Republic of Zambia

2014-2016

MEDIUM TERM EXPENDITURE FRAMEWORK

AND

THE 2014 BUDGET

GREEN PAPER

Ministry of Finance

August, 2013

On behalf of Government, I have the pleasure to present the Green Paper on the Medium Term Expenditure Framework for 2014 ï 2016 and the 2014 Budget, as a commitment to engage with all stakeholders on Zambiaôs development agenda. This Green Paper is being issued at the time the Sixth National Development Plan (SNDP) is being revised in order to better ensure that economic growth is more inclusive, especially for those in the rural areas.

To attain the development objectives in the revised SNDP (R-SNDP), the Government will continue focusing on development of infrastructure and human capacities and on reducing poverty and inequality on a sustainable basis. This will be achieved by accelerating implementation of priority programmes that significantly increase productivity in the economy, contribute to higher and inclusive economic growth, promote employment and develop the rural areas.

The 2014 ï 2016 MTEF will build upon the favourable macroeconomic performance recorded over the last five years which was evidenced by high economic growth rates, attainment of single digit inflation and positive trade balances. The specific broad economic policy intentions include; promoting high growth in the labour intensive sectors of agriculture, tourism, manufacturing, and construction; sustaining economic growth rates of not less than 7 percent; keeping inflation low and stable; continuing to promote Zambia as an investor friendly destination and implementing structural reforms aimed at reducing the cost of doing business.

Government will also continue implementing reforms that are aimed at enhancing domestic resource mobilisation and orienting public expenditure to strategic programmes in order to deliver social justice and inclusive development.

I wish to urge all stakeholders to embrace our commitment to consultative development by studying the ñGreen Paperò and providing comments that will help the Government to deliver on our agenda for sustainable development for all.

Fredson K. Yamba
Secretary to the Treasury
MINISTRY OF FINANCE

CHAPTER 1

1.0 INTRODUCTION

1.1 Background

1. This paper has been formulated against the continued challenge of ensuring that economic growth is built on the foundation of decent jobs, social justice, and enhancing the wellbeing of all citizens, particularly the less privileged in society. The Government has taken important but difficult steps to ensure that structural impediments that have long undermined the effective use of public finances and the ability of Government to promote jobs and reduce poverty are addressed. These include the removal of fuel subsidies and steps to better target food subsidies. It also entails measures to transform the agricultural marketing system and the operations of the Food Reserve Agency (FRA). These measures, difficult as they have been, will deliver long term benefits. However, in the short term, they have contributed to a higher than projected budget deficit, financed from both domestic and external sources, and an increase in inflation.

2. The Government has, however, already taken steps to support those who have been left behind amidst the positive economic growth experienced over the past five years. These steps include, increasing the statutory minimum wage, raising the tax free threshold for all workers, and improving the remuneration of public sector workers in the context of broader public sector reform that is aimed at increasing the productivity and efficiency of the public sector.

3. Governmentøs vision remains that of ensuring that the less privileged also benefit from the economic growth that the country has been experiencing. In this context however, several domestic challenges occurred during the first half of this year, 2013. During this period, the Government had to incur some unavoidable expenditures such as payment for the backlog of arrears on fuel subsidies. In order to accommodate this unplanned spending, the Government had to realign its expenditures for the year.

4. These events have had a varying impact on the Governmentøs strategic focus for the Zambian economy and the fiscal environment for 2013-2016. For instance, the 2013 fiscal deficit is expected to grow from 4.5 percent to 5.8 percent of GDP by the end of this year. As such, the strategic focus and priorities for the 2014-2016 Medium

TEF) has to be cognisant of the more limited fiscal set out in the R-SNDP, which takes into account the aspirations of the Government.

5. Governmentøs strategic focus over the medium term will, therefore, be to accelerate economic diversification by enhancing the competitiveness of the economy through addressing impediments to growth such as inadequate infrastructure and poor human capital development. Sectors in which Zambia has a comparative advantage such as agriculture, manufacturing, and tourism will be prioritized. These sectors are labour intensive and their successful growth is expected to transform the rural economy. In addition, the Government is committed to devolving power as close to the people as possible, so as to advance transparency, promote accountability, and strengthen our democracy.

6. Achieving these objectives will require a significant increase in domestic resource mobilisation and enhanced capital expenditures. In this regard, the 2014 ï 2016 MTEF, will be underpinned by measures that enhance revenues and improve the targeting and management of public expenditures by realigning resources towards key sectors such as health, education, agriculture, and local government. This can be seen by the Governmentøs decision to remove maize subsidies to the millers as well as fuel subsidies thereby freeing significant resources for priority sectors.

7. Further, promotion of rural development and the acceleration of poverty reduction measures will continue to be emphasized. In this regard, focus will be placed on infrastructural development in the newly created districts and on the construction of new roads (Link Zambia 8000, Pave Zambia 2000, L 400), schools, and health centres.

8. In an effort to enhance the development of the identified social and economic priority areas, efforts will be made to implement more appropriate interventions, such as the operationalisation of the E-voucher scheme in the agriculture sector and more life skills focused education and skills development. To more directly reduce extreme poverty in Zambia, the social cash transfer scheme will be significantly up scaled, particularly in rural areas.

st over the medium term will also be to accelerate h. Therefore, there will be a divergence from the over reliance on the mining sector to other areas of comparative advantage such as manufacturing, tourism and agriculture, including agro-processing to ensure that growth is broad based and inclusive.

1.2 Risks

10. In July 2013, the Government launched the Public Financial Management (PFM) Reforms, 2013 ï 2015. Successful PFM reform will be fundamental if Government is to achieve its goals over the 2014 ï 2016 MTEF period. In the past, PFM reforms have proved difficult to sustain and the failure to implement the new reform strategy, therefore, presents a significant risk over the medium term.

CHAPTER 2

2.0 MACROECONOMIC OVERVIEW

2.1 Developments in the Global Economy

11. The recovery in the global economy remains fragile, with global economic growth projected at 3.1 percent in 2013, similar to growth in 2012. In the United States of America, economic growth has been sustained although at a modest pace, whilst in the key emerging market economies of China, Brazil, India and Russia, growth has slowed down. In Europe, real GDP growth is expected to contract by 0.6 percent in 2013, similar to the 2012 outturn, before marginally recovering in 2014. Growth in Sub-Saharan Africa (SSA) is expected to remain robust at around 5.1 percent in 2013, and will accelerate to around 6 percent in 2014.

12. International capital markets and commodity prices are expected to remain volatile over the medium term. This is largely due to the uncertainty surrounding the pace of the slowdown in emerging market economies, particularly China, and the timing of the withdrawal of the extraordinary monetary stimulus by the United States Federal Reserve Bank. The risks to global growth and the likely volatility in financial markets and commodity prices, pose significant challenges to strong growth in Sub-Saharan Africa. Weaker global growth is particularly likely to impact negatively on commodity prices such as that of copper; trade and financial flows and therefore on SSAôs own growth prospects.

2.2 Developments in the Domestic Economy

13. In the domestic economy, real GDP growth is now projected to be below 7 percent in 2013, compared to 7.3 percent in 2012. The slow-down in growth is attributed to the reduction in crop production in the agriculture sector, with the production of maize and cotton declining by 11.4 percent and 48.5 percent, respectively in the 2012 / 2013 agriculture season. Other crops that registered declines in production included millet, groundnuts and Irish potatoes.

14. Fiscal policy has remained expansionary in 2013 with the overall budget deficit projected to rise to 5.8 percent in 2013 from 4.5 percent in 2012. Total

19.8 percent of GDP, largely consistent with the ures are, however, expected to be above projections owing to a higher public sector wage adjustment and unplanned expenditures on fuel subsidies (prior to their removal). The removal of subsidies will enable the Government to ensure that the 2013 budget deficit remains sustainable whilst allowing sufficient fiscal space to maintain public investment.

15. Monetary policy in 2013 remained focused on achieving end-year single digit inflation of 6 percent, building up international reserves and maintaining a stable but competitive exchange rate. Annual inflation at 7.3 percent in July 2013, remained above the end-year target. This largely reflected the increase in fuel prices and the weakness in the exchange rate over the first half of the year. End year inflation is now projected to be above 7 percent.

16. In response to the higher than projected levels of inflation, the Bank of Zambia tightened monetary policy, raising the policy rate by 0.5 percentage points to 9.75 percent in July 2013. The Bank of Zambia also increased the bi-monthly and quarterly tender sizes for both treasury bills and bonds, respectively. Treasury bill and government bond yield rates also rose over the first half of the year. The weighted average treasury bill yield rate reached 13.1 percent from 11.9 percent in December 2012, whilst the weighted average government bond yield rate rose to 15.2 percent from 13.5 percent in December 2012. Commercial bank lending rates, however, remained stable at an average rate of 16.3 percent by end June, 2013 compared to 16.1 percent at end-December 2012.

17. Domestic credit growth remained strong over the first half of the year, expanding by an annual rate of approximately 22 percent over the first five months. Credit to households continues to account for the largest share at 33.9 percent, followed by the agriculture and manufacturing sectors at 21.2 percent and 10.8 percent, respectively. Money supply[1] grew at an annual rate of 18.9 percent in May 2013 compared to 17.9 percent in December 2012. This was driven by the growth in domestic credit.

[1] Money supply (M3) defined as currency outside banks, plus demand deposits at the central bank, plus demand, time and savings deposits in commercial banks in both Kwacha and foreign currency.

…minary data indicates that the trade surplus rose by … over the first half of the year when compared to the corresponding period in 2012. This positive performance in the trade balance reflects a 28 percent growth in exports to US $5,504.7 million between January and June 2013. Over the same period, non-traditional exports grew by approximately 40 percent, driven by exports of sugar, cotton lint, electrical cables, fresh flowers, fresh fruits and vegetables, gemstones, cement and lime, and gold. Import growth was also strong at 22 percent, with total imports rising to an estimated US $4,537 million for the year to June 2013 compared to US $3,705.3 million over the corresponding period in 2012. Capital and intermediate goods accounted for approximately 58 percent of total imports.

19. In the foreign exchange market, the Kwacha depreciated against the US Dollar and the Pound Sterling by approximately 5 percent and 0.32 percent, respectively for the year to June 2013. Against the South African Rand, the Kwacha appreciated by 7 percent. When compared against the performance of our major trading partners such as South Africa, which accounts for over 40 percent of our imports, the Kwacha actually appreciated by 8.2 percent for the year to June 2013.

20. In the financial sector, all commercial banks are expected to be compliant with the higher capital requirements by end-December 2013. The Bank of Zambia has also strengthened the reporting requirements for the balance of payments, which is expected to improve information flows on external sector transactions and strengthen the ability of Government to manage external sector shocks.

16

2.3 Macroeconomic Framework

21. Governmentôs policy priorities over the medium term will focus on creating jobs and reducing poverty and inequality on a sustainable basis. This will be achieved by investing in those sectors that can best promote employment, significantly increase productivity in the economy, contribute to higher and inclusive economic growth, and develop the rural areas. In addition to the social sectors, these include agriculture, tourism, manufacturing and construction.

22. The 2014 ï 2016 MTEF will build upon the macroeconomic achievements that the country has recorded over the past five years when growth has averaged 7 percent. The specific broad economic policy intentions during the MTEF period will be to:

1. Achieve an average annual real GDP growth rate of above 7 percent;

2. Promote high growth in the labour intensive sectors of agriculture, tourism, manufacturing, and construction. The goal will be to enhance both output and productivity in these sectors through well targeted interventions. Growth enabling sectors such as transport, communication and energy will also receive special attention.

3. Create at least 200,000 formal sector jobs per annum up to 2016;

4. Keep inflation low and stable with a medium term objective of reducing annual inflation to 5 percent by end 2016;

5. Increase international reserves to 3.2 months of import cover by end 2016 and maintain a fiscally sustainable public external debt level of no more than 30 percent of GDP;

6. Raise domestic revenue collections to 23 percent of GDP and contain domestic borrowing under 2 percent of GDP by 2016;

7. Continue to promote Zambia as an investor friendly destination and continue with structural reforms aimed at reducing the cost of doing business; and

ntation of interventions in the health, education and water and sanitation sectors to attain the Millennium Development Goals (MDGs).

The table below summarises selected macroeconomic indicators for 2011-2016

Table 1: Selected Macroeconomic Indicators (2011 – 2016)

	2011	2012	2013**	2014**	2015**	2016**
Real GDP (%)	6.8	7.2	6.0	7.3	7.5	7.6
Inflation (end of period) (%)	7.2	7.3	7.5	6.5	5.5	5.0
Inflation (annual average) (%)	8.7	6.6	7.1	7.0	6.0	5.2
Domestic Revenue (% of GDP)	20.9	21.1	19.8	21.5	22.3	22.9
Overall Fiscal Deficit, incl. grants (% of GDP)	3.6	4.9	5.8	3.0	2.7	2.5
Domestic borrowing (% of GDP)	2.4	1.2	2.3	2.5	1.5	1.5
Current account balance, incl. grants (% of GDP)	3.7	0.0	-3.7	-3.7	-3.5	-3.3
Gross International Reserves (months of import cover)	2.8	2.8	2.4	2.6	2.9	3.2
Nominal GDP (Kômillions)	93,354	105,983	121,904	139,113	158,275	178,864
Annual average copper price (US $/ lb)	343.3	361.2	340.7	341.9	344.7	347.0
Annual average copper price (US $/ MT)	7,568	7,963	7,510	7,537	7,599	7,650
Oil price (US $/ barrel)	104.0	105.0	102.6	97.6	93.3	90.4

Source: Ministry of Finance

** Projected

y Policies

23. The objective of fiscal policy in the medium term is to increase domestic revenue to 23 percent of GDP in order to create more room for financing public expenditure and reduce the fiscal deficit to 2.5 percent by 2016.

24. Monetary policy will remain focused on achieving and sustaining single digit inflation and the adoption of a more responsive framework that targets lower interest rates. In this regard, annual non-food inflation will be adopted as the monetary policy inflation target by 2016.

25. With regards to the financial sector, the focus of Government policy will be to ensure that the banking system is fully compliant with the higher capital requirements; that the various laws governing the financial sector are strengthened/updated and harmonised; and that steps are taken to promote the deepening of the capital market. Taken together, these measures are expected to improve the flow of information in the credit market; increase competition; strengthen the resilience of the financial sector to both internal and external shocks; and improve the provision of affordable credit to a widening pool of small scale enterprises and households.

2.5 External Sector Policy

26. Global economic growth over the 2014 ï 2016 MTEF period is projected to remain positive but subdued. Further, measures by the leading industrial countries to support the growth of their economies by significantly expanding monetary policy are having a significant impact on exchange rates of the major international currencies and commodity prices. Zambia, is therefore, expected to face an external economic environment characterised by increased volatility in commodity prices and capital flows as the global economy recovers.

27. Over the medium term, the objective of external sector policy will be to promote stronger growth in exports, with particular focus on diversification of Zambiaôs export base; building up international reserves to at least 3.2 months of import cover; maintaining strong foreign direct investment inflows; and maintaining competitive, market determined and relatively stable exchange rates.

Aid Policy

28. Zambia's external financing needs remain significant over the medium term, despite the strong economic growth recorded over recent years. Zambia's total net external financing needs are projected at 1.4 percent, 1.2 percent, and 1 percent of GDP in 2014, 2015 and 2016 respectively.

29. The Government will maintain its policy of maximising the use of concessional resources where available. However, as Zambia is now a lower middle income country, coupled with the severity of the global economic crisis in advanced economies, access to concessional resources will become more limited. Therefore, non-concessional borrowing will inevitably be considered for projects with a high rate of return. The Government will also continue to build on the B+ sovereign credit rating in order to support the diversification of available sources of external financing and to lower its costs for both the public and private sector. The extent and nature of foreign borrowing by Government will be governed by a commitment to ensure that Zambia's external debt remains sustainable.

30. With respect to aid, Zambia will continue to mobilise the support of Cooperating Partners (CPs) to augment domestic resources, with general budget support remaining the preferred mode of aid delivery. As Zambia develops towards a prosperous middle income country, domestic resources will increasingly be used to support programmes currently financed largely through foreign aid.

2.7 Industrialisation, Job Creation and Inclusive Growth Strategies

31. In order to create jobs, enhance rural development, and reduce poverty, the Government will implement its Industrialization and Job Creation Strategy. This strategy focuses on the development of the agriculture, tourism, manufacturing and construction sectors. These sectors provide the greatest potential for employment creation and rural development; and their growth will diversify Zambia's economic base and strengthen the resilience of the economy against external shocks. The strategy also recognizes the importance of continued investment in the energy, transport and communication, and mining sectors as critical prerequisites for achieving economic growth that reduces both poverty and inequality.

32. The overall strategic focus for agricultural development will be to increase production, productivity and value addition for the crops, livestock and fisheries sub-sectors, as well as horticultural products with the aim of improving food security and nutrition and contribute to job creation and poverty reduction.

33. In the crop sub-sector, Government will promote and enhance crop diversification from maize to other crops as well as increase the area under irrigation. Government will also develop farm blocks, enhance and decentralise research and extension services and promote the utilization of improved seed varieties.

34. In the livestock sub-sector, Government will promote livestock production through the establishment of livestock breeding, artificial insemination and milk collection centres in all provinces. Priority will also be put on infrastructure development and rehabilitation, enhancing livestock disease control including compulsory dipping, surveillance and research, developing livestock standards and grades, and promoting processing of livestock and livestock products.

35. In the forestry sub-sector, Government will continue to implement the National Tree Planting Programme, whose objective is to develop institutional and community capacity to grow, harvest and process trees in a sustainable manner. It is envisaged that the programme will sustain the countryês forest resources, create wealth, expand employment opportunities and improve the productivity of Zambiaês ecosystem.

36. In the fisheries sub-sector, Government will promote aquaculture development and improve infrastructure for fisheries research and marketing. In particular Government will promote the development of fish seed by the private sector, promote pen and cage culture and establish lake based hatcheries and nurseries. Further, the Government will promote co-management of capture fisheries in natural water bodies with fishing communities, to ensure sustainability of fisheries resources.

37. The Government will continue to promote agribusiness and marketing for agricultural commodities. This will primarily involve enhancing storage facilities for surplus production, enhancing farmersô access to local and national markets, improving access to banking services and credit in rural areas and improving value addition of commodities through creation of value chains for high value commodities.

38. In the manufacturing sector, four core sub-sectors have the best potential to achieve the objective of increasing the production of value added products, creating jobs, and exploiting regional and international export markets in which Zambia has a competitive advantage. These sub-sectors are agro-processing; wood; engineering products; and pharmaceuticals. The key objectives for these subsectors include expansion of the wood and wood products sector; increasing the production of iron and steel; increasing the sourcing of locally manufactured engineering products by the mining companies; and reviving the local manufacture of pharmaceutical products. The Government will also ensure that the existing Multi-Facility Economic Zones (MFEZ) become fully operational.

2.10 Tourism

39. Zambia's tourism sector, while holding great potential for job creation and poverty reduction, is characterised by a low number of tourist arrivals and average length of stay, relative to her peers. This is partly attributed to the high cost of accommodation, inaccessibility of many tourist sites, poor marketing strategies and a poorly developed range of tourism products.

40. The overall objective of tourism policy over the medium term is to attract 1.3 million visitors annually by 2016, raise the average expenditure per tourist per day from US$35.70 in 2008 to US$83.50 in 2016 and raise the average length of stay from 3 days in 2008 to 7.5 days in 2016. This will be achieved by adopting a mixed strategy of promoting both low volume-high cost and high volume-low cost tourism. The Government will, in addition, focus on the development of infrastructure, particularly access roads and airports, in order to enhance accessibility to the various national parks, heritage sites and natural attractions.

2.11 Construction

41. The construction sector holds enormous potential for job-creation and alleviation of poverty through employment of small contractors and the application of labour intensive technology. However, the construction sector has been dominated by foreign contractors, whilst the participation of local contractors has been marginal. Considering the strategic importance of the construction sector in the development of

health, and education sectors, there is need to ensure contracting capacity to carry out construction and maintenance works.

42. Government will, therefore, promote the use of sub-contracting as a measure to build capacity of local contractors; facilitate business linkages between the large contractors and small scale contractors; enforce the preferential procurement threshold provision for public works; and promote training and skills acquisition in road construction, bricklaying and related works. Further, in order to create employment opportunities, Government will utilise labour intensive road construction techniques by implementing the Pave Zambia 2000 project which promotes the use of cobblestones and pavers instead of bitumen for township roads.

2.12 Energy

43. During the medium term, the Government will ensure the provision of an adequate and reliable supply of energy in the country. To achieve this objective, the Government will, in partnership with the private sector, increase electricity generation capacity by at least 1,132 MW and build transmission and distribution lines; expand the use of renewable and alternative energy in the countryôs energy mix; and ensure security of supply of petroleum products to attain a 30 days strategic reserve.

2.13 Mining

44. The mining sector, despite the economic diversification efforts, will continue to play a dominant role in the economy over the medium term and the Government will continue to encourage both local and foreign investment in the sector. In this regard, Government will continue to strengthen public oversight over the extraction of mineral resources. This will be done through reforming mining legislation to ensure consistency with international good practice, streamline the management and granting of mineral licenses, and improve the systems and operations of the mining cadastre.

45. Over the medium term, production from the mining sector is expected to reach about one million metric tonnes per annum. However, at the moment, Zambia does not have mechanisms to transparently monitor production, costs, sales volumes and sales revenues in a manner that is reliable and independently verifiable throughout the value chain. To address the above situation, which has undermined the enhancement of revenue collection from the mining sector, the Government will over the MTEF

/alue Chain Monitoring Project. In addition, the engthen the enforcement of standards so that all mining companies fully comply with safety, health, and environmental regulations.

46. In order to increase the benefits from the mining sector, auctioning of emeralds will continue to be held in Zambia. This will support efforts of Government to promote in-country cutting, polishing and jewelry making activities, which will enhance local value addition, create employment opportunities and enhance revenue collection.

47. In 2012, Zambia became Extractive Industries Transparency Initiative (EITI) compliant and will maintain its compliant status by ensuring that it meets the revised EITI standards adopted in 2013 by EITI participating countries. The EITI promotes transparency and accountability in the management of natural resources, provides a platform to reduce conflicts arising from the exploitation of natural resource wealth and promotes social dialogue.

2.14 Transport and Communications

48. Inadequate transport and communication infrastructure remains a major constraint to growth, economic diversification and poverty reduction. Governmentôs focus will therefore be on enhancing connectivity of national and regional transport infrastructure by progressively linking Zambia with all the regional transport corridors.

49. In the road subsector, the Government will, over the medium term, continue to implement the Link Zambia 8000 programme which focuses on constructing additional inter-provincial and inter-district roads to open up the country to facilitate accelerated development. Further, feeder roads, as well as tourist access and urban roads within the core road network, will continue to be rehabilitated and maintained.

50. In the railway subsector, the focus will be on rehabilitation, construction and maintenance to complement the other modes of transport. Focus in the water transport sub-sector will be to rehabilitate and upgrade the existing canal network to facilitate efficient trade. In the aviation sub-sector, focus will be on the construction, upgrading and rehabilitation of airports and aerodromes in selected districts.

Communication Technology (ICT)

51. Information and Communication Technology (ICT) services have a critical role to play in expanding access to services, improving the productivity of the public and private sectors, and supporting the full participation of all citizens in economic development. Over the medium term, the Government will mainstream ICT in key sectors of the economy in order to promote innovation, improve efficiency and thereby accelerate development. This will include the development and maintenance of ICT and meteorological infrastructure; deliver integrated, accessible and convenient e-services in areas such as health, education, local government and business services; and enhance access to print and broadcast media in the provincial capitals and rural areas. With the impending migration of information and communication systems from the use of analogue to digital technology by 2015, Government will facilitate the expedient replacement of equipment.

2.16 Education and Skills Development

52. Over the medium term, the focus of Government policy will be to increase equitable access to quality education and skills training, which is relevant to the needs of Zambian society. In order to increase access, Government will accelerate the construction of education facilities at all levels including Early Childhood Development Education (ECDE), particularly in the rural areas.

53. Government will equally work on improving the quality of education through the upgrading of existing teachersô qualifications to meet minimum required standards, reviewing the education curriculum to put emphasis on life skills; and promoting research and greater collaboration between industry and research institutions. Emphasis will be placed on training of teachers in Science, Mathematics and Technology (SMT) subjects in order to address the inadequate number of teachers in these fields.

54. In addressing inequality in education, the Government will further up scale the implementation of the school feeding programme, thereby promoting the cognitive development of young children particularly the disadvantaged.

55. In the health sector, Governmentös goal will be to provide equitable access to quality health services. To achieve this, emphasis will be placed on providing cost-effective, primary health care and specialised referral medical care to all by ensuring availability of essential drugs and medical supplies; and providing infrastructure and equipment conducive for the delivery of cost effective quality health services.

56. The Government will also improve the health information system and promote access to quality health care services through alternative ways of health care financing. Consequently, the Government will implement a National Social Health Insurance (SHI) Scheme over the medium term.

2.18 Water and Sanitation

57. Over the medium term, the focus of Government is to achieve 85 percent accessibility to reliable safe water and 70 percent accessibility to adequate sanitation by 2016 in order to improve the quality of life of all citizens. Further, interventions will be undertaken with regard to Water Resource Management and Development, through the establishment of river catchment management structures for the effective utilisation of integrated water resources.

2.19 Social Protection

58. In Zambia, very few people have access to adequate social protection due to the small size of the formal sector and inadequate social safety nets for the poor. This undermines the Governmentös efforts to reduce poverty and inequality. Over the medium term, the Government will significantly upscale social cash transfers and the food security pack to empower vulnerable individuals and households. This will greatly contribute to the reduction of the numbers of people in extreme poverty, over the medium term.

2.20 Decentralisation

59. With the re-launch of the revised National Decentralization Policy in July 2013, the focus over the medium term will be to fully implement the Decentralisation Implementation Plan (DIP). Emphasis will be placed on devolution of functions,

stablishment of sub-district structures and capacity work will be undertaken to realign the functions of, and linkages between, central, provincial, district and sub-district governance structures to ensure harmonious management and development at the sub-national level. Government will also strengthen coordination and implementation mechanisms to ensure an appropriate blending of the current ñtop downò planning approach with a ñbottom upò flow of integrated and socio-economic development planning and budgeting from the District to the Central Government.

2.21 Structural Reforms

60. The focus of structural reforms will be to make the public sector more efficient in delivering public services and act as an effective catalyst for national development. The Government will focus on undertaking structural reforms in public financial management, public service management and the pension system, private sector development, data and information management and public private partnerships.

2.21.1 Public Financial Management

61. In July 2013, the Government launched the Public Financial Management (PFM) reform strategy 2013-2015. The objective of the PFM reforms is to ensure efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved public service delivery. The PFM reforms comprise ten components which aim to improve economic management, revenue mobilisation, public expenditure and financial management, budget execution as well as fiscal decentralisation. In addition, measures will be undertaken to enhance financial management systems and standards, as well as promote good corporate governance practices.

62. The strategy will be implemented over the medium term. In particular, Government will put in place the Planning and Budgeting Policy and Act which will enable the Government to integrate national planning and annual budgeting processes with a greater results orientation. It will also facilitate more participative and decentralized development planning and budgeting; strengthen the National Assemblyôs oversight over the allocation and use of public finances; enhance budget credibility; facilitate greater evidence-based decision making in development planning and budgeting; and strengthen accountability.

r Management and Pension Reform

63. Government will also implement the Public Service Transformation Programme (2013 ï 2016), as a strategy to make the Public Service more responsive, service oriented and accountable for the delivery of timely and quality services to all Zambians. The programme builds on the Public Service Management (PSM) Reform component of the Public Service Reform Programme (PSRP) implemented over the last decade.

64. Key areas of reform will include; Human Resources Management, Institutional Reforms, Leadership and Management Capacity Development, Results Based Management (RBM)/Performance Management Systems and Culture and Behavioural Re-Modelling.

65. In this regard, the Government will transform all sector Service Commissions into regulatory and oversight institutions that will promote timely appointments and promotions in all public service institutions. In addition, Government will build organizational and functional leadership and management capacities and instil a culture of dedication and hard work in the public service. Further, within the context of the Government-Wide Monitoring and Evaluation System (G-wide M&E), accountability lines will be defined and institutionalised so as to promote systematic monitoring and self-assessment. This will ensure cost effectiveness in the delivery of quality services to citizens.

66. With respect to the pension system, Government will undertake pension reforms which will focus on: redesigning the pension rules and regulatory framework; redesigning the payment system for pension benefits; restructuring and clearing current pension arrears in the public sector; and enhancing private sector participation in pension fund management and investment. The implementation of these measures are expected to eliminate the accrual of unfunded pension liabilities which is inherent in the current public pension system; provide adequate, affordable, equitable and sustainable pension benefits for all members; and support the development of the capital market and long term savings and investment.

r Development

67. Government will continue to implement reforms aimed at building and enhancing a sustainable legislative and regulatory environment for private sector-led growth. This will include the streamlining of business registration and licensing procuedures and better focus the granting of tax incentives. Other areas of focus will include enhancement of financing mechanisms for Micro, Small and Medium Enterprises (MSME); labour market reforms that improve labour productivity; the use of Private Public Partnerships; the promotion of exports; and the development and implementation of Governmentôs comprehensive programme for economic diversification.

68. The high cost of finance and limited access to financial services has continued to be a constraint to capital formation and growth. Under the Financial Sector Development Programme (FSDP), Government will pursue reform measures focused at addressing weaknesses in the financial sector so as to improve market infrastructure, enhance competition and increase access to finance. Within the framework of the Rural Finance Programme, financial sector policies will also aim to increase access to financial services in rural areas. In this regard, the expansion in rural banking services will be promoted through various financial institutions including the National Savings and Credit Bank.

2.22 Risks

69. Medium term risks to this MTEF may arise from possible adverse developments in both the external and domestic economy. In the external sector, any adverse deviation from the current course of gradual global economic recovery is likely to have a negative impact on the prices of commodities such as copper, which may in turn negatively impact tax revenue and Zambiaôs economic growth generally.

70. In addition, any failure by the central banks in advanced economies to successfully manage the anticipated reduction in the extraordinary monetary stimulus is likely to increase volatility in the global foreign exchange and capital markets. For an open economy like Zambia, this is likely to lead to domestic inflationary pressures and risks of financial instability.

71. Furthermore, any significant reduction in programmed levels of external financing is likely to put additional pressure on budget execution and undermine the

...oad macroeconomic objectives. Furthermore, any ... beyond projected levels is likely to significantly increase Government's oil import bill and fuel inflationary pressures.

72. Any adverse weather conditions are likely to negatively affect agricultural production, with a disproportionate impact on small scale farmers. This would result in lower supply of agricultural commodities, and subdued manufacturing activity particularly in the food, beverages and tobacco subsector. Lower food supply would also induce higher food prices and, consequently, higher inflation.

CHAPTER 3

3.0 FISCAL OVERVIEW

3.1 Review of Fiscal Performance 2010-2012

73. The Governmentôs fiscal policy during the last three years focused on sustaining macroeconomic stability. During this period, emphasis was placed on ensuring fiscal prudence by containing the fiscal deficit and directing more resources to areas that enhance service delivery and promote private sector led growth. This was in line with the objectives of reducing poverty, promoting economic diversification and enhancing competitiveness.

74. During the period 2010 ï 2012, total revenues and grants were slightly above target and averaged 21.1 percent of GDP. This was mainly on account of higher than projected receipts of revenues particularly from the mining sector and nonïtax revenues. Non-tax revenues increased from 0.9 percent to 1.6 percent of GDP. The increase was mainly attributed to higher collections of user fees and charges, enhanced road tax and visa fee collections as well as an increase in fertiliser recoveries.

75. Total public expenditure increased from 23.2 percent to 24.7 percent of GDP over the same period. Expenses (current expenditure) averaged around 19.4 percent of GDP, while domestically financed capital expenditure increased by 1.6 percentage points of GDP to 4.5 percent.

76. The budget deficit averaged 3.0 percent of GDP and was generally within programmed levels. However, domestic borrowing averaged 2.1 percent of GDP against the target of 1.5 percent over the same period. This was mainly due to enhanced Government engagement in agricultural input supply and marketing.

vork (K' millions)

	2010 Budget	2010 Actual	2011 Budget	2011 Actual	2012 Budget	2012 Actual
GDP	**76,191.0**	**76,015.0**	**86,327.0**	**93,354.0**	**111,049.0**	**105,983.0**
Total Revenue & Grant	**14,533.7**	**15,198.4**	**17,356.8**	**20,121.3**	**21,794.6**	**23,134.6**
Tax	11,385.2	13,112.1	15,230.1	18,885.9	19,192.4	20,719.1
Non Tax	722.0	697.0	539.0	633.1	708.3	1,653.2
Grant	2,426.7	1,389.4	1,587.7	714.1	1,894.0	762.3
Total Expenditure	**16,422.7**	**17,634.4**	**20,122.2**	**22,385.4**	**26,339.6**	**26,152.2**
Expenses	13,103.0	14,797.2	14,569.0	18,003.0	18,147.4	20,631.3
Assets	3,049.5	2,259.7	5,236.9	4,020.9	7,856.0	5,059.5
o/w domestically financed	1,813.6	2,188.2	2,968.0	3,961.8	5,299.1	4,759.5
Liabilities	269.2	253.9	316.3	361.4	336.3	461.4
Overall Balance	**(1,888.0)**	**(2,445.5)**	**(2,765.4)**	**(2,992.3)**	**(4,469.3)**	**(2,771.0)**
Financing	**1,888.0**	**2,445.5**	**2,765.4**	**2,992.3**	**4,469.3**	**2,771.0**
Domestic	**1,487.0**	**2,205.7**	**1,219.8**	**1,858.1**	**1,324.3**	**1,464.0**
External	401.0	239.8	1,545.6	1,134.2	3,145.0	1,307.1

Table 3: 2010-2012 Fiscal Framework (% of GDP)

	2010 Budget	2010 Actual	2011 Budget	2011 Actual	2012 Budget	2012 Actual
Total Revenue	**19.1**	**20.0**	**20.1**	**21.6**	**19.6**	**21.8**
Tax	14.9	17.2	17.6	20.2	17.3	19.5
Non Tax	0.9	0.9	0.6	0.7	0.6	1.6
Grant	3.2	1.8	1.8	0.8	1.7	0.7
Total Expenditure	**21.6**	**23.2**	**23.3**	**24.0**	**23.7**	**24.7**
Expenses	17.2	19.5	16.9	19.3	16.3	19.5
Assets	4.0	3.0	6.1	4.3	7.1	4.8
o/w domestically financed	2.4	2.9	3.4	4.2	4.8	4.5
Liabilities	0.4	0.3	0.4	0.4	0.3	0.4
Overall Balance	**(2.5)**	**(3.2)**	**(3.2)**	**(3.2)**	**(4.0)**	**(2.6)**
Financing	**2.5**	**3.2**	**3.2**	**3.2**	**4.0**	**2.6**
Domestic	2.0	2.9	1.4	**2.0**	1.2	1.4
External	0.5	0.3	1.8	1.2	2.8	1.2

3.1.1 Revenue and Grants

77. Domestic revenues as a share of GDP increased from 18.1 percent of GDP in 2010 to 21.1 percent of GDP in 2012. This outturn was attributed to the general increase in economic activities, particularly in the mining sector. Further, tax policy and administration measures were undertaken to enhance domestic revenue mobilisation. Some of these measures included the introduction of the new fiscal and

ing sector and improved enforcement activities in

78. Tax revenues increased from 17.2 percent of GDP in 2010 to 19.5 percent in 2012. This performance was due to the higher than projected collections of customs duty, excise duty and import VAT. However, grant receipts from Cooperating Partners (CPs) declined from 1.8 percent of GDP in 2010 to 0.7 percent in 2012, mainly as a result of a scaling down of support from some CPs attributed to the global economic downturn.

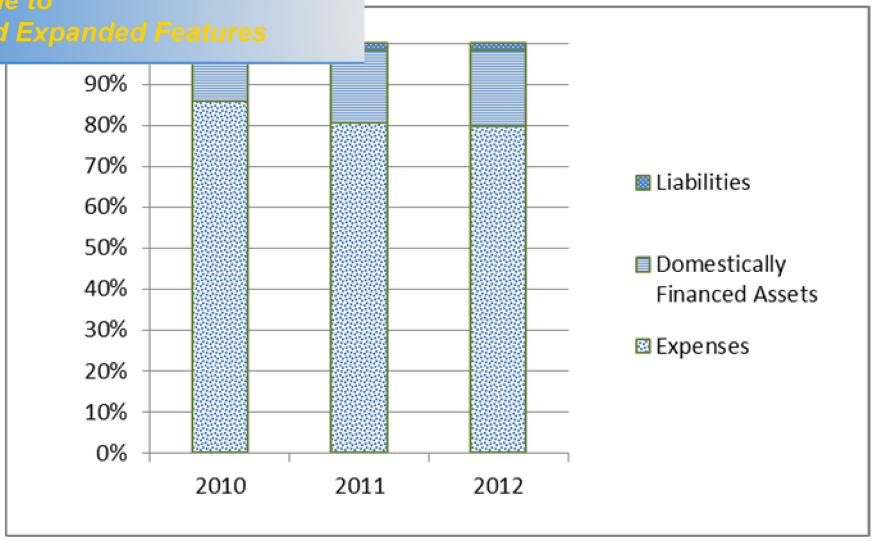
3.1.2 Expenditure

79. Expenditures as a share of GDP increased from 23.2 percent in 2010 to 24.7 percent in 2012, with assets rising by 1.8 percentage points of GDP despite the decline in receipts of grants from CPs. Spending on domestically financed assets increased by 1.6 percentage points of GDP, demonstrating Governmentôs commitment to invest in infrastructure development. The major areas of intervention included roads, energy and social sector infrastructure.

80. The share of expenses as a percentage of GDP remained largely constant at 19.5 percent of GDP. This was in spite of the high resource requirements over the period needed, *inter alia*, to facilitate the 2011 tripartite elections, finance fuel subsidies and procure additional maize due to a series of bumper harvests.

81. Liabilities as a share of GDP increased from 0.3 percent to 0.4 percent in line with Governmentôs commitment to liquidate arrears to suppliers of goods and services.

and Liabilities as a Share of GDP (2010 - 2012)



3.2 Review of Fiscal Performance in the First Half of 2013

82. During the first half of 2013, total revenues and grants were projected at K12.9 billion, while expenditures were estimated at K17.3 billion with the difference of K4.4 billion to be financed through borrowing. As at end June 2013, total revenues and grants stood at K11.0 billion whilst expenditures stood at K15.4 billion. Therefore, Government financing during the period stood at K4.4 billion[2].

83. Total domestic revenues amounted to K10.8 billion by end June, 2013 and were below the programmed figure of K12.2 billion by 11.5 percent. The underperformance was mainly due to lower than projected collections of corporate income tax. In addition, claims on Valued Added Tax were higher during the first half of the year due to a backlog of claims from 2012. Customs and excise duty collections were at K1.9 billion and were below target by K0.1 billion or 8.0 percent. The underperformance of Customs Duty is attributed to increased importation of goods on concession.

84. With regard to non-tax revenue, total collections stood at K0.6 billion as at end June and were below the projected amount by 2 percent. This was mainly due to under collections by the Road Transport and Safety Agency (RTSA) on entry tolls as a result of increasing haulage of goods from the mining sector by rail, following Governmentôs takeover of the operations of Rail Systems of Zambia.

[2] This included K1.6 billion from the international sovereign bond proceeds.

end of June 2013, amounted to K11.7 billion and were above the target by 3.5 percent. Of the total releases, 43.1 percent was for personal emoluments, 21.7 percent for use of goods and services and 24.2 percent for grants and other payments. The balance of 11.0 percent went towards the payment of interest on debt, social benefits, liabilities and other expenses. The higher than programmed releases on recurrent items during the period under review, was largely due to significant resource requirements for the fuel subsidy prior to its removal.

86. With regard to the acquisition of non-financial assets (capital expenditures), a total of K3.1 billion was released which was below target by 40.3 percent. This was primarily due to the non-capture of much foreign financed nonï financial assets and lower than programmed releases for domestically funded non-financial assets, mainly due to lower than projected revenue inflows.

3.2.1 Outlook for the Second Half of 2013

87. In the second half of 2013, the general performance of domestic revenues is expected to improve, with domestic revenue collections projected at K13.0 billion in comparison to the first half collections of K11.0 billion. It is expected that performance of corporate income tax and VAT will improve due to enhanced enforcement and audit efforts by the Zambia Revenue Authority of mining houses and other businesses. In addition, receipts from PAYE are expected to increase by 20 percent. This is on account of the increased wage award to public service workers which will come into effect in September of 2013.

88. Despite the projected improvement of revenue performance in the second half of the year, the annual performance is still expected to be below the budget target. Therefore, in order to offset this gap, as well as accommodate extra budgetary requirements in 2013, Government is expected to constrain non-priority expenditures in the second half of 2013.

89. The Treasury will ensure releases to social and economic sectors are maintained as programmed. With regard to constraining expenditure, the Treasury has effected expenditure cuts to both the recurrent and capital budgets by reducing allocations on overhead expenses and procurement of assets that have a huge drain on operations and maintenance costs. In this regard, the purchase of motor vehicles, the hosting of workshops, foreign travel and motor vehicle expenses have been curtailed.

ear, risks on domestic revenue mobilization remains mainly attributed to the price of copper, which if the downward trend registered in the first half continues, will result in lower collections from the mining sector.

3.3 Fiscal Policy for the 2014-2016 MTEF

91. Fiscal policy over the next three years will be focused at creating more fiscal space for financing public expenditures while ensuring macroeconomic stability and overall public sector debt sustainability. In this regard, Government will continue to enhance domestic resource mobilization by increasing domestic revenue as a share of GDP to approximately 23 percent by 2016. Consequently, while Government will continue to prudently borrow from both domestic and external markets, the overall fiscal deficit is projected to decline to 1 percent in 2016.

92. On the expenditure side, Government will continue with the realignment of resources towards the core areas of education and skills development, health care provision, agriculture support services, local government and infrastructure development (especially roads). Further, in order to promote social justice for the most vulnerable in our nation, significantly more resources will be allocated to social protection programmes.

3.3.1 Medium Term Forecast

93. Total domestic revenues and grants are projected to increase from 23 percent of GDP in 2014 to 23.8 percent by 2016. This is on account of tax measures and efficiency gains from administrative efforts. In this vein, tax revenues are projected to be at 19.8 percent of GDP in 2014, rising to 21.4 percent of GDP by 2016, while non-tax revenues are expected to average 1.6 percent of GDP. The increase in tax revenues is expected to be driven by improved direct and value added tax collections.

94. The medium term fiscal framework has not yet factored in all the anticipated General Budget Support (GBS) as discussions with CPs are still on-going. However, some level of donor support for projects and programmes have been reflected in the MTEF.

pected to average 25.7 percent of GDP over the xpenses projected at an average of 18.6 percent and assets at 6.9 percent.

96. Liabilities (arrears) over the medium term are expected to decline to an average 0.20 percent of GDP as a result of Governmentôs robust efforts to control expenditure commitments.

97. In view of the gap between expected resources and expenditures, Government expects to incur an overall fiscal deficit of 4.6 percent of GDP in 2014, 1.3 percent of GDP in 2015 and 1 percent in 2016. Therefore, the net domestic financing requirement is expected to stand at 1.5 percent of GDP by 2016. Similarly, net external financing is projected to decline from 2.9 percent of GDP in 2014 to 0.5 percent of GDP by 2016.

Table 4: 2014-2016 Fiscal Projections

	2014 Budget Projection		2015 Budget Projection		2016 Budget Projection	
	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	% of GDP
GROSS DOMESTIC PRODUCT	139,113,000	100.00%	158,275,000	100.00%	178,864,000	100.00%
TOTAL REVENUE AND GRANTS	31,959,449	22.97%	36,985,000	23.37%	42,605,673	23.82%
TOTAL REVENUE	29,841,449	21.45%	35,405,000	22.37%	41,025,673	22.94%
Tax revenue	27,478,300	19.75%	32,866,843	20.77%	38,297,935	21.41%
GRANTS	2,118,000	1.52%	1,580,000	1.00%	1,580,000	0.88%
TOTAL EXPENDITURE (Excluding Amortisation)	38,296,618	27.53%	39,045,680	24.67%	44,445,079	24.85%
o/w Domestically Financed	36,728,618	26.40%	37,465,680	23.67%	42,865,079	23.97%
Foreign Financed	1,568,000	1.13%	1,580,000	1.00%	1,580,000	0.88%
EXPENSES	26,885,555	19.33%	28,626,854	18.09%	32,922,713	18.41%
ASSETS	11,091,283	7.97%	10,064,757	6.36%	11,168,297	6.24%
LIABILITIES	319,780	0.23%	354,068	0.22%	354,068	0.20%
FISCAL BALANCE: Surplus(+)/Deficit(-)	(6,337,170)	-4.56%	(2,060,680)	-1.30%	(1,839,405)	-1.03%
FINANCING	6,337,170	4.56%	2,060,680	1.30%	1,839,405	1.03%
Net Domestic Financing	2,277,825	1.64%	2,690,675	1.70%	2,682,960	1.50%

CHAPTER 4

4.0 REVENUE MOBILISATION AND FINANCING

4.1 Overview of Revenue Strategy

98. Strengthening revenue mobilisation has long been a central theme of the Government as a tool for achieving sustainable economic growth which translates into meaningful generation of employment opportunities, marked reduction in poverty levels and equitable distribution of resources. With external support having lessened in the aftermath of the global financial crisis, Government is increasingly focused on the fundamental need to raise more revenue domestically in order to attain inclusive development and social justice.

4.2 Medium Term Measures

4.2.1 Reforming the Zambian Tax System

99. The Government, in the medium term, is committed to improving the equity, efficiency and buoyancy of the tax system. The Government will augment the various initiatives and strategies that were started in the previous MTEF period. These initiatives included the reforming of the tax system to improve the performance of the VAT, rationalising the tax incentive regime and increase the progressivity of the tax system.

Specific strategies in the medium term will include the following measures:

1. Implement the Mineral Value Chain Monitoring Project in order to enhance the monitoring and auditing of mining activities.
2. Rationalise the tax incentives structure and in particular the list of priority sectors under the Zambia Development Agency Act.
3. Reduce exemptions and zero-rating provided under VAT to ensure sustained buoyancy for this tax.
4. Harmonise corporate income tax rates to promote equity.
5. Fully implement the Tax-Online System (TOS) which introduces electronic based functions, such as e-filing, in order to reduce the cost of compliance for tax payers, improve tax payer services and ultimately enhance revenue collection.

ollection.

tax revenue collection through operationalization of information technology based systems, such as, the Zambia Integrated Land Management Information System (ZILMIS); upgrade of the Mining Cadastre system; and the roll-out of Electronic Funds Transfer at Point of Sale (EFTPOS) facilities, bank teller-in-plants and bank dedicated counters at commercial banks for receipting of government revenue.

4.3 Revenue Forecast

100. Domestic revenue collections over the medium term are projected grow from 21.5 percent of GDP in 2014 to 22.9 percent of GDP in 2016. This growth is premised on tax and administration reforms which will raise the productivity of most tax types. See table below:

Table 5: Revenue forecast 2014 – 2016

	2014 Budget Projection		2015 Budget Projection		2016 Budget Projection	
	K'000	% of GDP	K'000	% of GDP	K'000	% of GDP
Gross Domestic Product	**139,113,000**	**100%**	**158,275,000**	**100%**	**178,864,000**	**100%**
Revenue and Grants	**31,959,449**	**23.0%**	**36,985,000**	**23.4%**	**42,605,673**	**23.8%**
Domestic Revenue	**29,841,449**	**21.5%**	**35,405,000**	**22.4%**	**41,025,673**	**22.9%**
Tax Revenue	**27,478,300**	**19.80%**	**32,866,843**	**20.8%**	**38,297,935**	**21.4%**
Income Tax	**14,407,744**	**10.4%**	**17,286,400**	**10.9%**	**19,960,829**	**11.2%**
Company Tax	4,176,829	**3.0%**	5,107,657	**3.2%**	5,927,274	**3.3%**
o/w Mining	4,318,902	**3.1%**	5,448,551	**3.4%**	6,263,098	**3.5%**
Value Added Tax (VAT)	**7,465,398**	**5.4%**	**8,902,891**	**5.6%**	**10,508,208**	**5.9%**
Customs and Excise Duty	**5,572,247**	**4.0%**	**6,588,214**	**4.2%**	**7,703,319**	**4.3%**
Customs (Import Tariffs)	2,569,352	**1.8%**	3,046,569	**1.9%**	3,602,664	**2.0%**
Excise Duties	3,002,895	**2.2%**	3,541,645	**2.2%**	4,100,656	**2.3%**
Export Duty	**32,911**	**0.0%**	**89,338**	**0.1%**	**125,579**	**0.1%**
Non Tax Revenue	**2,363,149**	**1.7%**	**2,538,156**	**1.6%**	**2,727,738**	**1.5%**
Grants	**2,118,000**	**1.5%**	1,580,000	**1.0%**	1,580,000	**0.9%**
Direct Budget Support	550,000	**0.4%**	-	**0.0%**	-	**0.0%**
Project support	1,568,000	**1.1%**	1,580,000	**1%**	1,580,000	**0.9%**

101. During the medium term, Government will continue to ensure that debt remains within sustainable levels. To achieve this, Government will continue to pursue the following strategies over the medium term:

- Containing the fiscal deficit to an average of 2.3 percent of GDP;
- Target more of concessional borrowing;
- Limit non concessional borrowing to projects that are of high economic rate of returns; and
- Limit domestic borrowing to not more than 2 percent of GDP to avoid crowding out local investments and increasing interest rates.

102. The government also seeks to consolidate debt management by improving oversight procedures with a view to enhance transparency and accountability in line with the on-going financial management reforms.

CHAPTER 5

5.0 EXPENDITURE POLICY AND STRATEGY

5.1 Overview of Strategy

103. Over the medium term, Government will continue to pursue a mildly expansionary fiscal policy in support of accelerating inclusive economic growth so as to make growth more focused on improving the livelihood of the Zambian people, especially in the rural areas. In this vein, specific emphasis will be put on infrastructure development (which remains a major constraint to enhancing development); promotion of employment and job creation; rural development; strategic investments in science and technology and other programmes that positively impact on the wellbeing of the Zambian people through improved and more equitable access to socio-economic amenities. In order to achieve this, significant outlays will go towards health, education, transport, agriculture, water supply and sanitation and social protection.

5.2 Expenditure Strategy for 2014 – 2016

104. Governmentős expenditure strategy for 2014-2016 will continue to focus on enhancing the effective utilisation of public resources so that proportionately more funds are directed toward the attainment of intended developmental and service delivery objectives and less on unnecessary overheads. This entails, among others, constraining procurement of assets that have a significant claim on operations and maintenance budgets (such as motor vehicles) in order to free up resources for public service delivery programmes that benefit the general population.

105. Total expenditures over the MTEF period will amount to K126.4 billion out of which, K40.9 billion will be spent in 2014, K40 billion in 2015 and K45.6 billion in 2016. As a share of GDP, these amounts translate to an average of 26.7 percent per annum. Further, as a share of total expenditure, expenses are projected to average 69.8 percent, assets 25.7 percent, liabilities 0.8 percent and amortisation 3.7 percent. Table 6 below shows the budget by broad economic classification as a share of GDP.

[redacted]

EXPENSES

5.2.1 Personal Emoluments

106. In 2013, the Government in its quest to improve public service delivery commenced the implementation of the Job Evaluation and Re-grading (JERG) programme to enhance the work motivation of public service workers. Accordingly, Government approved the unprecedented 2013 wage adjustment, which when fully implemented will harmonise salaries across all Ministries, Provinces and other Spending Agencies (MPSAs) on the premise of equal pay for equal work.

107. In this regard, personal emoluments as a share of GDP are projected to average 10.3 percent over the medium term, with an initial jump to 11.1 percent in 2014. In order to contain the wage bill within sustainable levels and ensure sufficient fiscal space for other developmental programmes, Government will phase the further implementation of the salary harmonization programme over the medium term.

5.2.2 Use of Goods and Services

108. Use of goods and services as a share of GDP is projected to average 3.0 percent over the medium term. The low proportion for this category of expenditure will primarily be achieved by the sieving out of unnecessary operational costs and overheads while allocations for the provision of essential requisites such as drugs and educational materials are expected to be enhanced.

5.2.3 Interest Payments

109. Over the medium term, Government, projects to spend an average of 1.5 percent of GDP in interest on both external and domestic debt.

5.2.4 Transfers and Other Payments

110. The Government projects to spend K3.5 billion in 2014, K3.8 billion in 2015 and K4.1 billion in 2016 on transfers and other payments. Within these provisions, allocations

erations of key institutions such as the road agencies, c universities.

111. In order to ensure food security, the Government has made provisions of K696.5 million in 2014 and K789 million both in 2015 and 2016 for the Farmer Input Support Programme (FISP). With these allocations, and through the progressive roll-out of the e-voucher scheme, Government will facilitate the diversification of agriculture by supporting rural households to produce crops and livestock that can best do well in their respective agro-ecological localities.

5.2.5 Social Benefits

112. Social benefits are planned to increase to K998.6 million in 2014, further rising to K2.3 billion in 2015 and K4.7 billion in 2016. The increase arises from Governmentôs effort to reduce the waiting period for receipt of retirement benefits for former public service workers under the Public Service Pension Fund (PSPF) and roll-out the Social Cash Transfer scheme to more districts to protect the most vulnerable in society.

5.2.6 Other Expenses

113. The Government will, over the medium term, make available a total of K1.5 billion to the Food Reserve Agency. The focus will be on maintaining strategic food reserves only, which, coupled with the removal of the miller subsidy, will significantly reduce the fiscal burden on the Treasury thereby creating fiscal space for accelerated implementation of development programmes.

ASSETS

114. In an effort to accelerate economic growth, Government will, over the medium term, continue to invest significant outlays towards capital investment. In this regard, expenditure on assets is projected to average 6.8 percent of GDP over the medium term. Nominal allocations to the acquisition of assets are projected at K11.1 billion in 2014, K10.1 billion in 2015 and K11.2 billion in 2016. This translates to an average of 27.6 percent of total expenditures on annual basis.

5.2.7 Non-Financial Assets

115. Government spending on the acquisition of non-financial assets is expected to average 6.5 percent of GDP over the medium term. In nominal terms, this translates to an average of K10.2 billion per annum. The main areas of focus for domestically financed expenditures under this category will be road construction, water and sanitation facilities and the

... new districts. The allocation for roads in particular is ... of 9.0 percent of total expenditure, which amounts to K11.0 billion over the medium. This arises from Governmentøs accelerated road programmes under the Link Zambia 8000 programme, as well as the need to enhance township roads under the Pave Zambia 2000 programme.

5.2.8 Financial Assets

116. During the MTEF period, the Government will continue with its effort to encourage entrepreneurship as an engine for inclusive economic growth. In this regard, the Government proposes to increase the allocation to empowerment funds from K73.1 million in 2013 to K100.0 million in 2014 and to K120 million per year in both 2015 and 2016. A further K390 million is being allocated over the MTEF period to the Public Service Microfinance Company to provide affordable credit for public service workers while K1.0 billion has been provided for the recapitalization of State Owned Enterprises (SOEs), including the Bank of Zambia.

LIABILITIES

117. Government will continue to honour its contractual obligations by dismantling outstanding bills in order to avoid stifling the growth of the private sector by eroding their working capital. In this regard, a total of K1.0 billion has been set aside over the medium term to pay for outstanding bills in line ministries.

5.3 Medium Term Spending Measures

118. The Government will continue with the implementation of a number of spending measures that are premised on ensuring value for money. These include:

a) Use of Prepaid Billing Systems

Government will accelerate the installation programme of prepaid billing systems in all MPSAs for utilities, i.e. electricity, water and telephone charges.

b) Reduction in Motor Vehicle Running Costs

Government will rationalise expenditure on transport through the disposal of excess vehicles. MPSAs will, thus, be restricted to the maintenance of pool vehicles, only.

ment

Government will move quickly to complete the development of a *'price database'* to use for benchmarking procurement across Government institutions. This will enhance value for money in Government's procurement processes.

d) Commitment Control

Government will enhance its commitment control system through the roll-out of IFMIS to all MPSAs by 2015. With this measure, controlling officers may only commit Government when adequate funds are available, hence, curtailing the buildup of arrears.

e) Strengthening Monitoring and Evaluation (M&E)

To enhance the results orientation of public expenditure, Government will roll-out the Government-Wide M&E system across all MPSAs. This will facilitate greater accountability by linking public expenditures to the attainment of service delivery and development outputs expected from programmes and activities financed through the budget.

f) Other Cost Saving Measures

119. Other potential areas of saving public funds include the reduction of expenditure on administrative allowances, local and foreign travel, workshops and seminars, and annual events. In 2014, expenditure on events, other than the 50^{th} independence festivities will be significantly cut back so that the focus of national celebrations can be on this very important landmark event in the nation's history.

CHAPTER 6

6.0 MEDIUM TERM ALLOCATIONS BY FUNCTIONS OF GOVERNMENT

6.1 Overview of Strategy

120. This Chapter analyses the level of spending in different functional areas of Government over the 2014 ï 2016 MTEF period.

121. The classification of functions of Government (COFOG) is a categorization of all public expenditures in accordance with the purpose for which such allocations are intended to achieve. During this MTEF, Government expenditure by functional categorization will be guided by the Governmentôs strategic focus. Therefore, significant resources will be allocated to the areas of education, health, agriculture, water and sanitation and social protection, with investments in infrastructure, especially roads and energy being emphasised.

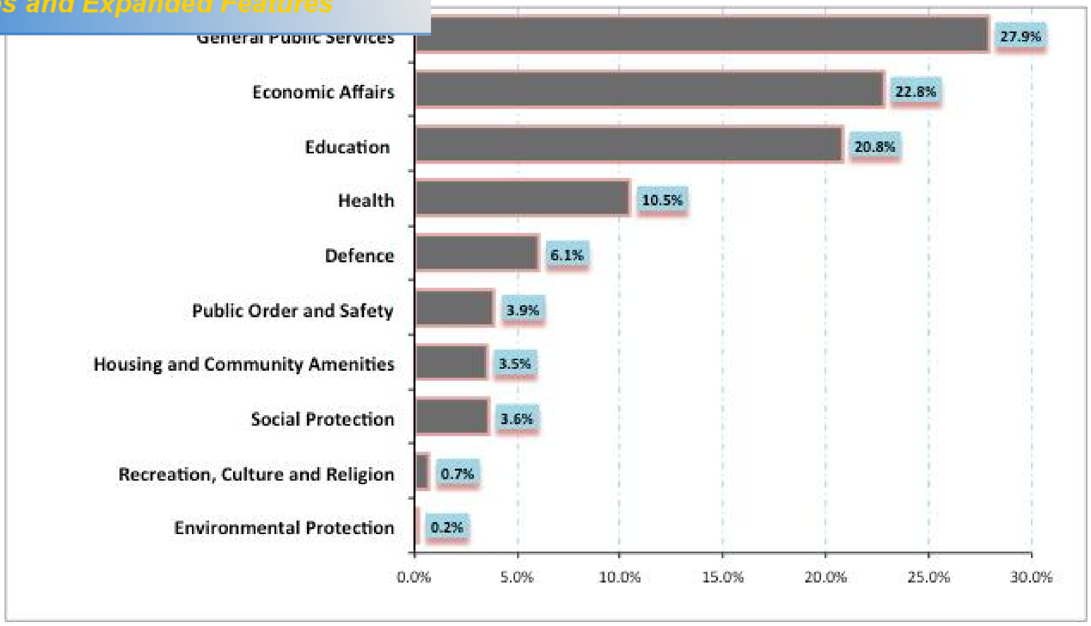
6.2 Functional Resource Allocation Priorities (2014 – 2016)

122. Over the medium term, the Government projects to spend approximately 54.4 percent of the total projected resources on the functions of education, health and economic affairs. The balance of 45.6 percent will be allocated to the other functions; including General Public Services which will account for the larger proportion at 61.5 percent of this balance. Table 9 and Figure 2 below show budget allocations by functions of Government as a share of total expenditure for the entire medium term period.

Table : 2013 Budget & 2014-2016 MTEF Allocations by Functions of Government (As Share of Total Budget)

Function	2013 Approved Budget	2014 Projection	2015 Projection	2016 Projection	2014-2016 Average
General Public Services	25.5%	30.9%	25.2%	27.6%	27.9%
Defence	6.3%	6.1%	6.3%	5.8%	6.1%
Public Order and Safety	4.2%	3.6%	4.3%	3.8%	3.9%
Economic Affairs	27.6%	22.2%	23.5%	22.5%	22.7%
Environmental Protection	0.2%	0.2%	0.2%	0.2%	0.2%
Housing and Community Amenities	3.8%	3.2%	3.9%	3.5%	3.5%
Health	11.3%	10.2%	10.5%	10.8%	10.5%
Recreation, Culture and Religion	0.8%	0.7%	0.8%	0.7%	0.7%
Education	17.5%	20.5%	21.8%	20.1%	20.8%
Social Protection	2.8%	2.5%	3.5%	5.0%	3.7%

dget Allocation by Function of Government



6.2.1 General Public Services

123. The allocation to General Public Services is projected to account for a significant proportion of total expenditure over the medium term at 27.9 percent. The higher allocation for this function is mainly on account of substantial outlays that have been set aside for regional development, following the creation of a number of districts as well as transfers to councils, with the aim of bringing development closer to the people. In this respect, a total of K1.1 billion is projected to be spent on infrastructure for new districts while K3.0 billion has been allocated for transfers to councils, including the Constituency Development Fund (CDF).

124. Further, stemming from the higher borrowing requirements that have been necessitated in order to address the immense developmental requirements of the country, particularly, infrastructure, significant outlays have also been allocated for debt service and repayments under this function. It is, therefore, projected that General Public Services will account for 30.9 percent in 2014, 25.2 percent in 2015 and 27.6 percent of total expenditures in 2016.

6.2.2 Economic Affairs

125. The Economic Affairs function as a share of total expenditure is projected at 22.8 percent over the medium term. While reflecting a moderate increase over the period, the allocations under this function have been strategically targeted at addressing specific investment requirements that are necessary to sustain and accelerate inclusive economic

include the rehabilitation and construction of roads and f K11.4 billion has been provided; electrical power generation and rural electrification with K2.3 billion; and agriculture with K7.6 billion.

126. The allocation for roads and energy is expected to ease and facilitate the opening up of new investment areas in the rural and remote areas of the country, particularly, with the creation of new districts. In the agriculture sector, the aim is to continue with the restoration of extension and research services for both crop and livestock in order to enhance productivity. In this regard substantial resources have also been set aside for the construction and rehabilitation of dip tanks and silos across the country.

6.2.3 Education

127. The outlays in this function are projected to be at K17.1 billion or 20.8 percent of total expenditures over the medium term. Notable allocations under this function will include K2.5 billion for infrastructure development and K1.2 billion for university education. In addition K344.9 million has been allocated to early childhood and primary education

128. Specific interventions will include the expansion of Early Childhood Education, particularly to rural areas, reviewing of the curriculum for primary and secondary schools to put emphasis on life skills subjects that enable learners cope with the demands of self-employment and the labour market; and the construction and rehabilitation of appropriate infrastructure for TEVET, universities and schools.

6.2.4 Health

129. Over the medium term, the allocation to the health function is projected at 10.5 percent of total expenditure. In this provision, K2.3 billion will be made available for essential drugs and medical supplies and K1.2 billion for infrastructure to facilitate a conducive environment for the delivery of quality health services. In particular, Government will scale up the construction of health posts, clinics and referral hospitals as well as provide the necessary medical supplies and equipment.

6.2.5 Housing and Community Amenities

130. The Housing and Community Amenities function allocation has been projected at of 3.5 percent of total expenditure over the MTEF period. In order to provide sustainable and equitable access to safe water supply and adequate sanitation, Government will spend K835.1 million for water supply and sanitation.

ty

131. In order to maintain peace and order, the Government will spend a total of K4.9 billion or 3.9 percent of total expenditure over the medium term. Specific interventions will include the rehabilitation of prison infrastructure, construction of houses and the dismantling of arrears to suppliers of goods and services.

6.2.7 Other functions

132. The balance of 10.6 percent of total expenditure will be allocated to the remaining functions of defence, environmental protection, social protection and recreation, culture and religion Notable allocations under these functions include the Social Cash Transfer budgetary allocation of K600 million and the Food Security Pack of K158.4 million which have increased by 426.0 percent and 100 percent respectively from previous MTEF levels. This pattern of allocation is consistent with Governmentôs stance on channeling resources to facilitate inclusive development and cushioning the most vulnerable in society.

APPENDICES

- 2014 – 2016 Medium Term Expenditure Framework
- Aggregate Indicative Expenditure Allocations
- Personal Emoluments & Other PE-Related Expenditure Ceilings
- Non-Personal Emolument Expenditure Ceilings
- MTEF Allocations by Functions of Government