



THE YOUTH BUDGET

2022 National Budget Expectations



THE ZAMBIA WE WANT BY 2030

The first paragraph of the Vision Zambia 2030 reads:

“To create by 2030, a Zambia that is a strong and dynamic middle-income industrial nation that provides opportunities for improving the well being of all, embodying values of socio economic justice, underpinned by the principles of: Gender responsiveness, promotion of democracy, protection of Human Rights, and supporting of good Traditional and family values, a strong work ethic, sustained peace and social coexistence and the promotion of private-public partnerships”

As a youth advocacy group, we and the young people we represent hope the 2022 National Budget will live up to this standard we have set.

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1. INTRODUCTION

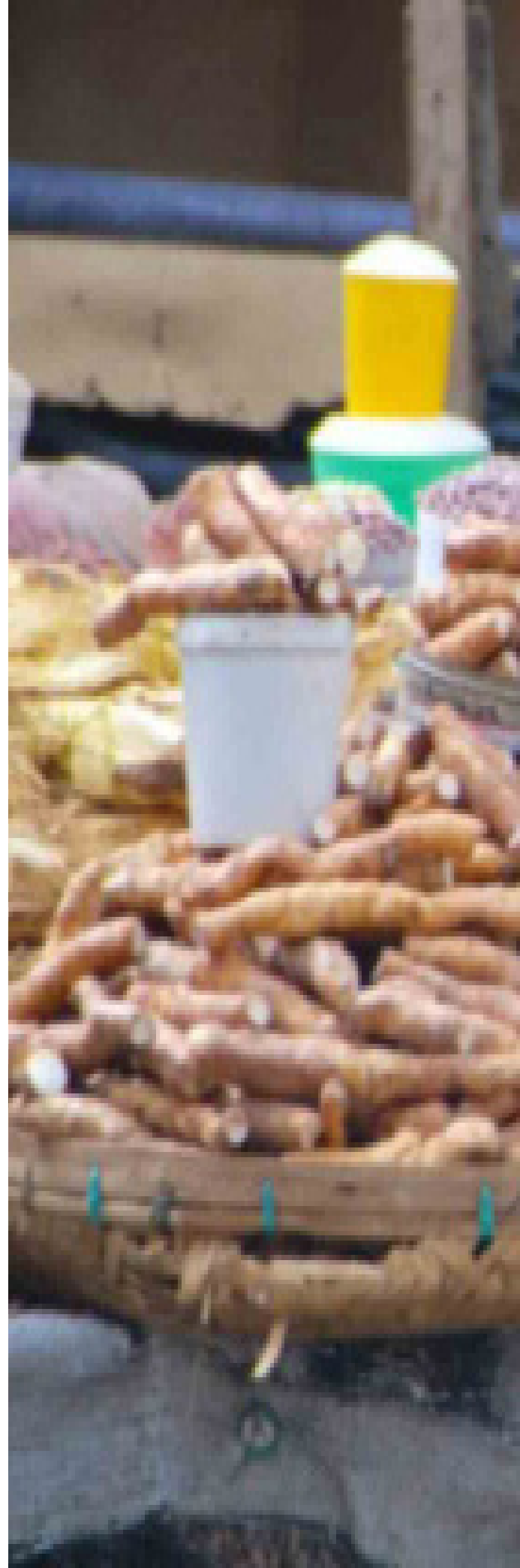


1. INTRODUCTION

To say that last few months have been euphoric for young people would be understatement. Zambians turned out in droves to vote for change, and many were first-time voters. Others saw this vote as a vote for the future. The expectations for the new dawn government are high, especially from the youth, who are adamant to see how the promises of jobs, free education and economic stabilization will be met by the 2022 national budget.

To reinforce these promises, the New Dawn government has touted the 2022 budget as one like no other at every chance given. This has left us with nothing but high expectations for it. After all, as the Bible says: “by your own words you shall be judged”.

In projecting our budget, we have tried to be as unbiased and realistic as possible, utilizing various projections from the Ministry of Finance and other public institutions. This document should not be taken as investment advice. It also doesn't include wages and amortizations. We hope this shows the government young people are able to contribute to economic discussions





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■ ■ ■ 2. 2022 MACROECONOMIC FORECAST ■ ■ ■

2. 2022 MACROECONOMIC FORECAST

Growth Rate

After experiencing torrid economic growth figures in the last two years, the economy is expected to recover with an estimated growth rate of 2.8%. This is hopeful news when compared to a contraction of -3.1% experienced in 2020 and growth of 1.3% in 2019. This recovery can be accredited to the strong economic performance of the third quarter of 2021, growing at a rate 8.1%, and the opening up of the economy following the corona lockdown.

GDP

GDP for 2022 is expected to be around K373.1 billion, with the mining sectors contribution to GDP increasing by 2% from the previous 20%. We expect strong recovery for the retail and wholesale trade sector and transportation sectors with their contribution to GDP returning to 17% and 7.5% respectively. Growth

in the mining sector is expected to be strong, riding on the back of the headwinds of renewed global mining demand, growing by 13.2%. For tourism it is expected that growth will be small.

Inflation & Exchange Rate

The policy rate is expected to be retained. Coupled with increased fiscal discipline, this is will allow for exchange rate stability and greater macroeconomic stability. Exchange rates are expected to hover between K18.90 to K19.50 per dollar. This stability will promote investment and private consumption in the economy, filling the output gap and subsequently reducing the inflation rate to 13.4%. The consistency will also allow for a more stable inflation rate.

Interest Rates and Taxes

With the policy rate remaining within the 8.5% and 9.15% range, we expect that the cost of capital will remain constant. Unfortunately, this means it will still remain high. As a hangover from the poor macroeconomic performance of the previous year, we expect the average interest rate to be around 26.8%.

With the expansion of fiscal space and the councils be given back their constitutional right to collect levies in markets and bus stations and the continued roll out of the E-taxation system.

We expect the performance of taxes in 2022 to be stronger, with Taxes accounting for 16.75% of GDP. A reduction in taxes from imports is expected as the African Continental free Trade Agreement (AfCFTA) is actualized. However, this will be cancelled out by substantial increases in mineral royalties and direct taxes.

Unemployment & Labor Force

Zambia's population is expected to be over 19.45 million, with a labor force of 6 million, majority of these are youth. The unemployment is expected to still be high, with youth unemployment slightly reducing to 20.9% from 22.6%.



3. 2021 BUDGET PERFORMANCE



3. 2021 BUDGET PERFORMANCE

The proposed 2021 budget was set at K119.6 billion, of which K68 billion was to be raised through taxes and the rest financing mechanisms. A total of K50.7 billion was collected in taxes against a projection of K34.7, representing a 46% in over performance. This can be attributed to an increase in mineral royalties above forecasts due to the copper boom, and the quick recovery from the coronavirus that increased value added tax collection.

While these milestones may indicate that the performance of the budget is on track, there are underperformances that were noted during the observed period. Expenditures were above the targeted level by 11.4%, which was mainly attributed to higher expenditures on other liabilities and capital projects in 2021. Additionally, the fiscal deficit in the first half of 2021 amounted to K12.4 billion, which was 5.4% below the projection of K13.1 billion.

As of the end of June 2021, Gross Central Government debt stood at K365.3 billion

(\$20.9 Billion) an increase by 9.8% from K329.3 billion (\$18.8 billion) as at the end of December.

Debt disbursements towards education stood at K781.2 million. While spending towards arts, entertainment and recreation was 1.14% of total debt disbursements. \$105 million loan was contracted that was directed at the Girls Education and Women's Empowerment and Livelihood Project (GEWEL).

There was a significant drop of 5% on university education spending between 2020 to 2021. This could be attributed to the adoption of E-learning platforms and the budgetary squeeze due to the pandemic. Spending on education is one of the first to be affected by spending cuts.



4. 2022 BUDGET AT A GLANCE



4. 2022 BUDGET AT A GLANCE

By our estimates, the 2022 budget will hover around K162 billion for the year 2022. About 55% of this will go towards debt servicing, leaving K72.8 billion for local expenditure. We estimate that K39.2 billion will be spent on salaries, leaving a paltry K33.6 billion for economic activities. This coupled with the fact that Zambia's fiscal space is in extreme distress means active steps must be taken in 2022 to reduce fiscal deficits and the primary balance financing gap.

It has been projected that K72 billion will be raised from taxes and other domestic statutory fees. This increase stems from an increase in exports, the expected raise in the value of copper, the opening up of the global economy and increased economic activity. In the recent past, it has been shown that it is quite difficult to adequately project taxes and other domestic statutory fees. This is because of the large number of imports that are eligible for VAT refunds.

We recommend the scaling up of the SMART Zambia initiative and E-taxation system to flag imports that do not require tax payments. This reduces the number of refunds, which are known to cause budgetary inconsistencies and make it harder to make efficient projections. This may seem juvenile, but it is crucial to helping ease the fiscal deficit by creating more robust budgets.

We have picked 5 thematic areas that directly concern to the youth: I) Debt Management & Economic Stabilization, II) Agriculture, III) Education IV) The Social Sector, and V) SME & Industry.

BUDGET LINE ITEM	2021 EXPENDITURE	2022 EXPECTATIONS
Agriculture	7.2	7.3
Defense & Internal Security	6.6	8.2
Education	13.8	13.8
Community Development & Social Services	10.5	14.4
Debt Servicing	47.6	78
Young People Related	0.18	0.17
Other	34.12	40.13
TOTAL	K120 billion	K162 billion

Figure 1: 2021 Budget Expenditure against 2022 Budget Projections Source Ministry of Finance.



5. 2022 BUDGET EXPECTATIONS

5. 2021 BUDGET EXPECTATIONS

5.1 Debt Management & Economic Stabilization

Zambia currently owes more than K365 billion in public debt to both local and foreign creditors. Unfortunately, one would be hard-pressed to find what can be shown for this exorbitant amount. However, the burden has put considerable pressure on the country's fiscal space, stalled our economic growth and disturbed our macroeconomic stability.

The youth have shouldered most of the weight of this burden and are suffering the most from its consequences. Youth unemployment is at its highest, while spending on education & other social services has reduced.

At best, the previous regime looked ill-equipped and short staffed on ideas to resolve Zambia's economic malaise. It seemed their frame of logic was to throw money at the problem – in this

case, our ailing economy – and hope it starts working. Unsurprisingly, this did not work. Spending didn't go into sectors that would resuscitate the economy. Rather, expenditure was dolled on political expedience and personal gain, reducing the velocity of money, increasing inflation, impeding economic activity and increasing poverty rates in the country.

We expect:

- Domestic arrears should be dismantled. We expect K5.1 billion to be spent on dismantling domestic arrears. A special K100-million-fund be created to dismantle arrears for SMEs owned by young people whose profitability has been impeded by the pandemic.
- No more than 30% of the budget to finance from foreign tied-concessional mechanisms.
- Debt servicing to reduce or remain subdued because of the Debt Servicing Suspension Initiative (DSSI) from the world bank.

We recommend:

- The Medium-Term Debt Management Strategy Framework to be imbedded into the constitution.
- Salaries to be paid on time and in full, howbeit size. This will boost aggregate demand in the economy accelerating economy growth and recovery.
- Contraction of tied aid and loans to be reduced. These deals accelerate inflation and do not have the same positive feedback loop as would financial flows that are wholly Zambian. Tied-financial flows increase the fly paper effect accelerate inflation and

5.2 Agriculture

The agriculture supply chain in Zambia is valued at over K10 billion, employing 45% of the labor force. More than 36% of young people are engaged in agricultural activities. Unfortunately, the sector is marred by misinformation, delayed payments and under expenditure.

In 2012, Zambia joined and signed the Malabo accords, which committed Zambia to dedicate at least 10% of the budget to agriculture. It is key that spending into agriculture is taken into context. The largest portion of the agriculture budget goes towards purchasing

strategic reserves at below economic value of crops. It is therefore important to contextualize spending. If majority of spending goes to administrative costs and corruption it won't have much impact on the agriculture sector.

We expect:

- The amount spent on strategic reserves to be reduced from the target of 500,000 MT to 300,000 MT. This will lead to a saving of more than K300 million that can be reallocated to other sectors without compromising the food security position.
- Investment in irrigation technology must be prioritized.
- No Less than K5.4 to be spent on FISP.





On paper, this is a 9% reduction from the 2021 budget, but a quick look at the auditor general reports from previous years show gross misappropriation. When coupled with strong internal controls, this figure can easily support 1,000,000 farmers.

We recommend:

- Timely procurement and delivery of farmer inputs. The pronouncements to increase the size of the FISP input pack is welcomed. This move will not yield much positive result if inputs are not delivered on time.
- Strengthening of internal controls and anti-corruption mechanisms.

5.3 Education

Zambia has a median age of 17.6 years, which is expected to rise to 20.6 by 2035. This means more than 10 million Zambians are younger than 21, the prime school-going age. Education is not only a tool for transferring skills and knowledge, but a tool for social programming, mental calming and future determinism. If half the population is of schooling going age, this sector should be made a priority out of socio-economic necessity.

Intense investment in schools and other educational infrastructure must be prioritized. The new dawn government has time and time again alluded towards its priority being the youth, education and job creation.

We expect:

- At least K50 million on scaling up capacity for ICT training in public schools and e learning platforms.
- To reduce the education gap, K400 million should be reserved for the building of schools.
- K7.5 million from the ministry of science & technology to be set aside for skills training for young people in programming for Machine Learning & Artificial Intelligence in all 10 provinces. This will allow Zambia not to be left behind in the global ML & AI race.
- Many young people leave high school without having a plan or any career prospects. We expect at least k50 million to be directed towards hosting of open days in high schools around Zambia and schools having an adequately staffed guidance counselor's office.
- The infrastructure at the University of Zambia is in a deplorable state. Years of neglect have left many hostiles uninhabitable by bare minimum standards. We expect the government to set aside k10 million towards improving the water, housing and electrical infra-

structure at the University of Zambia.

- The current Zambian curriculum is outdated and out of touch with the world, a full curriculum overhaul & redesign is required. We recommend at least K20 million be set aside for this task across a period of 5 year, with \$4 million being used in the 2022 budget.

We recommend:

- A Rural Education Development Fund that will be used for the construction of schools in rural areas. This will send a clear signal and intent to donors who would like to advance the education sector.

5.4 Social Sector

Zambia has a dependency ratio of 85%. With such a high dependency ratio, a strong social sector is extremely important for ensuring strong safety nets for these vulnerable citizens. Unfortunately, the state of Zambia's social sector leaves much wanting.

Corruption in health care needs to be curbed and mental health care infrastructure

needs to be invested in. Corruption alone causes losses in value of over 12% in the procurement chain, that is only at the procurement stage and what is known about. Reducing these inefficiencies by adopting E-Systems will reduce corruption losses and increasing value for money.

We expect:

- Land rights, and other property rights are crucial towards strengthening social safety nets as they increase access to capital for people. We expect K12 million to be directed toward increasing the land rights and nationwide titling exercise.
- Parks are a crucial part of social cohesion, mental health and a good deterrent negative behavior. We expect K5 million to be directed towards the building of urban parks and recreation areas in cities across Zambia.
- Investment in infrastructure suited to ease the burden of Persons with Disabilities. We expect a considerable amount of the money sent to the Mental health has been spoken about as an issue of concern by the

new dawn government. We expect the government to set aside K7.2 million towards improving the health infrastructure and restuffing mental health departments of public health institutions.

- Continued Scaling up of E-procurement system & SMART Zambia initiative to reduce illicit financial flows away from the health care.

We recommend:

- The defunding the military, Zambia is a peaceful nation and excessive expenditure on military machinery must be contracted without fail. Estimate around K15 to K30 million can be redirected from the ministry of defense into other social sectors without impeding the core financial structure of military or compromising the security, safety or salaries of military personal.

5.5 SME & Industry

The government has an uphill task of creating more than 500,000 jobs by 2026. the construction sector can offer a solution to this. Investment in infrastructure during recessions has been used a successful tool for stimulating an economy and created low skilled jobs. Currently the construction sector accounts for 9% of GDP and hires more 180,000 Zambians, with 30% being low skilled workers.

Focus on construction alone will not be sufficient. Significant steps to be taken to develop and increase Zambia's industrial capacity. Strides need to be made towards investing in social capital overheads and increasing gross capital formation. Development of a strong industry can develop strong forward and backward linkages that will develop the Small & Medium Enterprise (SME) sector Small and medium enterprises are the backbone of every strong economy. other than boosting economic performance, SMEs are known to directly increase

economic welfare for small families that run them. They also form the foundation of a strong industrial sector. With this in mind, the Ministry of SMEs has been created to foster the creation and nurturing of SMEs throughout the country.

The Mining sector has potential to also create strong backward-forward linkages. By empowering artisanal miners and providing them capacity building and markets, they'll direct engage with local SMEs.

We expect:

- The injection of K100,000,000 that will be dedicated to recapitalizing key parastatals such as Nitrogen Chemicals of Zambia, Indeni Oil refinery etc. These parastatals can create forward backward linkages with SMEs.
- Direct at least K400 million to the citizen empower fund.
- Provide a funding facility for artisanal miners of at least K15 million to help small scale miners grow.

We recommend:

- The state to enter into more double taxation agreements to attract more FDI and get fair tax value additionally.
- The creation of a revolving blended finance recapitalization fund for State Owned Enterprises, that state owned enterprises can draw money from to recapitalize themselves while reducing pressure on government finance.
- Create local industry procurement quotes for private mining corporations.
- Creation of a revolving fund that small scale miners can access that will require them to undergo a rigorous training on the mining business, and connect them with international supply chains and regional markets.

BUDGET LINE ITEM	YOUTH BUDGET (K 'billion)
Agriculture	6.3
Infrastructure	1.1
Education	4.7
FISPs	0.45
Social Services	8.9
Young People Related	10
Ministry of Finance	2.25
Other Sectors	3.15
TOTAL	K33.6billion

Figure 2: Proposed Youth Budget Resource Allocation.

6. CONCLUSION

The 2022 proposed national budget is arguably one of the most hotly anticipated in the past few years. It has been hyped by the new government, leaving many interested to see what it has in store. In conversations around the anticipated 2022 budget, debt and fiscal prudence have dominated. We expect our fiscal deficit to fall below 10% in the period. We also expect build-own-transfer contract to foreign entities to end, all domestic arrears to be dismantled, and no more than 30% of the budget to be financed from foreign concessional mechanisms.

In the context of agriculture, an analysis from Harman & Chapota (2017) of IAPRI shows Zambia can achieve its social objectives by lowering its Strategic reserves target from 500,000MT to 300,000 metric tons. allowing us to save more than K300 million in expenditures. We also expect no less than K5.4 billion to be spent on FISP to adequately support small and medium scale farmers. We recommend that farmer inputs be procured and delivered on time, and the strengthening of controls and anti-corruption mechanisms.

For education and health care, we expect government to dedicate no less than 11% of the budget towards education with an emphasis on constructing schools, significant investment to be made towards improving the quality of infrastructure at the University of Zambia, and at least K2 million be set aside for the improvement of free public mental health services.

For the social sector, we expect funds to be dedicated to increasing land rights, a significant investment in recreational parks for leisure, and significant investment in infrastructure that eases the burden for persons with disabilities. We recommend the military be defunded. Zambia is a peaceful nation. Excessive expenditure on military infrastructure simply takes away necessary funds for strengthening our social safety net.

Finally, for SMEs and Industry, we expect an injection of money dedicated to the recapitalization of parastatals, the creation of a citizen empowerment fund, and the facilitation of Small Scale and Artisanal Miners. We recommend the state enters into more double taxation agreements to attract more FDI, along with the creation of revolving funds that continually finance the recapitalization into the foreseeable future.



The Center for Young Leaders in Africa (CYLA) is a non-profit young political leader's volunteer organization established in 2017. The center is a platform that brings young people from different political parties and other diverse backgrounds to build capacity through interactive skill sharing in different aspects of life so that they can work together for a common purpose. Our main objectives are to Increase young peoples's participation and inclusion in politics and political party rank & file, while improving coordination and collaboration of young people in mother parties around common issues, which affect them. To find out more on our work, how you can benefit or support us please contact us


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