ZIPAR
Zambia Institute for Policy Analysis & Research

Staying the Course of Fiscal Fitness

Analysis of the 2018 National Budget

"Accelerating Fiscal Fitness for Sustained Inclusive Growth, Without Leaving Anyone Behind"

FISCAL FOLLY

FISCAL FITNESS

#ZiparBudgetTalk

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ZIPAR's Take in a Nutshell

The 2018 National Budget will focus on: "accelerating fiscal fitness for sustained inclusive growth, without leaving anyone behind". But this will require sturdiness in *staying the course of fiscal fitness.* What must Zambia look out for and do in order to stay the course in 2018?

Firstly, in 2018, Zambia must ***mind the gaps*** as it links the Budget to the overarching multi-sectoral integrated approach of the 7NDP. For one, linkage between national development planning and annual budgeting are under threat of ambiguity and weaknesses in the absence of the long overdue Planning and Budgeting Bill. Secondly, challenges can be foreseen related to how development projects funded under the 2018 Budget will be coordinated under the multi-sectoral approach.

As the 2018 Budget ***revs up toward fiscal fitness*** it tries to balance between meeting the 7NDP development priorities and ensuring medium to long-term public financial health. Fiscal fitness or consolidation measures will be applied on both revenue and expenditure, with: a slower increase in spending in 2018 (K7.2 billion) relative to 2017 (K11.4 billion); and a significantly larger revenue increase in 2018 (K6.1 billion) compared to 2017 (K800 million). However, policy risks from unanticipated spending pressures, particularly inflated procurement costs, still remain and could readily derail the fiscal discipline agenda. Key fiscal legal instruments – Public Finance Act, Loans and Guarantees Act, Public Procurement Act and the Budgeting and Planning Bill – need urgent revision and enactment to ensure accelerated fiscal fitness.

In the 2018 Budget, the deficit and debt situations are essentially the ***elephant in the room***. Zambia's fiscal deficit has been on the rise since 2013 due to ambitious infrastructure development programmes. Consequently, the national debt stock has mounted, reaching 47% of GDP in 2017. In 2018, K20.1 billion or 28.1% of the budget will be financed through domestic and external borrowing. Debt servicing is expected to be around 20% of total Budget expenditure and of this, external debt payment will total K7.3 billion while domestic debt repayment will amount to approximately K7 billion. Clearly, the deficit and the debt will remain as large elephants in the room in 2018. To reduce debt distress and return to lower levels of risk, the Government will implement a Debt Strategy 2017-2019 and will revise the Loans and Guarantees (Authorisation) Act in 2018. However, the 2018 Budget does not have any clear, specific measures to reduce the fiscal deficit to 3% of GDP by 2020, as targeted in the MTEF. Moreover, an essential element that should be incorporated into debt management legislation is a provision for the setting of *fiscal rules or legally binding, long-standing quantitative restrictions on some budgetary or fiscal aggregates*.

As ***the diversification drum gets louder*** under the impetus of the 7NDP it remains difficult to measure diversification and even harder to know definitively whether the economy is making progress against this agenda. Focusing on agriculture, tourism, energy and industrialisation, we note the following: commendable efforts, investments and interventions in agriculture (e.g., the farm block model) hold promise for improving farmer access to export markets, especially in livestock. However, there should be measures put in place to improve information access, rationalise pricing, and smallholder farmer positioning for market opportunities.

In tourism and energy, a number of measure offer at least some promise that the sectors will contribute more meaningfully to diversification. However, as would be expected, the pace and extent of actually applying the measures in 2018 is a natural concern judging by the country's past record.

Regarding industrialisation, the 2018 Budget has set clear policies to promote value addition and economic diversification. The development

of MFEZ and Industrial Parks will be continued. However, the lack of access to affordable and adequate finance is a major constraint for SMEs. The Agricultural and Industrial Credit Guarantee Scheme and the restructuring of three key financial intermediation institutions are therefore commendable moves.

The age-old big push for infrastructure expansion is set to continue in 2018, positioning ***infrastructure spending as a sacred cow*** in the Budget. Ironically, the sacred cow syndrome is perpetuated at a time when the country needs fiscal discipline in order to attain fiscal fitness. With the planned spending specified in the 2018 Budget and possible pressures for unplanned infrastructure spending, the unrelenting drive for infrastructure development pose a significant risk for Zambia to accelerate its fiscal fitness.

Meanwhile, some important budgetary commitments were mysteriously deferred to 2018 (from 2017) or dropped from the Budget. These ***shifting and vanishing pledges*** threaten the integrity and credibility of the Budget. For instance, the 2017 Budget pledged to "support the creation of at least 100,000 decent jobs"; this simply vanished in the 2018 Budget, leaving the country wondering what happened to the 100,000 jobs. Similarly, the total proposed Budget for 2018, at K71.7 billion, is nominally 9.5% larger than the MTEF projected Budget for the same year (K65.4 billion). The proposed 2018 Budget was also larger than the projected 2019 MTEF Budget (K69.1 billion). Thus, MTEF projections are not good predictors of final budget allocations, even over time horizons that are as short as one month. Ultimately, the shifting and vanishing pledges risk undermining fiscal governance.

On the whole, the 2018 Budget has charted a course for accelerating fiscal fitness and putting Zambian back on the path of robust sustained and inclusive growth and development that leaves no one behind. However, the Budget will only be worth its salt and will only achieve the accelerated fiscal fitness it desires if the Government can must the will, persistence and discipline to stay true to the policy, strategic and numerical commitments it has stipulated. In 2018, staying the course will be an imperative for fiscal fitness. Indeed, it will be a year for testing the Government's sturdiness or stamina in fiscal and economic governance.

1. Introduction

The 2018 National Budget was delivered to the National Assembly and read on 29th September 2017, with the theme: "accelerating fiscal fitness for sustained inclusive growth, without leaving anyone behind". In part, this essentially signals that the country has now come off what ZIPAR termed as *a tight rope* in the 2017 Budget Analysis, and now needs to hasten its efforts to lock in fiscal fitness. It is therefore imperative to contemplate what the key ingredients for *staying the course of fiscal fitness* will be as Zambia implements the 2018 Budget. This Budget Analysis offers insights and recommendations in this regard.

The rest of the report is structured as follows: Section 2 sets the broad context of the 2018 Budget, linking it with the Seventh National Development Plan (7NDP); Section 3 focuses on the revenue and expenditure estimates for 2018, unravelling the feasibility and challenges of accelerating fiscal fitness; Section 4 focuses on fiscal deficits and arrears; Section 5 recounts selected aspects of the age-old diversification story; Section 6 assesses key infrastructure spending commitments; and Section 7 closes the report, with a retrospective view of budget integrity and credibility, particularly in relation to keeping to commitments.

2. Minding the Gaps: Linking 7NDP and the Budget

In his speech during the official opening of Parliament on 15th September 2017, H.E. President Edgar C. Lungu reiterated the Government's commitment to delivery against the 7NDP 2017-2021. In the 2018 Budget delivered to the National Assembly, Hon. Minister Felix Mutati has taken the 7NDP as an anchor for key policies and strategies for 2018. The policy and structural interventions announced in the Budget have been aligned to the five pillars of the Plan namely:

- Economic diversification and job creation;
- Poverty and vulnerability reduction;
- Reducing developmental inequalities;
- Enhancing human development; and
- Creating a conducive governance environment for a diversified and inclusive economy.

In order to create a supportive environment for the effective implementation of the 7NDP, the Minister further announced continuation of implementation of policy and structural reforms as outlined in the Economic Stabilisaton and Growth Programme (ESGP) dubbed *Zambia Plus*.

The Government's demonstrated support for the 7NDP and aligning this Plan to the Annual National Budget, as well as commitment to pursuing Zambia Plus is commendable. This will ensure that the ambiguity and weak link that has existed between National Development Plans and Annual Budgets since the re-emergence of national planning is resolved. Consequently, this will also ensure that the progress made in implementing the 7NDP is not interrupted or reversed. However, the linkage between national development planning and the National Budget will still remain under threat of being ambiguous and weak without the enactment of the planning and budgeting legislation. ZIPAR therefore urges the Minister of Finance to table the long outstanding Planning and Budgeting Bill before Parliament for enactment in the 2018 fiscal year.

ZIPAR further observes that while the 2018 Budget has been built around the five 7NDP pillars, the Minister did not set the tone in terms of how development projects being funded under this Budget will be coordinated under a multi-sectoral approach. In short the allocation of resources in the 2018 Budget does not seem to be different from previous Budgets. In its presentation the 2018 Budget still appears sectoral while it recognises the multi-sectoral pillars of the 7NDP.

It is well known that no single policy instrument can effectively deliver multi-sectoral development as it is more of a practice issue. However, there is need to invest in building capacity for multi-sectoral programming, develop incentives to foster multi-sectoral planning, implementation, change mind sets as well as change the way budgets are formulated. The 2018 Budget was expected to give

indications as regards the country's direction concerning these issues. The lack of this clarity starts to cast shadows on the possibility, this time around, of the 7NDP departing from 'business as usual' and shake off the challenges that have assailed past National Development Plans and therefore become Zambia's development blue print.

3. Revving Up to Fiscal Fitness

The 2018 Budget tries to balance between meeting the development priorities set out in the 7NDP and ensuring medium to long-term health of public finances. To balance these objectives, the Government has proposed to increase spending by K7.2 billion in 2018 compared to 2017. It has also proposed to raise an additional K6.1 billion in domestic tax and non-tax revenues. In this section, we try to assess whether the Government's fiscal measures are likely to stir the country back to fiscal fitness in an accelerated manner.

Fiscal fitness, like physical fitness, is the ability to carry out tasks without undue fatigue or stress. In order to function as a healthy economy, we need to adopt healthy practices. This entails reduction in debt, improved fiscal governance, reduced unplanned spending and increasing revenue.

The Government spending is set to decline as a share of GDP to 25.9% in 2018 from 27.7% in 2017. Categorising the spending into interest and non-interest spending, non-interest spending is expected to decrease to 20.8% of GDP in 2018 from 22.8% of GDP in 2017 as interest payments on debt increase and crowd out non-interest payments.

The Budget proposes a whole slew of tax measures across many of the tax categories in a bid to raise sufficient revenue to meet expenditure demands. Counterintuitively, however, despite all the proposed revenue raising measures, domestic revenue as a proportion of GDP will actually fall to 17.7% of GDP compared to 18.4% in 2017. Table 3.1 shows the consolidated fiscal framework for the period 2016 to 2018.

Table 3.1: Consolidated fiscal framework, 2016-2018 Budgets

% of GDP	*2016 Budget*	*2017 Budget*	*2018 Budget*
Domestic revenues	20.4%	18.4%	17.7%
Tax revenue	14.8%	16.2%	14.9%
Non-tax revenue	5.7%	2.3%	2.9%
Total expenditure	25.8%	27.7%	25.9%
Interest expenditure	3.5%	4.9%	5.1%
External debt	1.8%	2.8%	2.6%
Domestic debt	1.7%	2.1%	2.5%
Non-interest expenditure	22.3%	22.8%	20.8%
Fiscal deficit (Commitment basis)	-5.4%	-9.3%	-8.2%

3.1 Fiscal Consolidation Beginning to Pay Off …

As shown in Table 3.2, in an attempt to achieve fiscal fitness, consolidation measures will be applied on both revenue and expenditure. Overall expenditure is expected to increase by K7.2 billion in 2018. This increase is lower compared to the K11.4 billion increase in 2017. Similarly, interest expenditure is expected to increase by only K2.8 billion compared to the K4.3 billion increase in 2017. This suggests a slower increase in spending in 2018 compared to 2017. Meanwhile, proposed revenue measures are projected to result in an increase of K6.1 billion in 2018 compared to K800 million in 2017.

Table 3.2: Fiscal consolidation measures

	2016 Budget	2017 Budget	2018 Budget
Total Expenditure (K 'million)	53,136	64,510	71,663
o/w: Interest expenditure (K 'million)	7,165	11,459	14,241
Total Domestic Revenue (K 'million)	42,109	42,940	49,087
Consolidation measures (K 'million)		14,838	3,788
Expenditure reductions:		11,374	7,152
Interest expenditure reductions:		4,294	2,783
Revenue increases:		831	6,147
Consolidation measures (as % of GDP)		-5.3%	+0.9%
Expenditure reductions (+)		-1.9%	+1.8%
Interest expenditure reductions (+)		-1.4%	-0.2%
Revenue increases (+)		-2.0%	-0.7%

From the foregoing, it is clear that the proposed budget sets the path towards achieving fiscal consolidation, but only if we stay true to the course.

3.2 But There are Hurdles Along the Way

When considered separately, the three largest budget allocations by functional classification – general public services, economic affairs and education – are likely to derail the acceleration to fiscal fitness.

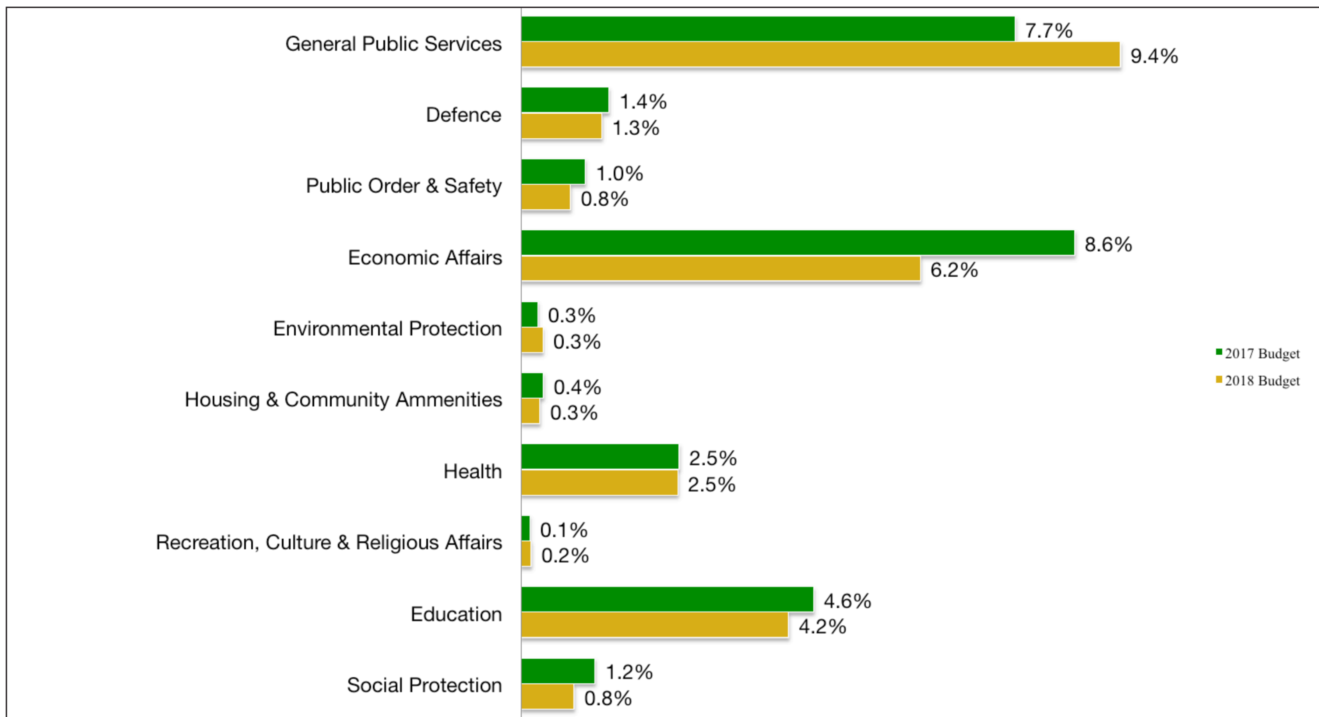
a) General Public Services: crowding out other functions

Spending on General Public Services is expected to increase by 44% from K18 billion in 2017 to K26 billion in 2018. About 60% of these funds under this function are allocated to the payment of interest on both domestic and external debt. Interest expenditure is set to increase by 24% from K11.5 billion in 2017 to K14.2 billion in 2018. The shift to more domestic borrowing as outlined in the 2017-2019 Medium Term Debt Strategy is likely to contribute to the 41% increase in domestic interest payments in 2018 from K5.0 billion in 2017 to K7.0 billion in 2018. This increased borrowing is likely to crowd out private sector investment. However, if the borrowing is being done to primarily reduce the stock of arrears, then the crowding out effect will be minimised.

b) Economic Affairs: inconsistent with economic diversification pillar in 7NDP

As part of the revenue measures, the Government has set out to "*Concentrate resources in areas that facilitate economic diversification, including on-going projects so as to realise value for money*". The spending under the Economic Affairs function is mainly targeted at supporting the 7NDP objectives of

Figure 3.1: Growth in spending as a percent of GDP, 2017 & 2018



economic diversification and employment[1]. It was therefore expected that funds would be reprioritised to meet national priorities aligned to the 7NDP. Instead, the Government has proposed to reduce spending from K20.1 billion (or 8.6% of GDP) in 2017 to K17.3 billion (or 6.2% of GDP) in 2018. This is likely to slow down the diversification and job creation drive.

c) Education: not enough lessons for scaling up output-based budgeting

The Government in 2018 plans to introduce Output Based Budgeting to the Ministry of Community Development and Social Services, and later to all the Ministries, Provinces and other Spending Agencies in 2019. This follows the implementation of Output Based Budgeting (OBB) as a pilot since 2015 by the Ministry of General Education and the Ministry of Higher Education. It is not clear yet what lessons have been taken from the pilot to inform the rolling out of this type of budgeting. One thing we know is that output based budgeting requires consistent and complete funding to the activities that are supposed to produce the outputs. In the absence of this, it is impossible to achieve the intended outputs.

However, challenges continue in the disbursement of funds to the various ministries which compromises the ability to achieve results. The 2016 Financial Report shows that for almost all the budget lines in both Higher and General Education, the actual disbursement is lower than the authorised allocations. The Government should have learned from the Pilot by reviewing the performance of the OBB in the education sector before rolling it out to other ministries.

3.3 Revenue Raising to Get Over the Line

In terms of composition, contributions to revenue remain broadly similar to those of the 2017 Budget with the exception of notable increases in the share of Value Added Tax (VAT) and mineral royalties. The proportion of VAT as a share of GDP is expected to increase from 4.1% in the 2017 Budget to 4.5% in 2018. Measures to be used to raise VAT build on those proposed in the 2017 Budget and will include the introduction of penalties in the VAT Act for taxpayers that fail to furnish records upon request.

Further, buoyed by higher copper prices,

1 According to the Classification of Expenditure by Functions of the Government, the economic affairs function includes agriculture, forestry, fishing and hunting; fuel and energy; mining, manufacturing and construction; transport; communication and other industries.

Table 3.3: Comparison of 2016 and 2017 Budget Targets and Revenue Contributions

	2017 Approved Budget	2018 Budget Speech	2017 % of Revenue	2018 % of Revenue	2017 % of GDP	2018 % of GDP
Domestic Revenue	42,939.8	49,087.0	95.1%	95.3%	18.4%	17.7%
a. Tax Revenue	35,266.3	41,139.8	78.1%	79.8%	15.1%	14.9%
Income Tax	17,757.0	20,337.6	39.3%	39.5%	7.6%	7.4%
Value Added Tax (VAT)	9,463.3	12,369.5	20.9%	24.0%	4.1%	4.5%
Customs & Excise Duties	7,924.2	8,098.7	17.5%	15.7%	3.4%	2.9%
Export Duty	68.4	51.6	0.2%	0.1%	0.0%	0.0%
b. Non Tax Revenue	7,673.5	7,947.2	17.0%	15.4%	3.3%	2.9%
o/w: Mineral royalties	1,890.9	3,527.7	0.8%	1.3%	4.2%	6.8%

earnings from mineral royalties are expected to increase to 6.8% of GDP in 2018 compared to 4.2% in the 2017 Budget. It has been proposed that there will be a move to include non-traditional minerals such as gemstones and industrial minerals to broaden the tax base, as well as strengthening regulation and enforcement to control tax avoidance. Recently, the President announced the setting up of a ministerial committee to develop reforms aimed at putting the challenges of tax regulation in the mining sector to bed once and for all. However, given the past track record of poor implementation and enforcement, it is uncertain that this will be successful going forward.

3.4 Other Notable Revenue Measures

a) The upward adjustment of the presumptive tax rate applicable to buses and taxis:

This tax has not been adjusted in over 10 years which is the argument used to explain the 50% upward adjustment across the board for all vehicle sitting capacities. However, implementation in the past has been a challenge and the Government will have to put in place stringent measures in order to be able to realise any benefits thereof.

b) The discontinuing of the 5-year income tax holiday facilitated through the Zambia Development Agency.

While it is clear that any new entrant would not receive this incentive, it remains to be seen whether the removal will affect those that are already enjoying a tax holiday and how this will affect their operations. And it is hoped that any investors that were already planning to come into the market remain undeterred.

c) Increased customs duty on electric geysers and electric stoves from 25% to 40%:

This is a shrewd measure to help deal with the electricity crisis that has faced the country in recent times by discouraging the use of appliances that are heavy on electricity consumption while simultaneously raising revenue.

d) Introduction of a charge of K2 per 50kg of cement:

This capitalises on all the infrastructure development activity around the country to build an Infrastructure Development Fund, but it will likely be most painful to the average Zambian that is attempting to build themselves a house whether for personal use or for rent.

e) The removal of customs duty on Point of Sale machines, electronic fiscal devices, and sim cards:

It is well documented that any move to electronic transactions makes it easier to monitor compliance and thus increase revenue collections. In a similar vein, the introduction of a customs valuation referencing system to reduce undervaluation of imports is also a welcome initiative.

3.5 Summing It Up

The proposed Budget places a very heavy burden on domestic revenue to perform. The goal of raising an additional K6.1 billion over the 2017 target is particularly ambitious given that even the 2017 domestic revenue target is likely to be below target by 7%, according to the Budget speech.

If the proposed revenue and expenditure measures are followed through and administered diligently, coupled with appropriate fiscal governance measures, it is possible that this Budget could set the country on the road to accelerated fiscal fitness.

However, risks to the fiscal consolidation remain elevated. These risks are associated with the macroeconomic outlook, budget execution and policy uncertainty. While the economy has shown signs of recovery, economic growth which was recorded at 3.1% during the first half of 2017[2] is nowhere near the over 6% per annum of yesteryears. Low economic growth remains a significant risk to the Budget as it translates to lower tax revenue growth.

Policy risks can result from unanticipated spending pressures, particularly inflating of procurement costs and situations where budgetary consequences have not been adequately considered. Therefore, the enacting of several pieces of legislation mentioned in the Budget - the Public Finance Act, the Loans and Guarantees Act, the Public Procurement Act and the Budgeting and Planning Bill – will be crucial for ensuring fiscal fitness.

2 Central Statistical Office, Monthly Bulletin, September 2017

4. Deficits and Arrears: the Elephant in the Room

Of the nine macro-economic targets set out in the 2018 Budget, four relate to Zambia's fiscal deficit and debt management. These are to: (i) limit the fiscal deficit, on a cash basis, to 6.1% of GDP; (ii) limit domestic financing to no more than 4.0% of GDP; (iii) reduce the stock of arrears and curtail the accumulation of new arrears; and finally; (iv) slow down the contraction of new debt to ensure debt sustainability.

In the 2018 Budget, the deficit and debt situation are essentially the elephant in the room. This is because two of the macro-economic objectives related to reducing arrears and slowing down the contracting of new debt lack specific measurable targets and do not show at what level arrears or new debt will be maintained. Although, the Government significantly reduced the accumulation of arrears from K19.1 billion in December 2016 to K13.2 billion[3] in June 2017, the arrears may not reduce much in 2018 as only K441 million has been allocated to this effect in relation to the balance of K13.2 billion.

Using the cash basis, the fiscal deficit is expected to close at 6.8% of GDP in 2017 while the country intends to limit the deficit to 6.1% of GDP in 2018 in order to ensure sustainability of debt. However, reporting the deficit on a cash basis does not give a full picture of the actual fiscal deficit on commitment basis which is estimated at 9.3% and 8.2% for 2017 and 2018, respectively.

Zambia's fiscal deficit has been on the rise since 2013 as shown in Table 4.1. According to the 2018 Budget Speech, this has been due to deliberate and ambitious infrastructure development programmes, put in place to address the poor state of social and economic infrastructure.

3 Data on arrears is not standardized as there are different figures being reported.

Table 4.1: Debt (financing needs) as a percentage of GDP from 2007 to 2016

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Overall Fiscal Balance	-1%	-3%	-3%	-3%	-2%	-1%	-4%	-7%	-9%	-6%
Financing	1%	2%	3%	3%	3%	1%	4%	7%	10%	6%
Domestic	1%	1%	3%	3%	2%	1%	2%	3%	2%	4%
External	0%	1%	0%	0%	1%	-1%	3%	4%	8%	2%
Programme loans	0%	0%	0%	0%	1%	0%	2%	4%	5%	0%
Project loans	1%	1%	0%	0%	0%	0%	1%	1%	3%	2%
Amortisation (Paid)	0%	0%	0%	0%	0%	-1%	0%	-1%	-1%	-1%

Source: Constructed from Ministry of Finance Fiscal Tables (2007-2016)

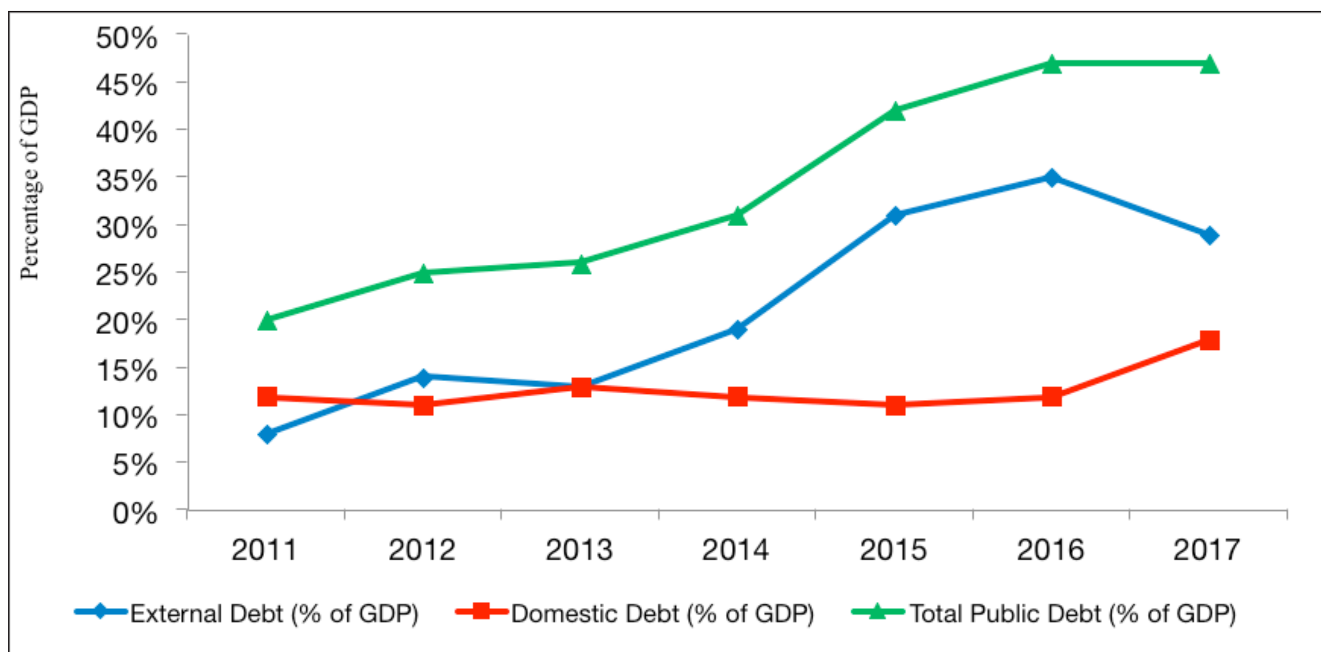
4.1 Unplanned Expenditure Widens Fiscal Deficit

Although the Government claims that the fiscal deficit is driven by extra spending in infrastructure, deficits have mainly been propelled by the rapid rise in recurrent expenditures. For instance in 2016, subsidies on fuel, electricity and agriculture, as well as the escalated wage bill and unplanned interest payments accounted for most of the fiscal deficit registered. Going into 2017, a similar trend is observed for the first half of the year, with basic personal emoluments surpassing planned expenditure by over K651 million. In addition, interest payments on domestic debt were also above the scheduled expenditure level by 24%, equivalent to K517 million[4]. Other expenditures driving the deficit in 2017 are Public Affairs and Summit Meetings overshooting by 147.1%; the Farmer Input Support Programme (77%); the ZESCO subsidy (24.1%); and contingency expenses at 65.7%.

4.2 External Debt Reduces while Domestic Debt Mounts

According to the 2018 Budget, the stock of national debt for 2017 stands at 47% of GDP, with external debt at 29% of GDP while domestic debt will account for 18% of GDP. All in all, the overall stock of national debt is

Figure 4.1: Percentage of Total Stock of Debt to GDP



Source: Constructed from Annual Economic Reports and Budget Speeches

4 Since these expenditures were made mid-year they may be normalized by the end of the year though this is highly unlikely given the history.

not different from the 2016 level which was also at 47% (see Figure 4.1). However, in real terms, the external debt stock has reduced by 6 percentage points while the domestic debt has on the other hand increased by the same percentage points from 12% of GDP in 2016 to 18% of GDP in 2017. In nominal terms, both the external and domestic stocks of debt have fundamentally increased by 13.4% and 71.4%, respectively in the same period.

In 2018, K20.1 billion or 28.1% of the Budget will be financed through domestic and external borrowing. Debt servicing is expected to be at 20% of the total Budget expenditure and of this, external debt repayments will total K7.3 billion while domestic debt repayments will amount to approximately K7 billion.

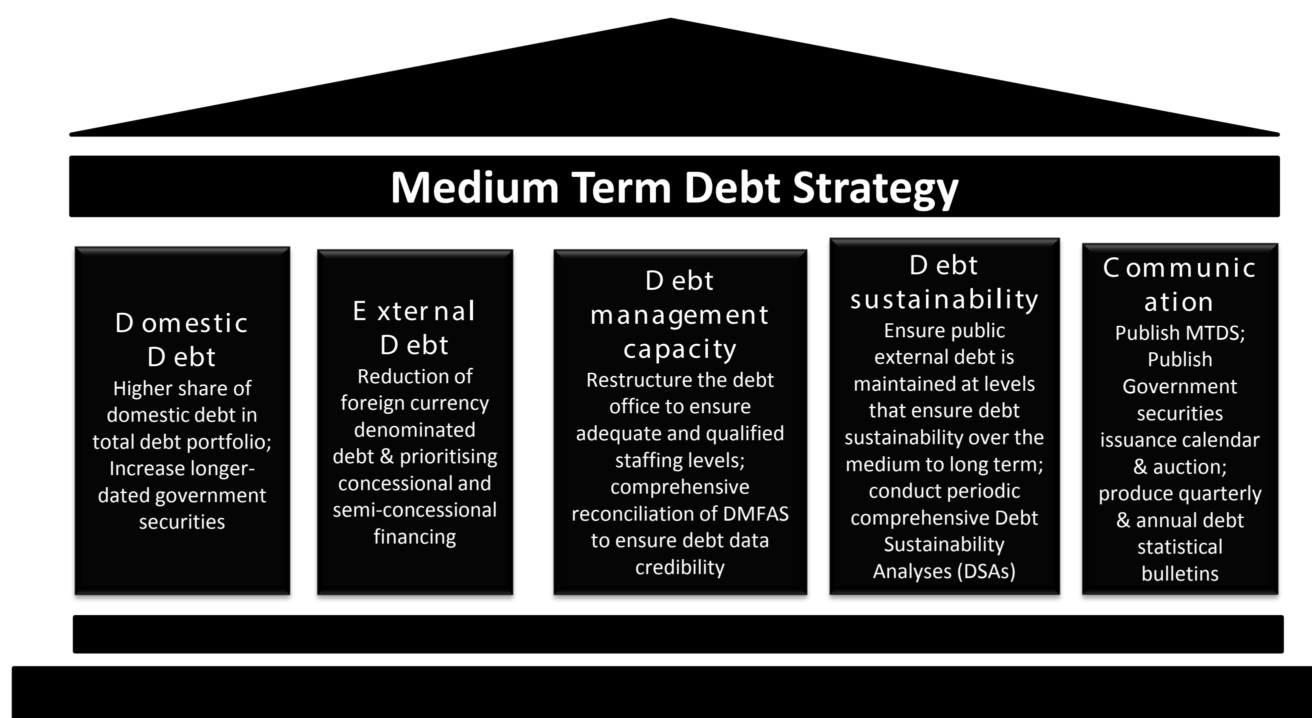
4.3 New Direction in Debt Management

In order to reduce debt distress and return to lower levels of risk, the Government recently published a Medium Term Debt Strategy (MTDS) for 2017-2019. This sets up the Government's objectives in managing the country's debt portfolio. The strategy outlines measures to reduce the rate of debt accumulation and attain a cheaper and longer debt maturity profile. Further, the strategy also defines measures towards refinancing the three Eurobonds and dismantling the stock of arrears accumulated.

The aim of the strategy is to ensure that the Government's financing needs and payment obligations are met at the lowest possible cost. The quantitative results of the recent Debt Sustainability Analysis (DSA) show that altering the structure of the total debt portfolio by reducing the proportion of external debt to 40% while increasing domestic debt levels to 60% will meet the desired outcome. The strategy is summarised in Figure 4.2. This departs from the current situation where in proportional terms, domestic debt stands at 45% and external debt at 55%. Further, this reduces the associated exchange rate risks when the larger proportion of the total debt is denominated in a foreign currency. In addition, this also supports the development of the domestic debt market.

To strengthen the implementation of the MTDS, the Minister will present a Bill to repeal the Loans and Guarantees (Authorisation) Act before the National Assembly. The Bill will

Figure 4.2: Pillars of the Debt Strategy



Source: Ministry of Finance 2017

enhance oversight over the borrowing activities of the Government by allowing the House to approve public loans before they are contracted in line with the provisions of the Constitution. Given that this Bill was supposed to be presented in 2017, we urge the Government to adhere to this pronouncement in the current sitting of the National Assembly.

4.4 Unclear Direction on Fiscal Deficit and Debt

The 2018-2020 Medium Term Expenditure Framework (MTEF) states categorically the pivotal role of maintaining debt sustainability in order to bring the Zambian economy to its former fortunes. However, no clear and specific measures have been outlined in the 2018 Budget to reduce the fiscal deficit to 3% of GDP by 2020, and indeed curtail the ever-growing stock of national debt. One essential element that ZIPAR has been advocating to be incorporated into debt management legislation is a provision for the Minister of Finance to periodically set fiscal rules or legally binding, long-standing quantitative restrictions on some budgetary or fiscal aggregates. This is particularly on expenditure, deficit financing and overall debt contraction. This would significantly strengthen fiscal and debt management frameworks in the country.

5. The Diversification Drum Gets Louder

It is hard to measure diversification and as such even harder to know definitively whether the economy is making progress against this agenda. However, one partial measure of diversification is non-traditional exports (NTEs) and here the Budget is fairly clear, they are down marginally by 3% which suggests limited progress on diversification. Agriculture is an important part of the non-traditional exports but we observe challenges, such as an export ban on maize in 2017; and the regional fall in maize and soya beans prices, certainly raises question about Zambia's ability to boost agriculture exports in 2018. The 2018 Budget links Zambia's diversification ambitions to a number of priority economic sectors. Here, we focus on diversification in agriculture, tourism, energy and industrialisation.

5.1 Agriculture: Preferred Bearer of the Diversification Torch

Agriculture has clearly emerged as the Government's sector of choice to advance Zambia's economic diversification agenda for obvious reasons and the 2018 Budget is a testament to the fact. This links well with the 7NDP which aims for a diversified and export-oriented agriculture sector. For all the six (6) strategies outlined in the 7NDP for improving agriculture, the 2018 Budget address has attempted to introduce and/or strengthen measures aimed at achieving the Development Plan's aspirations for the sector.

Broadly, the Budget introduced measures aimed at improving productivity (and production!), access to credit and enhancing agriculture value chains. Specifically, investment in a tractor and agriculture equipment assembly will promote mechanisation in the sector thereby increasing both production and productivity. In order to further incentivise and grow manufacturing and make the locally assembled equipment and tractors affordable to farmers, the suspension of import duty on machinery, equipment and capital goods for assembling of motor vehicles, trailers, motorcycles and bicycles should be extended to agriculture equipment assembly.

Furthermore, use of the farm block model will encourage investment in the sector where inadequate infrastructure is a concern. Farm blocks are an economic way of providing the needed infrastructure by concentrating investment in a designated area. However, given the resource constraints facing the Government, it is questionable as to whether the three farm blocks earmarked in 2018 Budget can be successfully developed simultaneously. We propose a phased approach to developing farm blocks as opposed to embarking on several at once as it may spread resources thinly and increase lead time to completion which in turn could delay expected investment to the detriment of the sector's growth.

Another encouraging move in agriculture is the emphasis on improving market access by farmers especially in the livestock sub-sector where the Government has committed to facilitate the export of one million goats annually. This needs to be done sustainably, and therefore, the Livestock and Aquaculture Census alluded to in the Budget alongside the development of the agriculture information management system will help attend to the concern of whether there are sufficient stocks to cover both the domestic and export markets. Presently, Zambia is a net importer of fish which costs the country nearly K4 billion annually. The introduction of cage fish farming on lakes Mweru and Kariba, among others, and the US$50 million Aquaculture Enterprise Development Project will also increase fish production and have potential to not only replenish depleting fish stocks but to meet regional demand in the long term. Such measures are a plus for export-orientation of the agriculture sector. However, there should be measures put in place to improve access to information and support in relation to pricing and how small-holder farmers can take advantage of these emerging market opportunities.

5.2 Positive Steps in Tourism

The Budget spoke to two key issues affecting the tourism sector – administrative barriers and access to tourism sites. To address these issues a single licensing regime will be implemented by the Business Regulatory Review Agency (BRRA). In addition, the "Government will through an integrated approach, prioritise major roads, bridges and air strips leading to tourism destinations". The Government has also pledged to facilitate development of requisite infrastructure to ease access to tourist sites, rehabilitate heritage sites and strengthen wildlife protection.

The two interventions in the sector are laudable as they will contribute to making the sector competitive. However, related to the two issues is the aspect of developing saleable tourism products. This aspect is supposed to be taken care of by the Tourism Development Fund whose implementation was announced in the 2017 Budget. The 2018 speech is silent on this aspect. It could have been helpful if the speech reported on the progress in the implementation of the Fund.

5.3 Unlocking the Energy Sector Challenges

In the energy sector, it is comforting to see that the Government is continuing to push on some of the critical pronouncements that were made in the 2017 Budget. The 2017 Budget outlined a number of important measures aimed at addressing the electricity sub-sector challenges. The measures touched on moving to cost reflective tariffs by the end of 2017; maintaining the life line tariff to protect poorer households; dealing with inefficiency in the sector; increasing electricity generation capacity; moving to a better energy mix, and the review of the overall market structure – including the review of ZESCO.

In 2017, we saw the implementation of the migration to cost reflective tariffs and the launch of the Cost of Service Study. There were also a number of electricity generation projects that were commissioned. The 2018 Budget Speech touched on a number of measures: The amendment to the Energy Regulation Bill to allow for enhanced supervision and regulation of the energy sector and the Electricity Bill to allow for participation of other players in the industry. It is however not clear whether these pieces of legislation will address both the market structure and ZESCO itself as was promised by the Minister. Related to this is the pronouncement that in 2018, the Government will implement the Renewable Energy Feed-In Tariff Regulatory Framework. The target is to add 200 megawatts through this initiative in the first phase. This is a shot in the arm to small scale electricity producers. Further, the Government has also taken a move to encourage households to use alternative energy sources such as Liquefied Petroleum Gas (LPG) and solar power. In this regard the Minister proposed to increase customs duty on electric geysers and stoves to 40% from 25%.

In the 2017 Budget, the Government had indicated that it would disengage from direct

procurement of finished petroleum products by March, 2017. This was meant to remove the burden of oil procurement from the Treasury, attain efficiencies and promote private sector participation. It would appear that this pronouncement was prematurely included in the 2017 Budget Speech as the Ministry of Energy was far from being ready to implement this measure. The Minister has set a new deadline for first quarter of 2018.

As indicated in the 2017 ZIPAR Budget Analysis, this move has various positives; the most obvious one is the introduction of competition into a sector where it is greatly needed. There would be competition both between Oil Marketing Companies (OMCs) themselves and between different ports and transport routes. The other obvious benefit of competition is that it would eliminate the country wide fuel crises that currently result from unplanned shutdowns at Indeni. However, to implement such a policy effectively there will be need to ensure that adequate measures are put in place to guarantee sufficient strategic reserves. Pricing of the commodity would also be challenging given the possibility that the finished products could be imported from different sources. This would require a very strong regulator to effectively regulate private sector profit motives. We hope that the proposed amendment to the Energy Regulation Act will take these issues into consideration

5.4 A Boost to the Industrialisation Agenda

There has been weak impetus to industrialisation in the measures announced in previous budgets. However, this Budget seems to have gone a step further in setting clear policies which if reinforced would boost industrialisation. In order to promote value addition and therefore economic diversification, the Government intends to continue with the development of MFEZs and Industrial Parks which are seen as a base for the country's industrial base. It is hoped that with more MFEZs and Industrial Parks, the economy stands to benefit from the consolidation and development of supply chains which in turn will result in gainful participation in regional and global value chains. Further, the Government places greater importance on industrialisation in this Budget as the mostly likely source to benefit Zambians in terms of employment creation. This Budget contains ample ingredients needed to spur industrialisation though the key condition lies with the budgetary and implementation measures outlined by the Government.

Nonetheless, with the continued development of MFEZs and Industrial Parks, the Government announced that it intends to commence a review of their performance so as to identify and address challenges affecting their operations. We welcome this move as it will help identify the dynamism, efficiency and also see how prominent the role of MFEZs and Industrial Parks development will be to Zambia's industrialisation agenda.

Lack of access to affordable and adequate finance continues to be the major constraint faced by SMEs which hinder the acquisition and enhancement of the technology and production techniques required to accelerate the pace of economic diversification. Through the recently launched Agricultural and Industrial Credit Guarantee Scheme, it is hoped that SMEs will now be able to access adequate and affordable credit. The Government has in this vein hinted at improving the policy and regulatory systems in order to strengthen and restructure financial institutions such as the National Savings and Credit Bank (Natsave), the Development Bank of Zambia (DBZ) and the Zambia Industrial Commercial Bank formerly Intermarket Banking Corporation. This is aimed at encouraging financial institutions to compete and be motivated to offer a diverse range of financial products applicable to the needs of SMEs.

Further, in order to increase credit options for SMEs, the Government intends to engage financial institutions on the use of movable assets as collateral in line with the provisions of the Movable Assets Act. This is meant to allow and promote the availability of low-cost secured credit which will reduce transaction costs by minimising formalities. This will also be complemented by allowing the use of securities and stock as collateral.

In an effort to support diversification and the growth of the domestic industry, the Government has also proposed a number of measures aimed at breaking away from the over dependence on the mining sector. Some of these measures include: the removal of customs duty on various inputs that are used in the manufacture of stock feed and fish feed and the exemption on unprocessed and semi-processed tobacco from VAT. In addition, for the surtax introduced in 2017 on selected imported products that are produced locally, the Government has extended the number of items on which surtax applies and also removed raw materials that are erroneously put on the surtax schedule. The Government also recognises the crucial role which risk management plays in any business and as such, any undertaking to cover risk of the insured and the insurer must be cost effective. Therefore, in this line, the Budget is proposing the removal of insurance premium levy on reinsurance. We support these measures as they will go some way in diversifying the economy and therefore enable it attain resilience.

6. Infrastructure Spending, the Sacred Cow

The 2018 Budget Speech clearly revealed the Government's comprehension that the country's infrastructure does not match its growth ambition. The big push on infrastructure spending which spans from the previous administration but has been intensified under the current one continues. Ironically, the big push is occurring while the Minister is acknowledging how challenging it was to implement the 2017 Budget with its considerable spending burden on infrastructure beside the relatively weak revenue collection framework. This section analyses the key infrastructure spending pronouncements in the 2018 Budget.

6.1 Infrastructure Spending Handles

Roads: Under the belief that "development follows infrastructure," the Minister continues to make generous allocations toward road infrastructure investments under the Link Zambia 8000 and the urban roads programmes, mainly Lusaka 400 and Copperbelt 400 for the 2018 fiscal year. Although these projects have helped to improve accessibility and mobility, they have also previously exerted enormous pressure on public expenditure.

The Minister announced 2 major road construction projects constituting road infrastructure spending for 2018 in addition to the usual Link Zambia 8000 and the urban roads programmes. These are the Lusaka-Ndola dual carriage way and the Chingola - Solwezi road. The Minister however clarified that these 2 roads were of economic significance and as such, they would mainly be financed through Public Private Partnerships (PPPs) arrangement to provide the desired spending relief on the Treasury. Further, the Government has committed to continuing the construction of toll gates across the country in 2018. Toll gates have demonstrated potential to generate more revenues to finance more road projects.

In the spirit of leaving no one behind, rural communities have been generously taken care of, with an allocation of approximately K1.9 billion on feeder roads to enhance their connectivity to markets. The World Bank is expected to provide the funds to improve the rural roads situation.

Total expenditure estimates on road infrastructure in the 2018 Budget have remained the same as that of the 2017 Budget at K8.6 billion. However, the amount is still very large, approximating at 12.1% of the total expenditure estimate for 2018, falling only marginally from 13.4% in 2017.

Railways: the Government has further positioned itself to revitalise Zambia Railways Limited which will require investment in the rehabilitation of the permanent way, signalling and stations. Further the Minister announced the commencement of the development of the Chipata-Petauke-Serenje railway line in 2018, albeit through a PPP arrangement. The Minister also announced the intention to concession the Tanzania Zambia Railway Authority (TAZARA) which has been experiencing severe liquidity issues making it difficult to cover its day-

to-day operational costs or attract private investments. Over the years, TAZARA has registered enormous losses and has been a drain on the national Treasury. If successfully executed, this measure could provide relief to the national Treasury and significantly contribute to the attainment of the desired fiscal fitness. However, the concern is that revitalising Zambia Railways requires substantial levels of investment spending. As such, an allocation should have been explicitly stated to provide the comfort that meaningful interventions would be made in this area.

Aviation: the Government's aspiration to transform Zambia into a land-linked country and Lusaka a regional transportation hub is evident in massive infrastructure investment made in the recent past. This aspiration entails a multi-modal approach to investment in industry. This has resulted into a renewed investment thrust in the aviation sector witnessed by expansion and modernisation of international airports and aerodromes. The Kenneth Kaunda International Airport (KKIA) and the Copperbelt International Airport are some of the ongoing aviation projects. The expansion and modernisation of the KKIA is expected to be completed in 2018 while the construction of the Copperbelt International Airport has also commenced. An allocation of K940.5 million has been provided for the two projects in the 2018 Budget. This is nearly twice as much as the K498.4 million allocated in 2016 for the KKIA project singularly.

Considering the constraint on the fiscus, the fundamental question being asked is whether the construction of the Copperbelt International Airport could be put on ice while concentrating the limited finances and efforts on completing the KKIA and other advanced aviation projects. The economic rationale of accelerating aviation infrastructure development while the country still grapples with issues of low utilisation of existing aviation services and infrastructure becomes questionable. Clearly, these projects could have been phased in such a way as to provide the desired fiscal relief and create fiscal space for projects that have demonstrated potential to generate growth and are able to pay back the investment in the shortest possible time.

Information and Communication Technology (ICT): ICT penetration in Zambia is generally low at 15% for internet, nearly 72% for mobile phones, 0.1% for fixed broadband and 0.7% for mobile broadband subscriptions. The 2018 Budget Speech pledges increased investment in telecommunication networks, data centres and access devices through the Smart Zambia Master Plan. In the spirit of leaving no one unlinked, the Government has earmarked the construction of 1,009 communication towers in unserved and underserved areas to achieve universal access to communication services. The pronouncement raises hope for improved connectivity and eased business environment throughout the country in the spirit of leaving no one behind. The practical challenge is in actualising the multi-sectoral approach in the implementation of this project which may require parallel efforts to address the low rural electricity connectivity and unreliable power supply. Electricity is essential in the operation of communication towers.

6.2 Resolving Infrastructure Financing Challenges by Heart and Mind

The Minister in his conclusion of the Budget Speech reiterated the need for fiscal discipline and sacrifice to raise more of own resources to finance development. As a way of demonstrating this, he announced the need to explore innovative ways of raising revenue and financing infrastructure development to ease pressure on the Treasury. Some key measures in the 2018 Budget aimed at addressing financing bottlenecks include the following:

a) Setting up an Infrastructure Development Fund

The pronouncement of an Infrastructure Development Fund to be set up in 2018 is a good initiative. When fully operational, the fund could become a major institution for funding public infrastructure developments. It could raise its own debt, and in turn, invest it as equity in benefiting infrastructure companies and institutions.

Considering the institutional bottlenecks

associated with the establishment of such institutions, it is however, unlikely that the stated Fund will realise meaningful resources to finance any infrastructure planned for 2018. Additionally, the capital market in Zambia through which the infrastructure bond would be issued is largely still under-developed. Initial efforts must aim at enhancing the operations of the stock market to support such initiatives.

b) Elusive PPP Financing

In 2018, PPPs are expected to play a huge role in supplementing budget allocations. The emphasis placed on the use of the PPP model to finance public infrastructure in the 2018 Budget is reassuring of the Government's desire to maintain a healthy fiscal balance and increase infrastructure investment in tandem with its growth ambitions. However, this is not the first time a National Budget has articulated commitment to PPPs as a preferred alternative financing model. From as far back as 2008 when the Government approved the PPP Policy, budgets have maintained the desire to finance public infrastructure projects using this model but with little success. It is not clear if there are any notable changes in the local environment that would make implementation of PPPs successful in 2018.

A major concern with the PPP model in Zambia is the weak legal and policy framework to support its implementation. The PPP Act of 2009 is still undergoing review to address the alluded weaknesses. PPPs are also laden with lack of political will, institutional capacity, financial resources, and clear guidelines and are associated with high transaction costs and extended lead times thus lessening their appeal and application locally.

The involvement of the local pension fund in the financing of major infrastructure projects like roads through PPPs is also a commendable development but such decisions must be protected from the political risks associated with service pricing. This is important in order to safeguard pensioners' interests. The Government must accelerate the revision of the PPP Act to enhance the regulatory framework of the PPPs if any meaningful results are to be expected of this financing model.

c) Taxing the Concrete

The Government has introduced an excise duty of K2 per 50 Kg bag of cement to assist in the mobilisation of funds for infrastructure development. Considering the steady growth in the production of cement averaging 15% per annum between 2007 and 2016, this measure is envisaged to yield a significant amount of revenue in excess of K70 million to support infrastructure development. This is indicative of a good start in sustainable financing of infrastructure development.

Cement production has steadily risen from an annual production of about 500, 000Mt in 2007 to over 1.7 million Mt in 2016 translating to 10.6 million bags in 2007 to 35.7 million bags in 2016.

What is not clear, however, is the mode of administration of this revenue, whether it will be ring-fenced to safeguard its purpose of establishment or aggregated with all other revenues in which case it may not have as much impact as expected. This question is of importance considering that in the implementation of this duty, the sellers are likely to pass on the burden to the consumers and in turn increasing the already high cost of construction. Since every person buying the cement will be paying the duty, if not well appropriated to benefit the less advantaged, this may just become another retrogressive tax.

7. Mystery of Shifting and Vanishing Pledges

The National Budget is significantly about macroeconomic and sectoral objectives, policies, strategies and interventions that the Government has pledged to achieve (or at least initiate) within the course of a given fiscal year. These are variously described throughout the narrative of the Budget Statement (or Speech). The demonstrated ability of the Government to fulfill these pledges and to transparently account for both successes and shortfalls, through full and accurate reporting, is essential for the integrity and credibility of the Budget.

A comparison of the 2017 and 2018 Budget

Statements (complemented with information from other sources) suggests that a number of 2017 pronouncements were mysteriously shifted to 2018 without explanations or justifications or were altogether dropped from the radar of the Budget. New 'pop-ups' or new pronouncements appearing for the first time in 2018 are also observed. The analytical narrative that follows comments on the shifting and vanishing pledges in 2018, focusing on: macroeconomic objectives, policies and strategies; policy, regulatory and structural reforms; and the nexus between short- and medium-term (3-year) budgeting instruments.

7.1 Macroeconomic Objectives, Policies and Strategies

At the level of macroeconomic objectives, policies and strategies, the 2017 Budget pledged to "support the creation of at least 100,000 decent jobs." Despite the importance of this employment commitment, the 2018 Budget Statement neither offers any explicit target for the 2018 fiscal year nor does it even refer to the progress made against the 2017 target. Similarly, the 2017 Mid-Year Economic Review published by the Ministry of Finance in September 2016 (same month of the 2018 Budget reading) makes no mention of the mid-year progress in creating the 100,000 new jobs. Indeed, the words "jobs" and "employment" are not mentioned even once in the mid-year review. Going a few years back in Zambia's economic history, it is disquieting to note that the jobs target, which has now vanished, was shifted around a few times before it finally vanished in 2018. In 2013, the Industrialization and Job Creation Strategy (published in July of that year) pledged to "create 1,000,000 new formal sector jobs over the next five years" (presumably over 2013-2017). In line with this, the 2013 and 2014 Budget Statements committed to support the creation of at least 200,000 decent new jobs in each fiscal year. None of these targets were ever accounted for or even partially reported on in subsequent Budget Statements or in annual or mid-year economic reports. They have now simply vanished, leaving the country wondering what happened to the 1,000,000 new formal sector jobs that were promised by 2017.

Secondly, three new macroeconomic objectives have popped up in the 2018 statement, namely to: (i) accelerate implementation of measures towards diversification of the economy; (ii) reduce the stock of arrears and curtail the accumulation of new arrears; and (iii) slow down the contraction of new debt to ensure debt sustainability. Although it is within the Finance Minister's mandate to set macroeconomic policy objectives, the proliferation of objectives, which are now raised to nine, raises the risks that the new indicators will be lost to follow-up in 2018 or beyond. They may quickly disappear like others before them. The *disappearance risk* is heightened by the fact that these new objectives are not quite "SMART" (Specific, Measurable, Accepted, Relevant or Time bound); in particular, they are not specific, measurable or time-bound.

7.2 Policy, Regulatory and Structural Reforms

In relation to policy, regulatory and structural reforms, the 2017 Statement promised a number of reforms. However, the fate of many of these reforms in 2018 is unclear as they have either been quietly moved to 2018 without any explanation or indication of the progress made in 2017; or have been dropped from the Budget altogether. One example related to key fiscal policy reforms towards strengthening fiscal governance. The 2017 Budget Statement pledged to improve transparency and accountability through five specific measures, notably to: (i) table revisions to the Public Finance Act of 2004 before Parliament; (ii) table a Planning and Budgeting Bill before Parliament; (iii) fully rollout the Integrated Financial Management Information System (IFMIS) to all ministries, provinces or spending agencies by end 2017; (iv) accelerate the rolling out of the Treasury Single Account to major ministries by end 2017; and (v) ensure that major revenue collection processes are automated by June 2017.

The 2018 Budget Statement shows evidence of shifting and vanishing reform pledges. For instance, the proposal to revise to the Public Finance Act is on the 2018 agenda, but without

any justification for deferring to 2018 a reform effort that was meant for 2017. Similarly, the enactment of the Planning and Budgeting Bill is now slated for 2018, giving the impression that the Bill was tabled before Parliament in 2017 as announced in the 2017 statement. However a check of the National Assembly archive of Bills reveals that the Planning and Budgeting Bill is not among the 10 Bills tabled before Parliament during 2017. Curiously, both the IFMIS and Treasury Single Account rollouts mysteriously vanished from mention in the 2018 Budget and are also not reported on in the 2017 Mid-year Economic Review.

Towards great transparency and good governance, the 2018 Budget Statement announces a commendable new legal reform to table a Bill before parliament in 2018, to repeal the Loans and Guarantees (Authorisation) Act. However, the picture is somewhat confusing as the Debt Management Strategy, published in September 2017, claims that "The Loans and Guarantees (Authorisation) Act has [already] been revised to strengthen Parliament's oversight and approval of new borrowings." Tabling this and the other fiscal legal instruments before Parliament in 2018 will be imperative for securing better accountability and fiscal governance outcomes.

On structural reforms, Zambia has quite a number of State Owned Enterprises (SOEs), many of which are inefficient, are drains on fiscal resources and require structural reforms. Hence, in the 2017 Budget Statement, IDC was directed to conduct a situational analysis of all SOEs under its portfolio – namely: ZESCO, ZAMTEL, ZNBS, Indeni, TAZAMA Pipeline, Zambia Railways and ZSIC – with a view to recapitalise those with a good business case and hive off the non-viable ones. Without reference to the outcome of the situation analysis directive to IDC, the 2018 Budget intends to "put in place a robust asset management system for all SOEs to assess their viability and sustainability". The situational analysis requirement has vanished while the new 2018 measure seems somewhat ambiguous in relation to what the fate of all the SOEs – now lumped together – will be from 2018 onward.
Other key reforms relate to the establishment of a homegrown programme that wins over the confidence and financial support of the international community, notably the IMF. Thus, the 2017 Budget Statement envisioned that Zambia's ESGP would be supported by the cooperating partners including IMF. However, the Budget made a disclaimer that Zambia would engage the IMF in negotiation in the first quarter of 2017. The 2018 Budget similarly positions IMF support within the ESGP, with IMF negotiations slated to resume in the fourth quarter of 2017. However, the 2018 Budget does not give reasons for the seemingly protracted negotiations. In the interim, in mid May 2017, the Finance Ministry revealed that the IMF Board would make a final decision on Zambia's loan application in August 2017. In the same month the IMF aired expectations "to reach understandings in the coming weeks that would form the basis for presenting the authorities' request for an ECF arrangement … to the IMF Executive Board in August 2017", essentially saying the Zambian authorities had made a request. The stalled IMF negotiations raise uncertainty about whether and when an IMF aid package might be secured. The IMF loan, expected at approximately K15.2 billion (US$1.6 billion) would be 21.1% of the 2018 Budget or if spread over two years, K7.6 billion (US$800 million) per year would be 11% of the Budget. This would be substantial for creating fiscal space for Zambia. Conversely, an unsuccessful negotiation would see continued fiscal dire straits for the country.

7.3 Nexus of the Annual Budget and the MTEF

Finally, tying the annual budget (short-term instrument) to the medium-term instrument – the Medium Term Expenditure Framework (MTEF) 2018-2020 – the comparative analysis finds some disquieting disparities between the two, particularly in relation to the fiscal (revenue and expenditure) projections. This is despite that the 2018 Budget Statement and the MTEF 2018-2020 were both published in September 2017. A major issue is that the total proposed budget for 2018, at K71.7 billion, was nominally 9.5% larger than the MTEF projected budget for the same year (K65.4 billion). The proposed 2018 Budget was also larger than the projected

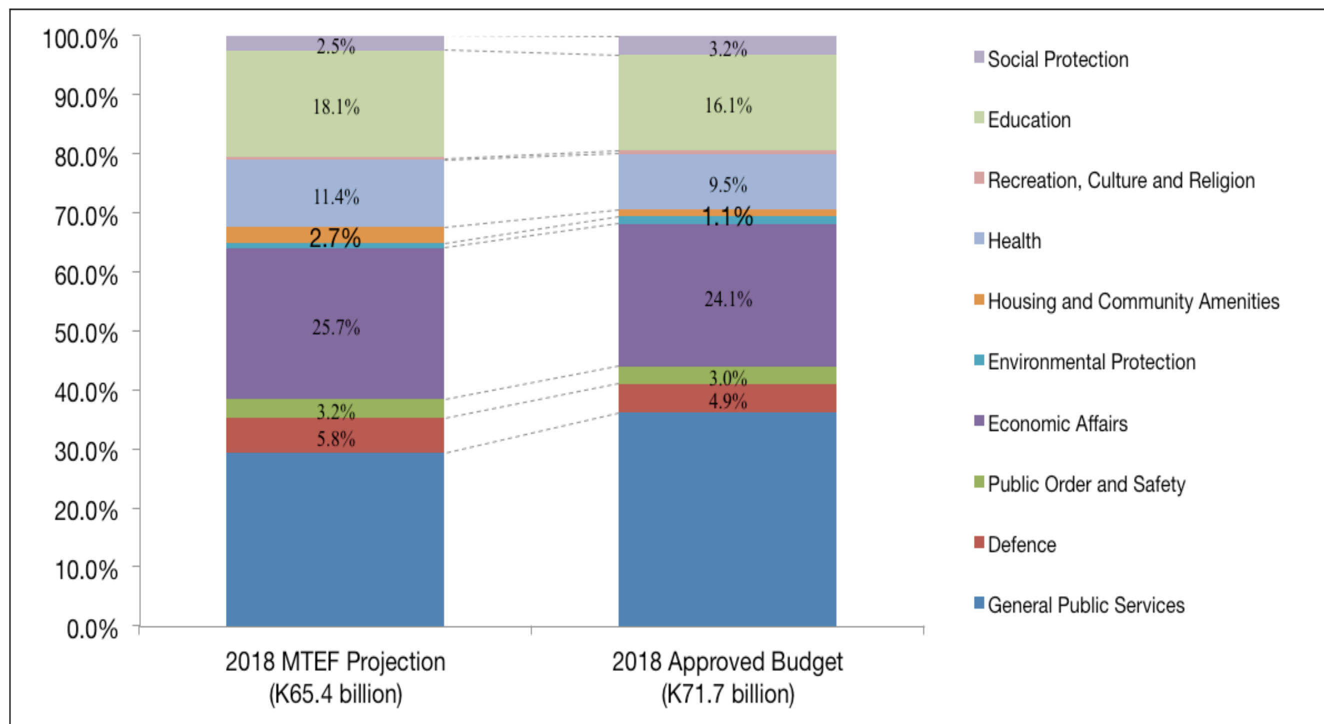
2019 MTEF budget (K69.1 billion). Thus, MTEF projections are not good predictors of final budget allocations, even over time horizons that are as short as one month.

Furthermore, the composition of the budget by function diverged markedly between the proposed budget and the MTEF (Figure 7.1). For instance the budgetary allocation to General Public Services was projected at 29.4% of the 2018 MTEF budget but this was increased to 36.1% in the 2018 Budget. On the other hand, the shares of Health and Education in the Budget were reduced from 11.4% to 9.5% and from 18.1% to 16.1%, respectively. These unexplained shifts limit the effectiveness of the MTEF as a strict constraint on the Annual Budget, eroding integrity and credibility of budgeting and planning.

Ultimately, the marked proliferation of shifting and vanishing pledges expose the 2018 Budget to the risk of undermined fiscal governance and weakened transparency and accountability. Going forward, the authorities will do well to improve the level of consistency and coherence from one Annual Budget to the next and between budgets and MTEFs.

On the whole, the 2018 Budget has charted a course for accelerating fiscal fitness and putting Zambian back on the path of robust sustain and inclusive growth and development that leaves no one behind. However, the Budget will only be worth its salt and will only achieve the accelerated fiscal fitness it desires if the Government can muster the will, persistence and discipline to stay true to the policy, strategic and numerical commitments it has stipulated. In 2018, staying the course will be an imperative for fiscal fitness. Indeed, it will be a year for testing the Government's sturdiness or stamina in fiscal and economic governance.

Figure 7.1: MTEF and Approve Budget Shares (%)



Source: constructed from 2018 Budget Speech and MTEF (2018-2020)

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