8th National Development Plan with an inclusive approach to public participation in the process.
- b) Reform of the Budget formulation process in order to:
 - Enhance the scope for changes to the budget during the legislative stage is required for meaningful engagement on the budget at that stage.
 - There is need for greater openness from Ministry of Finance in engaging the public in budget formulation (e.g. consistency of engagements on the Green Paper).
 - While the budget is being formulated, there is need for greater engagement and feedback between Ministry of Finance and National Planning and the various
- c) There is need for Ministry of Finance and National Planning to ensure consistent availability of budget information in the yellow book to address gaps in some allocations and expenditures of precious years to promote transparency and accountability by citizens.

4. Democratic Governance; Anti-Corruption and Governance Issues

4.1 Background

The fight against corruption in Zambia is anchored on the 2009 National Anti-Corruption Policy that provided for a coordinated and multi-sectoral approach to corruption prevention. However, this policy came to an end in 2015 and since then there has been no policy to guide the fight against corruption in Zambia. Government in consultation with stakeholders drew up a five-year Implementation Plan covering the period 2011 to 2015, to facilitate implementation of the Policy. Implementation of the Policy has resulted in notable progress being made in the fight against corruption, although the country is still facing challenges that continue to hamper the efforts being made in curbing this vice.

The legal framework that supports the fight against corruption in Zambia ranges from, the Constitution of Zambia (Amendment) Act No. 2 of 2016, The Anti-Corruption Act No. 3 of 2012, The Forfeiture of Proceeds of Crime Act No.19 of 2010, The Public Interest Disclosure (Protection of Whistle blowers) Act No: 4 of 2010, International Laws and Agreements on Corruption, Penal Code Act Chapter 87 of the Laws of Zambia, Criminal Procedure Code Chapter 88 of the Laws of Zambia, Prohibition and Prevention of Money laundering Act No. 44 of 2010,Public Procurement Act No. 8 of 2020,Public Finance Management Act No. 1 of 2018,National Prosecution Authority Act No. 34 of 2010,Bank of Zambia Anti-Money Laundering Directives, 2004; and Electoral Process Act No. 35 of 2016.

The major governance challenges range from Inadequate legal, policy and institution framework on the fight against corruption. Inadequate legal and effective implementation of the Lifestyle Audit Mechanism and declaration of assets. Incompetent/compromised Civil Service and weakened criminal justice system. Vulnerability of public procurement to corrupt practices and the abuse of public resources. limited geographical coverage by the Anti-Corruption Commission, inadequate human, financial and material resources required to execute its mandate efficiently and effectively, limited coordination, cooperation and collaboration to facilitate inter-agency linkages in the fight against corruption, which needs to be addressed. In addition, the oversight institutions and Law Enforcement Agencies are yet to establish effective and efficient collaboration mechanisms in the sphere of State accountability.

Further, the country lacks the implementation of certain pieces of legislation that are critical to the promotion of accountability, transparency and good governance. The Access to Information Act, Loans and Guarantee Act are important to the enhancement of good governance regarding loan contraction and usability. The country has further experienced inadequate implementation of the provisions of the Public Financial Management Act, Planning and Budgeting Act and the Procurement Act of 2020.

Furthermore, resources allocated towards the main programmes in the institutions of integrity seems to be less towards the main function of asset recovery as indicated in the UPND manifesto. The Government needs to place measures in the areas of infrastructure development as these have been used as low hanging fruits for corruption in the previous PF regime

4.2 Budget Changes

4.2.1 Notable Changes in the 2022 Budget

Budget Credibility; the fight against corruption is one of the priorities for the UPND Government in the 2022 budget. This to some extent spells out budget transparency and accountability for the Government. Against this and to strengthen the fight against corruption, there is increased allocation in the 2022 Budget for law enforcement agencies and investigative wings. This is in line with the pronouncements by His Excellency, Mr. Hakainde Hichilema, President of the Republic of Zambia the President since he took office.

4.2.2 Increased allocations

The 2022 budget has increased allocation towards oversight institutions and law enforcement agencies as compared to the 2021 budget. For example, in 2021 the Anti-Corruption Commission an institution with the mandate to Prevent, investigate and prosecute corruption offenders and educate the public on issues of corruption as provided in the Anti-Corruption Act (No. 3 of 2012) received a total allocation of ZMW 72,787,743 with a summary estimates by economic classification indicating that 82.5 percent (K60.0 million) of the total budget of Anti-Corruption Commission is allocated to personal emoluments, 15.9 percent (11.6 million) to the use of goods and services, and 1.6 percent (K1.1 million) to the acquisition of assets. In the 2022 budget, the ACC has been allocated a total ZMW 101,070,614 with a summary estimate by economic classification indicating that 64.6 percent (K65.3 million) of the total budget of Anti-Corruption Commission is allocated to personal emoluments, 20.5 percent (20.7 million) to the use of goods and services and 14.8 percent (15 million) to the acquisition of assets.

With respect to major ACC programmes, in 2021 the corruption and prevention was allocated 3,957,863, corruption investigation and prosecution 34,840,489 and Management and Support Services with 3,989,391 respectively. In the 2022 budget, corruption and prevention has been allocated 17,075,924, corruption investigation and prosecution 51,032,708, Management and Support Services 32,961,982. The total estimate of expenditure for these programmes in 2022 is K101.1 million compared to K72.8 million in 2021, representing an increase of 38.9 percent.

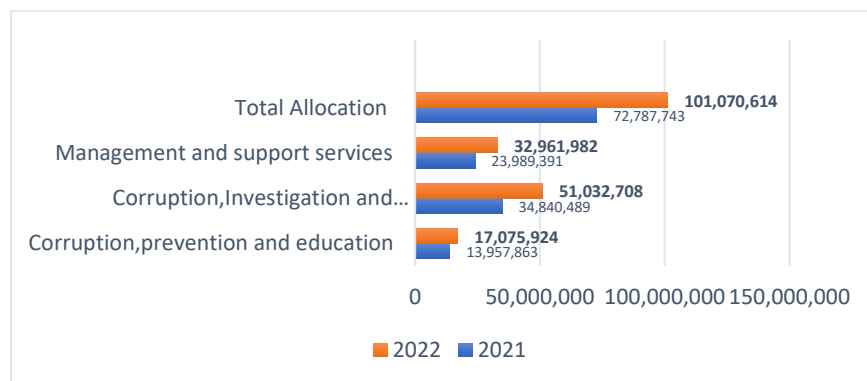


Figure1: Anti-Corruption programme allocations.

In 2021, the Auditor's General office received a total allocation of 98,324,875 with Personal Emoluments at 63,394,867, Goods and Services at 34,580,008 and Assets at 350,000. In the 2022 budget, the total

allocation is 103,986,197 with personal emoluments receiving 71,395,408, Goods and Services at 31,800,789 and Assets at 790,000.

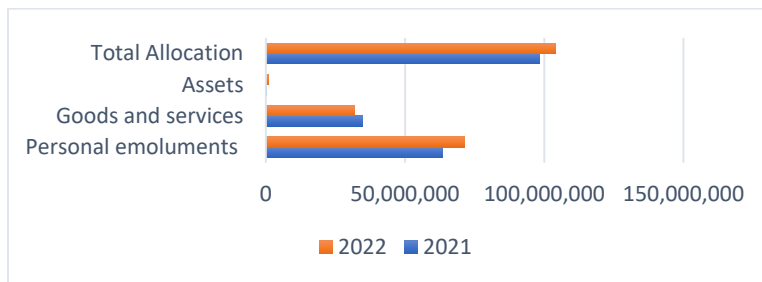


Figure 2; Auditor's General allocation.

When it comes to the Zambia Police service, the total estimates of expenditure for the service has increased from K 9.0 million in 2021 to K 13.6 million in 2022, representing a 49.8 percent increase. The budget estimates by economic classification show that 72.5 percent (K9.8 million) of the total budget has been allocated towards Personal Emoluments, 19.1 percent (K2.6 million) has been earmarked for Use of Goods and Services while Assets have been allocated 8.4 percent (K1.1 million).

The National Assembly has five major programmes; Legislation Enactment, Parliamentary Oversight, Parliamentary Representation, Parliamentary Budget Approval and Management and Support Services. The total estimates of expenditure for the National Assembly for these programmes for the year 2022 is K715.6 million compared to 826,735,474 in 2021. The summary estimates by economic classification indicates that 72.3 percent (K517.6 million) of the total budget for the National Assembly is allocated to Personal Emoluments, 27.3 percent (K195.4 million) is allocated to the procurement of Goods and Services and 0.4 percent (K2.5 million) for acquisition of Assets.

The Office of the Public Protector's mandate is to Curb and redress grievances of mal-administration in public institutions to enhance effective and efficient service delivery to the general public. This is in accordance with Article 244 of the Constitution of Zambia Amendment Act No.2 of 2016.

The summary estimates by economic classification under the Office of Public Protector indicates that 28.7 percent (K5.5 million) has been allocated to Personal Emoluments for payment of salaries to

officers of the institution, 50.9 percent (K9.8 million) for Use of Goods and Services, 0.2 percent (K40,000) for payment of subscriptions and 20.2 percent (K3.9 million) for acquisition of Non- Financial Assets such office equipment and furniture. The allocation to this Programme has increased due to the inclusion of K2.5 million for procurement of vehicles to support operations.

The Judiciary's core mandate is to hear civil and criminal matters and matters relating to, and in respect of the Constitution. This is in accordance with Articles 118 and 119 of the Constitution of Zambia (Amendment) Act No. 2 of 2016. The summary estimates by economic classification indicates that 66.7 percent (K411.7 million) of the Judiciary's total budget has been allocated to personal emoluments, 23.2 percent (K143.3 million) to use of goods and services while transfers and subsidies, and assets have been allocated 1 percent (K4.1 million) and 9.4 percent (K57.9 million) respectively.

4.2.3 Changes in Policy Direction

The 2022 budget has also proposed a number of policies aimed at stimulating economic recovery, increasing resilience and safeguarding the livelihoods of the Zambian people. The following are the key policy changes in Democratic Governance's key focus areas:

- The Government intends to strengthen National Planning, internal controls and audit, resource mobilization, procurement as well as transparency in debt contraction and management, among other areas.
- The Government intends to repeal the Grants and Guarantees (Authorization) Bill and replace the Loans and Guarantees (Authorization) Act Cap 366 of 1969. The Bill will, among others, propose to enhance transparency in public debt management, including loan contraction, and provide a framework for evaluation, issuance, and monitoring of public guarantees.
- The Government intends to fully implement the provisions of the Public Financial Management Act of 2018.
- The Government intends to develop a Local Authorities Financial Management Information System framework to be developed for oversight in the management of CDF.
- Wasteful expenditure; in addition, the Government has also made serious policy directions regarding wasteful expenditure and the Farmer Support Input Program is one of such a policy direction.
- Furthermore, the Government intends to strictly enforce the provisions of Public Procurement Act No.8 of 2020 which will ensure that the procurement of public goods, works and services are done at the right price in accordance with the quarterly market price index published by the Zambia Public Procurement Authority.
- Financial Inclusion and decentralization. Further, the 2022 budget has brought in the financial inclusion policy direction and this is evidenced through the decentralization of the constituency development fund that will be managed at constituency level.
- To increase domestic resource mobilization, government seeks to continue implementing measures aimed at enhancing the domestic resource envelope. These include modernizing tax administration and improving tax compliance.
- In order to restore debt sustainability, government has embarked on a number of measures such as cancellation, postponement and re-scoping of projects.

4.3 Implications

4.3.1 Positive Implications

- It is anticipated that the increased allocations towards the oversight institutions and other law enforcement agencies will enhance their capacity to fight corruption in an open and accounted manner with the engagement and participation of various stakeholders including state and non-state actors.
- Increased allocation towards expenditure functions will enhance social interventions, the institutional and legal frameworks by both state and non-state actors in the fight against corruption and promotion of good governance.

- There is a possibility of decentralizing the operations of the oversight institutions and other law enforcement agencies and widen the scope of operation in line with the provisions of the Republican Constitution.
- It is anticipated that the political will pronounced for the fight against corruption will contribute to building confidence in the people of Zambia of their governance system and institutions. It will also enhance human dignity, rule of law, access to justice, service delivery, transparency and accountability as well as contribute to social and economic development.
- The actualization of the much-needed pieces of legislation such as loans and guarantees Act may promote integrity, transparency and accountability in loan contraction and budget implementation.
- Decentralization and increased allocation of CDF funds will spur economic activities at local level.

4.3.2 Negative Implications.

From all the institutions analyzed, a significant cost has been allocated towards personal emoluments as opposed to operational area. This has potential to cripple effectiveness and efficiency in those areas i.e., assets recovery, corruption prevention etc.

4.4 Recommendations

4.4.1 Observations and Recommendations

Personal emoluments seem to be crowding out support to other important programmes in all the oversight and law enforcement agencies allocations. This may weaken the effectiveness of these institutions to perform their mandate due to limited funding to its operational areas. This increased allocation is not in tandem with operational challenges that most of these oversight and law enforcement agencies have faced before. There is need to prioritize disbursements to the operational programmes of these institutions in the 2022 budget.

These and other policy measures are commendable but generally inadequate to address the current anti-corruption and governance challenges surrounding the 2022 budget. This therefore calls for a consolidated action plan with specific guidelines on budget credibility, integrity, transparency and accountability.

4.4.2 Issues of transparency, accountability and corruption risks

Inadequate legal framework in the management of the CDF grants.

5. People Engagement and Advocacy

5.1 Background

Zambia has over the years continued to provide for a number of pieces of legislation designed that addresses that and curb corrupt practices. These laws have continued to create institutions and confer on these the necessary powers to enable them to carry out their mandates. This has in effect provided the country with legal processes that have the potential to impact the desired results under the past National Development Plans (NDPs) through these pieces of legislation which includes, inter alia, the Anti - Corruption Act No. 3 of 2012, the Planning and Budgeting Act, No. 1 of 2020, the Constituency Development Fund Act no. 11 of 2018, the Local Government Act, No. 2 of 2019 and related guidelines on the Establishment, Management and Operations of Ward Development Committees of 2013, the Penal Code Amendment Act, CAP , the Electoral Process Act no. 35 of 2016, Competition and Fair Trading Act, Procedure Code Act CAP 88 of the laws of Zambia, Public Interest Disclosure (Protection of whistle blowers) Act No. 4 of 2010, Plea Negotiations and Agreements Act No. 22 of 2010, National Prosecutions Authority Act No. 34 of 2010 etc.

While focusing on community outreach, media participation and public financial management for purposes of improving social service delivery and social accountability initiatives especially in rural communities, our sectors of priorities have been centred on Farmers Input Support Program (FISP), Constituency Development Fund (CDF), Primary Health Care and water and Sanitation. Across these sectors, it has been noted that corruption in the delivery and acquisition of public services seemed to be a growing norm with people accepting it as a way of doing business. To some, the thought of ending it was not even conceivable at all. Further to this, challenges have been defined at all the five levels of governance being; Lack of people participation in the execution of development projects just as that under CDF; with notable lack of consultations of project beneficiaries at planning and budgeting as well as in the tracking/ monitoring of funds from disbursements to actual expenditures while the lack of knowledge around the CDF guidelines among people contributed to the lack of accountability in the funds due to the absence of mutual accountability practices. For challenges surrounding FISP, the Direct Input Support mode of delivering inputs was seen to be unsustainable to the treasury with expenditures increasing significantly over the years with limited change in the number of beneficiaries and input package. The FISP PROGRAM was also characterised by serious challenges in delivery as beneficiaries had at most received fewer inputs than what they would pay for. Similarly, in areas where the e-voucher system is being used, some farmers have not been receiving inputs despite making a contribution while there has been no equity in terms of benefit between the two delivery modalities.

For water and Sanitation, issues have been the Inadequate access to clean and safe drinking water and provision of sanitation services. In most cases, there have been incomplete water projects over long period of years due to lack of funding while the lack of adequate budget allocation to address issues remained one key issue of concern. For the Primary Health Services, the sector has in the past years been marred with inadequate medical supplies, poor service delivery due to inadequate health personnel and lack of platforms for patient's feedback to challenges. Generally, the lack of knowledge among people on the budget allocations towards key development programs which limits their accountability in that regard ; Lack of transparency as driven by the lack of the access to information law that prevent citizens from Knowing what plans governments has put in place for them and enjoying their rights to demand for

accountability and participate adequately; Lack of deliberate civic spaces as espoused by the Shrinking democratic space that has not given people with dissenting views that did not seem to agree with the acting government and the Lack of whistle blowers on witnessed issues.

5.2 Budget Changes

5.2.1 FISP

The Ministry of Agriculture intends to improve agriculture development services and enhance partnership in agriculture development, through the promotion of climate smart agriculture technologies, developing and implementing integrated early warning systems and promoting of Public Private Partnership (PPP) in the agriculture sector. The Ministry hopes to through implementation of five (5) key programmes namely Agriculture Development and Productivity, Agribusiness Development and Marketing, Strategic Food Reserves Management, Seed Standards and Regulation and Management and Support Services with a total estimated expenditure of K7.3 billion out of which 5,751,798,285 is allocated to Agriculture Development and Productivity with 5,372,670,459 allocated to FISP among other sub programs under it. for changes ...

- Government plans to implement a cost effective, better targeted and equitable across beneficiaries by supporting the supply of quality inputs, attain diversification of crops as well as increase production and productivity. This will provide farmers an opportunity to grow crops of their choice as compared to the limited number of crops that were being offered under the Direct Input Supply method.
- Other than small-scale farmers, the budget will promote large scale estate production for both domestic and export markets which is aimed at increasing crop production and productivity. Thus reduced the cost of implementing the Farmer Input Support Programme from 5,701,404,933 (2021) to 5,372,670,459 (2022).
- Employment of many people at different levels of skills, create associated business opportunities, support agroindustry, support viable out grower schemes and earn foreign exchange
- The programme is estimated to cost K5.4 billion. Part of this allocation will be used to clear outstanding arrears to agro dealers and other suppliers

5.2.2 Water and sanitation

- access to water and sanitation services as well as improving good hygiene practices by all segments of the population for both urban and rural water supply and sanitation
- Water Supply and Sanitation K- 1,961,805,107 (2021) and K2,004,816,218 (2022) representing 91.1% of the total allocation. The total budget for the Ministry of Water Development and Sanitation is K2.2 billion. Of this amount, 91.1 percent has been allocated to Water Supply and Sanitation
- Working with our Cooperating Partners to ensure that these projects are completed in good time.
- One of the key outcomes of these interventions is to reduce the distances our mothers and children cover to fetch water.

To reduce the cost of drilling boreholes, Government has scrapped fees for application and registration and annual fees to drill domestic boreholes. Application, registration and annual fees

will only apply to commercial boreholes. However, it will still be a requirement to register all boreholes or apply to drill a borehole failure to which penalty fees shall apply. These measures are in effect from 1st January, 2022.

- In addition, K1.5 billion has been allocated to the Water Supply sub-programme which will now focus on urban and rural water supply infrastructure development and water quality monitoring (Construction of new water supply infrastructure, rehabilitation of old and dilapidated water supply infrastructure in urban and peri urban areas, drilling of boreholes equipped with hand pumps and the rehabilitation of non-functional water points).
- In order to facilitate the improvement of water supply and sanitation for all, the Ministry of Water Development and Sanitation will increase water supply and improve sanitation conditions through the construction of 3,205 boreholes and the rehabilitation of 2,825 boreholes

5.2.3 CDF

- Tasks that were previously under the central government through the district offices will now be undertaken by the local authorities, working with the local communities through CDF.
- In terms of Budget Allocation, the Constituency Development Fund (CDF) now falls under the local governance program as a sub activity with an allocation of K4,015,426,103 in 2022 compared to the approved K249,600,000 for the year 2021. Representing a massive increment of 1609 percent. The increase in the allocation of CDF is to ensure that more resources are taken close to the people through constituency structures.
- Community based projects and empowerment schemes now to be funded under CDF. There has been an increment to the Constituency Development Fund (Community Projects) - 249,600,000 for 2021 to 2,420,114,781 for 2022 with new categorizations Constituency Development Fund under Secondary School & Skills Development Bursaries - 792,226,102 for 2022 and Constituency Development Fund - Youth and Women Empowerment K- 803,085,220 for 2022 (new item under CDF)
- Targets to have 100 percent disbursement of Constituency Development Fund (CDF) to all the constituencies. 1 Consolidated CDF Financial Statement Prepared Consolidated CDF Financial Statement Submitted
- For prudent use of resources, Government plans have developed guidelines and standards of utilization, management and monitoring and evaluation of resources together with capacity building programs.

5.2.4 Health

- Within its allocation of K4.7 billion, the Primary Health Services sub-programme will provide for operational grants to health centers and health posts, in order to provide health promotion and education, clinical care services and conduct outreach community-based services.
- The Primary Health Services Programme has received a K1.6 billion (51.2% (representing 4,775,104,214 out of the 12,416,098,313 allocated to the program) increment compared to the 2021 allocation. The increment is aimed at strengthening primary health care interventions that focus on prevention, promote and curative services
- Partnering with the private sector to create centers of specialization so that Zambians can access specialized health care locally whilst attracting regional medical tourism

- Procurement of medicines to be undertaken by Zambia medicine and medical supply agency in accordance with the Zambia medicines and medical supplies agency Act No. 9 of 2019
- Recruit and deployment of over 11, 200 health personnel

It is also important to note that in an effort to improve access to healthcare services as close to the family as possible, the Ministry has continued with the construction of health posts. In 2014, Government initiated a project to construct 650 health posts with an objective of increasing access to primary healthcare. As at June, 2021 a total of 563 health posts were completed of which 184 were completed in 2020 and 7 were completed by June 2021. In 2022 the target is to complete 40 health posts under the Infrastructure Development sub-programme and allocation K69.9 million to facilitate this completion of health posts.

The Government has set a target of achieving HIV epidemic control by ensuring that not less than 90 percent of HIV positive clients are commenced on ART. In 2020 there were 1,168,731 people living with HIV put on Anti-Retroviral (ART) against a target of 1,200,000 while in 2021 as at 30th June, a total of 1,183,614 are on ART against a target of 1,232,059. The Ministry has set a target of 1,732,000 people living with HIV to be put on ART in 2022.

5.3 Implications

- a) Decentralised and increased allocation of CDF has potential to spur economic activities at local level and widening of scope for utilization of CDF
- b) The shift of central government role through District offices on the CDF performance to local authorities may require an urgent policy shift for the proper management of the fund.
- c) Increased CDF allocation to come with a wider scope of utilisation thereby placing the larger chunk of implementation of development on the constituencies themselves
- d) Funding of empowerment schemes from relevant ministries to be under CDF for equity would require an entire realignment in the policy direction to ensure prudent use of resources.
- e) CDF will improve service delivery at local level in water and sanitation, health, education etc
- f) To ensure budget credibility, there is need to enact legislation aimed at strengthening procurements and budget implementation for accountability
- g) FISP, if well managed, can increase agricultural productivity and hence lead to more exports of the same
- h) Regarding health sector and in the area of infrastructure development, there is a focus to complete the key facilities, it is critical that this is supported by the consequent increase in health care workers and supply of drugs
- i) There is a likelihood of massive contribution to economic growth and job creation in the agricultural sector

5.4 Recommendations

- a) The increase of CDF allocation to K25.7 million will require measures that ensure prudent utilisation of financial resources in all constituencies

- b) CDFs should ensure to Provide for an amendment law to CDF that shall allow implementing agencies to respond directly to concrete demands from the project beneficiaries and bypass the bureaucracies and channel funding directly to community level to enable participation of the local population in the choices of projects
- c) Government to Prioritise capacity building of communities of CDF changes for avoidance of abuse of these funds and ensure the uplifting of people' s livelihood through development projects.
- d) Under water, there is an urgent need to adopt a more aggressive investment mechanism for the sector to ensure that infrastructure is in place for the supply of clean water in homes
- e) Prioritise WASH to ensure effective delivery on set objectives under the water and sanitation. According to a water aid assessment of financing WASH, for 10 successive years till 2018, the sector was allocated 0.1 – 0.3%of GDP and less than 40% of what was allocated was actually disbursed
- f) Under health, Government to consider further incentives to encourage the local manufacture of drugs and medical suppliers to address the dependency on imports
- g) Government should provide training to farmers on the agricultural policy shift
- h) Enhance the supply value chain that promotes linkage between agriculture produce and agro processing

6. Environment and Natural Resources Governance

6.1 Background

6.1.1 LAND SECTOR

Land is a very important and critical resource for people's livelihoods and general development. The Land sector has had challenges which have included Land Tenure Insecurity, land encroachment, land displacements, oftentimes with little or no compensation, inadequate availability of serviced land in view of population growth and land disputes coupled with the bureaucratic nature of services which breeds corruption. Further state land administration is still very much centralized such that the Ministry has only two service/ registry points; Lusaka and Ndola.

Until 2021, the Land sector had no policy and the laws governing the sector have thus not been revised to take into account the changing environment and land markets trends. Land Administration is still governed by the Lands Act of 1995. With the approval of the National Land Policy in May 2021, it is expected that the legal framework and the principal legislation with subsidiary laws will be amended and new solutions will be implemented based on the objectives of the policy which includes the following among others;

- To strengthen the land allocation mechanisms in order to improve security of tenure.
- To facilitate land ownership by Zambian citizens in order to promote decent livelihoods and socio-economic development.
- Mainstreaming of climate change, natural resources and environmental protection in land administration and management for sustainable development.
- To achieve a gender sensitive and youth friendly land sector which is inclusive of persons living with disabilities and other socially marginalized groups.

According to the above objectives, some of the specific measures include; the mass land titling; requirements to allocate land to women, youth and disabled individuals; reduction in the age for ownership of land; regulation of non-Zambian ownership of land; and strengthened monitoring to ensure adherence to the law.

According to the UPND manifesto (p.17), the UPND Government's land policy will seek to promote equitable access to land for all the citizens of Zambia: for both the poor and the wealthy and irrespective of gender. We will strengthen land tenure security and enhance sustainable and productive management of land resources by upholding transparent and cost-effective systems of administration.

6.1.2 MINING SECTOR

Mining is expected to increase in the COVID and post-pandemic period, even more so for Zambia as the International Energy Agency forecasts increased demand for minerals and metals critical to the clean energy transition such as copper, cobalt and manganese. This is also evident by the increased global prices for copper from the average of US\$6,840 per tonne in September 2020 to US\$9,324.7 per tonne in September 2021.

Mining continues to be a key feature of Zambia's economy contributing over 70% to exports and 27.8% to government revenues. Zambia has already reported increased prospective investment in mining as well as proposals for expansion of existing mining projects. In 2020, Copper exports accounted for US\$4.0 billion out of total exports worth US\$5.1 billion. Additionally, Zambia recorded increased production of copper of 882,061 tonnes in 2020 from 776,430 tonnes produced in 2019, representing a 13.6% increase in copper production despite the pandemic – with a set target of 900,000 tonnes for 2021. This increase is significant given the low copper production recorded over the past, which has never exceeded 800,000 tonnes per annum.

The law that governs the mining sector is the Mines and Minerals Development Act No. 11 of 2015. Zambia has predominately maintained a privatisation model for mining since the early 1990s, albeit maintaining minority shareholding in large-scale mines through Zambia Consolidated Copper Mines Investment Holdings (ZCCM-IH). However, the former years of the PF administration saw increased state participation in managing large scale mines as seen in the contentious cases of Konkola Copper Mines and Mopani Copper Mines.

Notwithstanding the positive economic contributions and optimistic outlook of mining in Zambia, mining policies and legal reforms remain inadequate in ensuring transparency and accountability in the sector. Key issues pertaining to the sector include inconsistencies in mining policies, inconsistent taxation policies in the past and huge VAT refunds owed by the government to mining companies.

This is coupled with administrative challenges including: inadequate due diligence of mining license applicants; opacity in the awarding of mining licences, including granting mining licences in protected areas such as the case of Lower Zambezi; inadequate monitoring of mining rights holders; and illegal mining activities. In attempts to respond to these challenges, in 2020 the PF administration began the process of amending the Mines and Mineral Development Act, in addition to earmarking gold as a strategic mineral following the discovery of significant gold deposits in the country. Following the August 2021 elections, the UPND administration has subsequently acknowledged the significance of the mining sector and identified it as a key sector through which to bolster the economy.

6.1.3 FORESTRY SECTOR

Zambia's forest sector currently contributes about 5.2% to the country's GDP, and provides formal and informal employment to about 1.1 million people. The Government of Zambia seeks to manage and enhance forest products and services in order to mitigate climate change, boost income generation, poverty reduction and job creation, and protect biodiversity. According to the budget speech (2021), the government has prioritised development Programme which would enhance resilience among communities to climate change shocks by developing legislation through a legal framework of the National Climate Change Policy of 2016. Further, the government

The Forestry Sector is currently regulated by the Forests Policy of 2014 and Forests Act No. 4 of 2015.

The challenges in the sector, however, include inadequate personnel to manage the sector, especially uncontrolled deforestation. Generally, there is a lack of transparency and accountability especially in the timber concessions and licencing processes and the bigger challenge of illicit trade in endangered species like the Mukula and the Rose wood trees. Further deforestation is rampant and is affecting even the protected areas.

Through the Forestry Act of 2015, Community Forests Management Groups have emerged to promote community participation in forests conservation efforts. However, there is need to strengthen the legal framework to protect communities by enhancing the registration and recognition processes and further secure the rights of communities to protect their interests when dealing with private partners with interest in Forestry products among which is timber and Carbon.

6.2 Budget Changes

6.2.1 LAND SECTOR

The Ministry of Lands and Natural Resources has planned to strengthen Land administration by implementing land administration reforms, land audits, land surveys, land mapping, property boundary demarcation, land management information system and enhance the country-wide land titling and production of Certificates of Title.

The Government has allocated a total of K130,172,519 to the Ministry which has reflected a 40.2% reduction from the 2021 allocation of K217,893,293. The difference of the budget allocation is due to the creation of the Green Economy and Environment Ministry. Out of the total Ministerial budgetary allocation, Government has allocated K100,386,882 or 77.1% to Land administration and allocation.

Ministry of Lands and Natural Resources 2022 Allocations

Programme	Allocation (K)	% Share
Land Administration and Allocation	100,386,882	77.1%
Natural Resources Management	4,574,178	3.5%
Management and Support Services	25,211,459	19.4%
Total	130,172,519	

Under the Land Administration and Regulation, the government has planned to facilitate efficient and effective equitable land allocation, registration of properties and land titling for security of tenure. Below is the shift in the budget amount provided;

Among the targets set by government includes

- Land Allocation to Women: 50%
- Land Allocation to Youth: 20%
- Legislation Reviews: 4
- Improved Administration of Land & Land Related Legislation: No target
- Certificates of titles to be produced: 250,000

6.2.2 MINING SECTOR

The 2022 budget proposes the reintroduction of mineral royalty deductibility for Corporate Income Tax assessment purposes in efforts to increase investment and production. Nonetheless, the budget projects increased revenues from the sector including from mineral royalties and other fees charged by the Ministry of Mines and Mineral Development (MMMD) as shown in the table below:

Ministry of Mines and Mineral Development Revenues and Fees Projections

Revenue & Fees	2020	2021	2022
	Actual	Estimates	Estimates
Mineral Royalty	5,348,162,031.00	5,686,104,647.00	12,839,010,434.00
MMMD - Other Fees and Charges (Licence Fees, Fees & Surface Rental Charges, & Other rental charges)	53,823,713.00	54,478,214.00	57,478,214.00
TOTAL	5,401,985,744.00	5,740,582,861.00	12,896,488,648.00
Corporate Income Tax	9,512,55,519.00	9,114,550,496.00	16,393,900,240.00

Mineral Royalty (Tax) has remained constant at 6% and 9% for underground mining and Open cast mining operations respectively. However, the budget proposes Mineral Royalty deductibility for Corporate Income Tax reasons and further proposes a reduction in Corporate Income Tax to 30% from 35%. Despite these changes, the government projects increase in both Mineral Royalty and Corporate Income Tax revenue estimates for 2022.

On the expenditure end, total expenditure allocated to MMMD has decreased from K466,793,402 (2021) to K95,923,142 (2022) representing a 79% decrease in funding to the Ministry. Pertinent to TI Zambia's work in increasing transparency and accountability in mining award and approvals, the following are the notable changes:

Ministry of Mines and Minerals Development Allocations

Programme: MMMD	2021	2022	% Change
	Approved Budget (K)	Approved Budget (K)	
TOTAL (MMMD)	466,793,402.00	95,923,142.00	-79
2109 Mines Safety Health Environment	423,135,726.00	34,287,851.00	-92
2110 Mines Development & Management	14,163,646.00	27,546,318.00	94
9003 Mines Licensing	3,679,528.00	5,396,507.00	47
9004 Mines Standards and Regulation	10,484,118.00	22,149,811.00	111

The allocation to Mines Safety Health Environment which ensures small scale and large-scale mines comply with environmental regulations has decreased by 92%. Much of the decrease in expenditure is as

a result of no allocations towards Assets, and Transfers and Subsidies in the 2022 estimates. Moreover, the 2022 OBB shows that the MMMD as of mid-year 2021 has met over 50% of set targets for the number of mining companies complying with environmental regulations as well as health safety regulations.

Allocation to Mines Development and Management that encompasses Mines Licensing and Mines Standards and Regulation has increased by 94% with Mines Standards and regulations accounting for a substantive increase. Notably, in the 2022 budget Mine Licensing expenditure has been earmarked for the configuration and deployment of E-payments licensing system of K5.4 million with K22.1 million allocated towards mines inspections, plot assessments, surveying and demarcation.

The table below shows the actual targets achieved against set targets in 2021 and the programme’s 2022 targets.

Key Outputs and Output Indicators	2021		2022
	Target	Actual	Target
Number of small-scale mining licences issued	600	568	600
Number of large-scale mining licences issues	600	445	600
Number of artisanal mining licences issued	18	0	120
Number of mineral processing licences	20	14	20
Number of small-scale mines inspected	1500	68	724
Number of large-scale mines inspected	150	5	4

6.2.3 FORESTRY SECTOR

With the creation of a new Ministry of Green Economy and Environment, Government has placed environmental sustainability at the centre of all development efforts to bequeath future generations with a better environment through a Ministry dedicated to champion development of a green economy and a sustainable environment.

In environmental sustainability, the focus will be to strengthen climate change adaptation and mitigation, promote sustainable natural resources management and enhance the coverage of early warning systems. Government has thus planned to promote innovative financing for climate change interventions. This will be done through mechanisms such as the use of Green Bonds, promotion of carbon trading and putting in place legislation that establishes a National Climate Change Fund. Government will review the fee structure for environmental impact assessments.

Government’s allocation to the Ministry of Green Economy and Environment amounts to K817,205,158. Among the main programmes, Government has focused on the following; Forestry Development and Management 37.2%; Green Economy and Climate Change 40.5%; and the Environmental Protection and Management 18.3%. This reflects the prioritizing of the forestry sector and the Green Economy and Climate change;

Out of the K303,817,831 allocations to the Forestry development and management, Forestry Management has been allocated K296,908,727 which is 89.6% of the programme for the outputs that include; enhancing sustainable forest management; reducing deforestation and forest degradation; and promoting participatory forest management.

The Government will thus provide for skills training in forestry and natural resource management and will further support sustainable forest landscape management by curbing unsustainable agricultural practices and enhancing the benefits derived from forestry, agriculture and wildlife.

Among the key targets set to address some of the issues include;

- 700,000 Hectarage of Forests with Management Plans
- 50 CFMGs Recognised
- 2,500 Forests Hectarage planted
- 2,000,000 Forest Trees Seedlings
- 1 Forestry legislation reviewed
- 1 Forestry Policy Reviewed

6.3 Implications

- What are the positive or negative implications of these changes for this area?
- How will these affect your programme?

6.3.1 LAND SECTOR

With the establishment of one more lands registry in Chipata, the Ministry of Lands and Natural Resources will to some extent decongest the registration processes and improve the efficiency of Land registration processes. Further land tenure on statutory land will be increased through the issuance of certificate of titles.

However, there is still a challenge in securing the tenure rights for customary land holders as nothing has been provided for in this area. This means that challenges in the customary area will still continue to affect the citizens. This also includes issues of compensations for populations that would be displaced.

For TI-Z, based on its experience in working with selected traditional leaders on Customary Land administration, the Customary Land Tenure will remain a concern as a way of assuring sustainability of vulnerable people's livelihoods.

6.3.2 MINING SECTOR

The proposed measure to digitise operations so as to enhance revenue collection is commendable as it will potentially reduce fraud risks and corruption vulnerabilities in payment of mining licence fees in addition to enhancing revenue collection. Nonetheless, in light of the copper boom and subsequent investment flows in the mining sector, the overall reduced allocation to MMMD as the regulatory Ministry is incongruous as the Ministry has previously stated capacity issues in the past in administering, managing and monitoring mining rights. Thus, the anticipated increased investment inflows and expansion of mining projects coupled with inadequate capacity could have deleterious effects and implication given the challenges the awarding of mining licences and monitoring of mining activity

For instance, MMMD proposes to expand activities meant to regulate small and large-scale mines to ensure compliance with environmental regulations and health and safety standards which previously they

have had challenges citing resource and capacity issues. As evidenced by data on actual mines inspected in 2021 and by safety and health issues and concerns observed in North Western province particularly Kasempa and Kansenseli. Thus, there is a significant risk that the Ministry will not be able to monitor and inspect mining rights holders against the backdrop of increased investments and projects.

Further, the revenue estimates particularly changes in Mineral Royalty indicating over double projections in 2022 present an overly optimistic picture for budget financing given previous actuals of Mineral Royalty collected. Moreover, the budget does not provide a clear picture of VAT refunds owed to mining companies and the implications of that on budget financing.

6.3.3 FORESTRY SECTOR

The Policy measures the government has taken are positive and will be able to go a long way in resolving some of the major challenges encountered in the sector. Government will be able to

- Contribute to personnel and thus deter deforestation
- Review the legislation to enhance it
- Recognise 50 CFMGs to manage 700,000 Ha
- Train the CFMGs in Forest Management Practices and
- Ensure that Mukula Trees contribute to economic development

The budget provisions and policy direction are consistent with TI-Z programme expectations based on our work with CFMGs in Lusaka and Eastern Provinces of Zambia. This position will therefore be supportive to the efforts of the organization and other stakeholders who have been supporting the work of CFMGs.

6.4 Recommendations

6.4.1 LAND SECTOR

The Ministry seems to have only provided for one review of legislation based on the revised land policy. There is however a need to address customary land tenure security so that Customary land holders are also protected.

Further, there is need to provide guidelines for the administration of customary land which would be common to all the Chiefdoms while taking into account the cultural diversity across the country. This will make it easier for citizens to acquire land in a manner that is transparent and accountable.

6.4.2 MINING SECTOR

The 2022 budget focuses on increased productivity and strives for diversification in the extractives sector. However, policies and resources to ensure the sector is well managed and governed may be inadequate as proposed in the 2022 budget. Thus TI-Z recommends the following:

- a) Amendment of the Mines and Minerals Development Act of 2015 particularly to safeguard host communities' consent to, consultation and participation in mining projects. As well as, (re) consider revenue/benefit sharing mechanisms to bolster host communities' livelihoods and to preserve protected areas.
- b) Maintain stability and consistency in tax policies and tax regimes pertaining to the mining sector.

- c) Address challenges of licensing by digitising the entire mining licence application process, in addition to the payment of licence fees and other charges.
- d) Develop clear policy and incentives for mineral diversification such as gold and manganese as well as ensure the participation of Zambians as mining rights holders by providing incentives for Artisanal and Small-Scale miners.
- e) Increased coordination of Ministry of Mines with the Ministries of Energy, Technology, and Green Economy and Environment to ensure sustainable mining investment.
- f) Enhance transparency and openness on VAT refunds owed to mining companies and the roadmap to dismantling arrears owed thereof.

6.4.3 FORESTRY SECTOR

As a matter of urgency, the government needs to beef up adequate personnel to manage the monitoring of the sector until the CFMGs are fully equipped to manage local forests.

Additionally, the Government needs to come out clean on the concessions to timber traders and ensure that there is transparency and Accountability in the licensing process so that the revenues from the sector can benefit the citizens.

7. The Budget and COVID-19 Response

7.1 Background

The COVID-19 pandemic has had detrimental effects on health systems and economies globally with countries scurrying to respond to the novel coronavirus. Zambia recorded its first case of COVID-19 in March 2020, in responding to the pandemic the government issued Statutory Instruments (SIs); SI 21 of 2020 which designates COVID-19 as a notifiable disease and SI 22 of 2020 to provide additional regulations to facilitate management and control of COVID-19 which are both in line with the Public Health Act Cap 295 of the Laws of Zambia.

The government has been able to mobilize funds and resources towards the COVID fight however as of in March 2020, Zambia disclosed a US\$40.4 million financing gap for the National COVID-19 Preparedness and Response Plan. Following the development of COVID-19 vaccines the Ministry of Health (MoH) developed the COVID-19 Vaccine National Deployment Plan and Strategy. Further in seeking to address the challenges brought on by the pandemic, the President appointed a COVID-19 Advisor to State House in September 2021. By October 2021, Zambia had been able to acquire 1,108,000 doses of the COVID-19 vaccine mainly through the COVAX facility as well as Africa Union Trust and China. As of 9th November 2021, against a target of 70%, later revised to 30%, of eligible persons vaccinated by December 2021, Zambia has managed to fully vaccinate 580,711 individuals, representing 16% fully vaccinated; in addition to 379,969 individuals who have received the first dose of the Vaccine.

Notwithstanding the public health and economic impacts, the pandemic has exposed weaknesses and vulnerabilities in health systems. Whilst evidently requiring significant resources, mechanisms for minimising fraud and corruption risks in the health sector have been exposed by the pandemic. Specifically, both the Office of the Auditor General (OAG) 2020 Interim Report on the utilisation of COVID-19 Resources and the OAG Report of the financial year 2020 highlights vulnerabilities and gaps in health procurement and supply chains. Specifically, the audit reports reveal, among others: uncompetitive procurement, questionable awarding of contracts, failure to procure within budget provisions and delayed delivery of medical supplies.

7.2 Budget Changes

In 2020, the government had no set budget line to respond to the COVID-19 pandemic but drew on provisions from the Disaster Management and Mitigation Unit (DMMU) in addition to funding from cooperating partners and donations

The 2022 budget does not explicitly disaggregate COVID-19 funding but rather refers to an integrated approach, which seemingly includes management of the COVID-19 as a public health issue to be coordinated by the Ministry of Health.

Particularly MoH's strategy alludes to the ensuring availability of essential medicines and supplies by strengthening supply chain management through integrated procurement, financing and logistics systems. The Budget also prioritises enhancing health human resources by recruiting additional personnel and capacity building. Notable is the reassertion of Zambia Medicines and Medical Supplies Agency (ZAMSA's) role in undertaking procurement of medicines and medical supplies.

Programme: MOH	2021	2022	% Change
	Approved Budget (K)	Approved Budget (K)	
TOTAL (MOH)	9,230,638,999	12,416,098,313	34.51
Personal Emoluments	5,017,738,248	5,507,086,563	9.8
Good and Services	1,448,304,132	3,629,591,396	150.6
Primary Health Services	3,157,949,717.00	4,775,104,214	51.2
<i>Financial Management - Audit</i>	741,939.00	2,216,695	198.8
<i>Financial Management – Procurement</i>	423,966	833,406	96.6
<i>Provincial Health Offices</i>	455,798,273	143,388,694	-68.5
<i>District Health Offices</i>	246,576,845	477,560,769	93.7
<i>Vaccines and Cold Chain Equipment</i>	91,989,211	168,041,000	82.7
<i>COVID-19 Vaccination Fund</i>	0	704,275,000	0
<i>Medical Stores Limited</i>	34,463,996	40,910,396	18.7
<i>Zambia National Public Health Institute</i>	12,047,749	13,252,524	10
<i>Assets - Medical equipment and Health Technologies</i>	0	19,622,889	0

Further, MoH has been allocated K5.5 billion for personal emoluments representing 44.4% of the total health budget and representing a 9.75% increase in allocation from 2021. This increment also encompasses the recruitment of additional medical personnel as stated in the budget.

The 2022 budget also provides for a COVID-19 Vaccination fund of K704.2 million in addition to an increased overall allocation in vaccines and cold chain equipment of 83% from 2021.

7.3 Implications

In light of previous procurement challenges in the MoH as corroborated by the Auditor General's reports, the policy decision for ZAMSA to undertake procurement of medical supplies is commendable. Nonetheless, a number of issues and challenges with regards to procurement issues, quality of medical supplies and delivery of medical supplies still need to be resolved to ensure quality and timely health services to citizens more especially given the strain and demand on health services resulting from the pandemic. Moreover, to further safeguard against mis-use and abuse of resources during procurement, TI-Z expected more emphasis on E-procurement in addition to measures that would improve availability of procurement information as key deterrents to procurement fraud and corruption.

Further the almost threefold increased allocation towards financial audits alludes to measures to reign in corruption and fraud; however, this may result in a more reactive approach to preventing corruption or fraud as opposed to a more preventative approach.

Overall, more rigorous measures have to be effected to safeguard resources towards public health especially during the pandemic response, without which a number of corruption vulnerabilities and risks are still imminent.

7.4 Recommendations

To improve transparency and accountability in the health sector even amid the COVID-19 pandemic, TI-Z recommends:

- a) Systematic and process changes to enhance transparency and integrity in health procurement including through complete roll out of E-procurement and increasing access to health procurement information to increase stakeholders' oversight and participation.
- b) Strengthened coordination mechanisms in the health supply chain to ensure timeliness, correctness and quality of medical supplies along the supply chain.
- c) Ensure action is taken on Audit report findings to deter corruption, fraud and negligence along the health supply chain.

Links

- https://www.mof.gov.zm/?wpfb_dl=264
- [https://www.parliament.gov.zm/sites/default/files/images/publication_docs/BUDGET%20SPEECH%20 %202022.pdf](https://www.parliament.gov.zm/sites/default/files/images/publication_docs/BUDGET%20SPEECH%20%202022.pdf)
- [https://www.parliament.gov.zm/sites/default/files/images/publication_docs/2021_National_Budget_Spe ech.pdf](https://www.parliament.gov.zm/sites/default/files/images/publication_docs/2021_National_Budget_Speech.pdf)
- https://www.parliament.gov.zm/sites/default/files/images/publication_docs/2020BUDGET-SPEECH.pdf
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- [https://www.zamstats.gov.zm/index.php/publications/category/7-labour?download=381:2019-labour- force-report](https://www.zamstats.gov.zm/index.php/publications/category/7-labour?download=381:2019-labour-force-report)
- <http://rbglp.com/zambias-national-lands-policy-what-we-need-to-know/>
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- <https://www.theglobaleconomy.com>
- https://eiti.org/files/documents/zeiti_report_2019.pdf
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- <https://tradingeconomics.com/zambia/mining-production>
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www.tizambia.org.zm

Email: info@tizambia.org.zm

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