Ambitious but Constrained: A “Climate Changed” Budget?

Zambia 2025 National Budget Bulletin

September 2024

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Commentary

Ambitious but Constrained: A "Climate Changed" Budget?

The Honourable Minister of Finance and National Planning, Dr Situmbeko Musokotwane, presented the 2025 National Budget to the National Assembly on Friday, 27 September 2024. This budget comes at a critical juncture as Zambia celebrates 60 years of independence, amidst the severe impacts of climate change that have exposed the vulnerabilities of our over reliance on hydroelectric power. With over 80% of our power generation dependent on water bodies, the recent drought has caused an unprecedented energy deficit, crippling businesses across the board.

The agricultural sector, a cornerstone of our economy, has seen output more than halved for most crops, leading to a 2.1 million tonne maize deficit. This situation has jeopardised the livelihoods of millions of Zambians and necessitated a revision of the 2024 budget to divert resources towards humanitarian relief efforts. Meanwhile, the energy crisis has slashed electricity generation to 1,255 megawatts against an installed capacity of 3,811 megawatts, significantly hampering economic activity.

The climate crisis is the latest in a series of challenges that have ailed the Zambian economy. November 2020 saw the country default on its sovereign debts and start the process of renegotiation. Since then, Zambia has grappled with the effects of the Covid-19 pandemic, a dramatic slump in the output and performance of the mining sector, the impact of geopolitical conflicts, and now the climate crisis. These challenges have, among other things, impacted the cost of living, the cost of doing business, and introduced volatility in key macroeconomic indicators, making the environment a challenging one to operate in.

It is against this backdrop that the budget themed ***"Building Resilience for Inclusive Growth and Improved Livelihoods"*** was presented. This budget, the fourth presented by the UPND-led government, is, in our view, ***ambitious but constrained***, reflecting the complex interplay of aspirations and limitations in the current economic and social landscape.

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Ambitious targets and increased expenditure

The 2025 budget is expansionary, with a notable increase in expenditure. The total budget expenditure is projected at K217.1 billion, a 9% increase from the forecast expenditure for 2024. This includes substantial hikes in areas such as social support, the Constituency Development Fund (CDF), infrastructure, health, and education. The government has also set aggressive targets, including a GDP growth rate of 6.6% in 2025, a reduction in inflation to the range of 6-8%, and a budget deficit target of 3.1% of GDP. The current projected GDP growth rate for 2024 is 2.3%, inflation is 15.6%, and the projected 2024 budget deficit is 6.4% of GDP. These targets are ambitious, especially in the context of the current economic performance.

Bullish revenue growth projections and reduced financing demands

To finance this ambitious expenditure, the Government projects domestic revenues and grants to increase by 26%, from K144.5 billion in 2024 to K182.4 billion in 2025. Domestic revenues alone are expected to rise by 23%, reaching K174.2 billion, with tax revenues contributing K137.4 billion, a 20% increase from the previous year. Non-tax revenues are also anticipated to grow significantly, by 39%, amounting to K36.8 billion.

Additionally, grants are projected to see a substantial increase of 138%, totalling K8.2 billion. The total financing requirement is set to rise by 4%, with domestic financing slightly decreasing by 6% to K15.4 billion, while external financing is expected to increase by 14% to K19.4 billion. These revenue projections underscore the government's commitment to mobilising domestic resources and securing external support to fund its ambitious plans.

Crisis response constraints

However, the budget is also constrained. The Honourable Minister would have undoubtedly wanted to take actions such as providing additional relief to workers through tax relief, more stimulus to SMEs, and to large businesses given the current strain that all are facing. Yet, the available resources are limited, and the focus has been on crisis response and supporting the most vulnerable in society. The Government has increased spending on social protection, with allocations to the Social Cash Transfer, Cash for Work Programme, and the Food Security Pack. Overall, the budget for social protection has increased by 67% from K9.67 billion for 2024 to K16.12 billion for 2025. These measures are essential in addressing the immediate needs of those most affected by the drought and economic challenges. The significant boost in social spending will indirectly stimulate economic activity as recipients spend, but more direct support would have been desirable by many.

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The marked impact of debt restructuring progress

The conclusion of the debt restructuring process has provided greater certainty regarding the amounts payable to Zambia's creditors. This has allowed for more options in the budget, with resources redirected to other critical areas. The restructuring of US$6.3 billion due to official creditors and US$3.89 billion to bondholders has been a significant milestone. In his budget, the Honourable Minister also signalled that an Agreement in Principle has been reached with the Industrial Commercial Bank of China and the China Development Bank to restructure US$1.5 billion payable.

At the start of the process, US$13.1 billion was to be subject to renegotiation. This latest announcement means that US$11.69 billion has now been restructured, representing 89% of the original debt that was to be subjected to treatment. Because of the above, the amounts to be paid towards debt service are now included in the budget with a greater degree of certainty. The total amount payable for external debt service in 2025 is K16.7 billion, representing 7.7% of the total expenditure for the year and 9.6% of projected domestic revenues. For context, the external debt servicing budget as a percentage of domestic revenues in the years 2020 and 2021 was 29% and 42% respectively. This is a marked reduction from the amounts reported pre-default.

The benefits of completing the restructuring exercise are clear and justify the effort expended by the government to resolve the issue. Suffice to say, it would have been an unmitigated disaster for Zambia if we had to face the current crisis with unresolved debt issues.

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The Government has also maintained its policy stance to drive the transformation and growth of key sectors such as mining, manufacturing, and agriculture, aligning the budget with the long-term goals articulated in the 8th National Development Plan. The theme of this year's budget, "Building Resilience for Inclusive Growth and Improved Livelihoods," is both timely and necessary. From our review of the current budget and the three preceding ones, one cannot ignore the fact that the Government is determined to remain on the course that has been established.

Sustaining mining sector growth initiatives

The mining sector has seen intensified efforts to boost investment. More resources have been allocated to the geophysical mapping of the country that started in 2024. This is to have a better understanding of Zambia's resource potential, thereby improving mineral discovery prospects. The goal of achieving 3 million metric tonnes of copper by 2031 remains intact, albeit challenging given the time needed to make significant discoveries and then set up a mine. Notable is that none of the significant policy measures adopted in previous years have been reversed.

Infrastructure Development

Interestingly, the construction sector seems to be making a comeback as a significant industry. The initial strategy of mainly relying on Public Private Partnerships to deliver infrastructure is still key but it appears as though the government has acknowledged that not all infrastructure required can be developed using the PPP model as some of it is a precursor to economic activity and so is not financially viable from the start. The infrastructure planned is to support other sectors such as agriculture and tourism. The total planned expenditure on construction is K11.98 billion, which is 44% higher than the K8.34 billion budgeted for 2024.

Agricultural investments

The Government continues to invest in developing the farming blocks announced earlier with a vision of developing large-scale farming operations. It goes without saying that the current crisis has dramatically impacted the sector. Small scale farmers saw their rain fed crop decimated by the drought while commercial farmers were unable to irrigate their fields due to lack of power.

The Comprehensive Agriculture Transformation Support Programme, launched in July 2024, includes components such as irrigation, mechanisation financing, farm blocks, extension services, input support, agro-processing, and infrastructure development. The Government is also promoting irrigation development to reduce over reliance on rainfed agriculture, with plans to construct five new dams and continue ongoing irrigation schemes. These measures aim to increase food security, improve nutrition, create jobs, and boost agricultural exports.

Manufacturing incentives starting to bear fruit?

Manufacturing also remains key. Previously, significant incentives were granted to manufacturing to support export processing through investments in Multi-Facility Economic Zones. The incentives, which provide up to 15 years of tax relief, remain intact. The Honourable Minister highlighted a number of successes in manufacturing, such as Zambia starting to export fertiliser. The lack of reliable power supply is, obviously, hampering greater progress.

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The energy crisis response

The Government has taken some action to address the energy crisis by making it easier to switch to renewable energy sources, taking measures to secure emergency power supply, lowering the level of power exports, and accelerating the completion of previously stalled power generation projects such as the Maamba Collieries 300MW expansion. These are crucial steps in cushioning the impact of the energy deficit and ensuring that businesses can continue to operate.

However, the scale of investment needed in the energy sector is significant, and more aggressive measures are required to truly turn this crisis into an opportunity for sustainable growth. Most recently, ZESCO's application to the Energy Regulation Board to increase electricity tariffs by between 50% and 156% was rejected. The Honourable Minister indicated that there may be an option to provide affordable power to households and businesses capped at a prescribed usage level, with only excess usage charged at a higher tariff.

The question is whether expensive power is better than none. Actions taken by economic players such as mining houses to source their own power at higher cost suggests that the former is more desirable.

Renewable energy projects and long-term energy generation solutions

The budget speech outlines several renewable energy projects aimed at mitigating the energy crisis exacerbated by the severe drought. Notably, the minister highlighted investments in solar power stations in Chisamba (100 MW), Choma (50 MW), Kasama (100 MW), and Kariba (100 MW). Additionally, off-grid solutions such as industrial generators and solar systems are being promoted, particularly in markets, public hospitals, and schools. These initiatives are crucial for reducing Zambia's overreliance on hydroelectric power, which has been severely impacted by the drought.

By diversifying the energy mix, the government aims to build a more resilient and sustainable energy sector. While the budget includes measures to address the immediate energy crisis, there is a need for a larger-scale investment in renewable energy to make Zambia a green economy and climate-resilient.

The Integrated Resource Plan (IRP) for the power sector that was published in October 2023 caters to the Government's vision of ensuring energy sufficiency and surplus as the economy grows, attaining universal access to electricity by 2030, and positioning Zambia as a regional electricity trading hub. The plan states that by 2030 and 2050, investment of approximately US$11.6 billion and US$31 billion respectively will be required to meet Zambia's projected energy needs.

The government's focus on integrating sustainability efforts is commendable, but the allocation for environmental protection remains less than 1% of the budget. The Green Growth Agenda, though promising, appears more passive than a fundamental part of the government's strategy. To truly turn this crisis into an opportunity, a more aggressive approach towards renewable energy and sustainability is required.

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Support for businesses

To support businesses and households affected by the drought, the Bank of Zambia is establishing a support facility to provide concessional loans. This initiative aims to ensure access to affordable credit, particularly for the agriculture and energy sectors. Additionally, the Zambia Credit Guarantee Scheme has been allocated K851.7 million, up from K386 million in 2024, to enable more small and medium enterprises (SMEs) to access financing. These measures are crucial for supporting the financial sector and promoting economic recovery. Suffice to say, there are many who would have hoped for more in this area. Ultimately resources are constrained and many actions have been taken in previous years already to support businesses.

Despite the positive steps taken, broadly, more needs to be done to make it easier for businesses to operate. The government has maintained its policy stance to drive the transformation and growth of key sectors, but there are still significant challenges that need to be addressed. Streamlining regulatory processes, improving infrastructure, and providing more direct relief to businesses are essential for creating a conducive environment for economic recovery and growth. In a time of crisis, any action taken to make it easier to operate will be very welcome.

Investment in local communities

The Government is promoting investment into local communities through the CDF. The 2025 budget has increased the CDF allocation by 17%, reflecting a strong commitment to decentralisation and local development. The allocation per constituency per year will be increased from K30.6 million to K36.1 million. This is a 2,256% increase over the allocations prior to the UPND taking office.

This measure is expected to stimulate production and growth at the constituency level, creating a more inclusive economic environment. However, the effectiveness of these investments will depend on the efficient utilisation of funds and the removal of bottlenecks that stifle the rate of utilisation.

Water and sanitation infrastructure

Significant investments in water and sanitation infrastructure are a cornerstone of the 2025 budget. The Government plans to construct 12 new dams, rehabilitate 14 existing ones, and maintain 385 dams across the country. These projects are expected to harvest at least 15.7 million cubic metres of water, benefiting 2 million people for domestic use, livestock, and irrigation. Additionally, the budget includes the construction of 947 boreholes and 500 piped water schemes, as well as the rehabilitation of 500 boreholes. These measures are essential for ensuring water security and supporting agricultural productivity, particularly in the context of the ongoing drought.

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Resilience in the face of an increasing number of adverse weather events

The 2025 National Budget, presented by Honourable Dr Situmbeko Musokotwane, has not explicitly stated what investments to build resilience against the predicted La Niña weather event. However, key measures that could indirectly build resistance against this weather event include the construction and rehabilitation of dams and boreholes to improve water management, alongside the promotion of irrigation development to reduce reliance on rainfed agriculture. From an El Niño induced drought to the risk of La Niña influenced floods, it is imperative that the country takes active measures to ensure that any extreme weather does not result in significant damage to agricultural output.

Additionally, the government is modernising meteorological equipment and expanding social protection measures to support vulnerable populations. To further enhance resilience against the predicted La Niña weather event, the government can implement advanced flood early warning systems and strengthen flood defences like levees and drainage systems. Engaging local communities in disaster risk management and sustainable land use planning can mitigate flood risks. Ensuring that critical infrastructure withstands extreme weather, promoting climate-resilient agricultural practices, and developing financial instruments like insurance schemes can provide additional support. These proactive measures will bolster the government's efforts to address climate-related challenges effectively.

Climate change, adaptation, and building resilience in the economy

The allocation for environmental protection remains modest, and the Green Growth Agenda, while promising, needs to be more aggressively mainstreamed into the government's overall strategy. The establishment of automatic weather stations in all districts and the digitisation of climate data records are positive steps, but more substantial investments in renewable energy and sustainability initiatives are necessary to mitigate the long-term impacts of climate change.

In our view, the Government can achieve this by aggressively implementing the National Green Growth Strategy (NGGS) that, as the Hon Minister mentioned in his speech, was launched earlier this year. The NGGS aims to transition Zambia to a low-carbon, resource-efficient, resilient, and socially inclusive economy by 2030. The strategy addresses environmental challenges and promotes sustainable development, aligning with Zambia's Vision 2030, the Eighth National Development Plan (8NDP), and international commitments such as the Paris Agreement and the Sustainable Development Goals (SDGs). The NGGS is structured around four main pillars: resilient and climate-compatible growth, enhanced resource efficiency, enhanced natural capital, and improved inclusivity. It has a workstream for each of the key commercial sectors, including energy, agriculture, mining, manufacturing, and tourism.

The NGGS is expected to be implemented between 2024 and 2030 at a cost of approximately US$10 billion. It is therefore imperative that the launched strategy is supported by adequate funding in each annual budget between the years 2025 and 2030 to ensure that its implementation supports Zambia's ambition to transition to a low-carbon, resource-efficient, resilient, and socially inclusive economy by 2030.

Economic recovery and growth - The need to make it easier to do business

The main obstacles to economic recovery and growth include complex regulatory processes, inadequate infrastructure, limited access to finance for small and medium enterprises (SMEs), and vulnerabilities in the energy sector. Regulatory inefficiencies and lack of coordination among multiple bodies slow down business operations and deter investment. Poor road, rail, and energy infrastructure increase operational costs, while limited public funds delay critical projects. SMEs struggle to access affordable financing, and high operational costs, especially during crises like droughts, further strain their operations. Overdependence on hydropower exposes the country to vulnerabilities due to climate change, leading to electricity shortages that affect both businesses and households.

To tackle these challenges, the government has implemented several solutions. Streamlining regulatory processes, such as the Energy Single Licensing System and coordinated border management, has improved efficiency. Public-Private Partnerships (PPPs) have been successfully utilised to fund and expedite infrastructure projects, with significant budget allocations for road, water, and aerodrome infrastructure. The Zambia Credit Guarantee Scheme has been increased to enable more SMEs to access affordable financing, and the Bank of Zambia is rolling out support facilities for businesses in the agriculture and energy sectors. Diversification of energy sources through the construction of thermal power plants and solar power stations, along with the net-metering initiative, aims to reduce reliance on hydropower. Additionally, social protection programmes and investments in education and health infrastructure are being scaled up to support vulnerable households and improve human capital development.

Commentary

Conclusion

> The 2025 National Budget has indeed been adjusted to address climate change, albeit within the constraints of the current economic environment.

The government has recognised the urgent need to build a climate-resilient energy sector. This is evident in the multi-pronged approach to importing power from neighbouring countries and the promotion of off-grid solutions such as industrial generators and solar systems. Additionally, the budget includes measures to operationalise new thermal power plants and invest in solar power projects across various strategic locations. However, the allocation for environmental protection remains modest, and the Green Growth Agenda, while promising, needs to be more aggressively mainstreamed into the government's overall strategy. The establishment of automatic weather stations in all districts and the digitisation of climate data records are positive steps, but more substantial investments in renewable energy and sustainability initiatives are necessary to mitigate the long-term impacts of climate change.

The 2025 National Budget is a testament to the government's resolve to navigate through challenging times. It is ambitious in its goals but constrained by the realities of our current economic environment. As we move forward, the key will be to balance immediate crisis management with long-term strategic planning. The path to resilience and inclusive growth is fraught with challenges, but with sustained commitment and innovative solutions, Zambia can emerge stronger and more resilient. The journey continues, and the future holds the promise of a more sustainable and prosperous Zambia.

In the end, the question remains: Will these ambitious plans be enough to overcome the constraints and build a resilient, inclusive economy? Only time will tell!

02 The Economy

The Economy

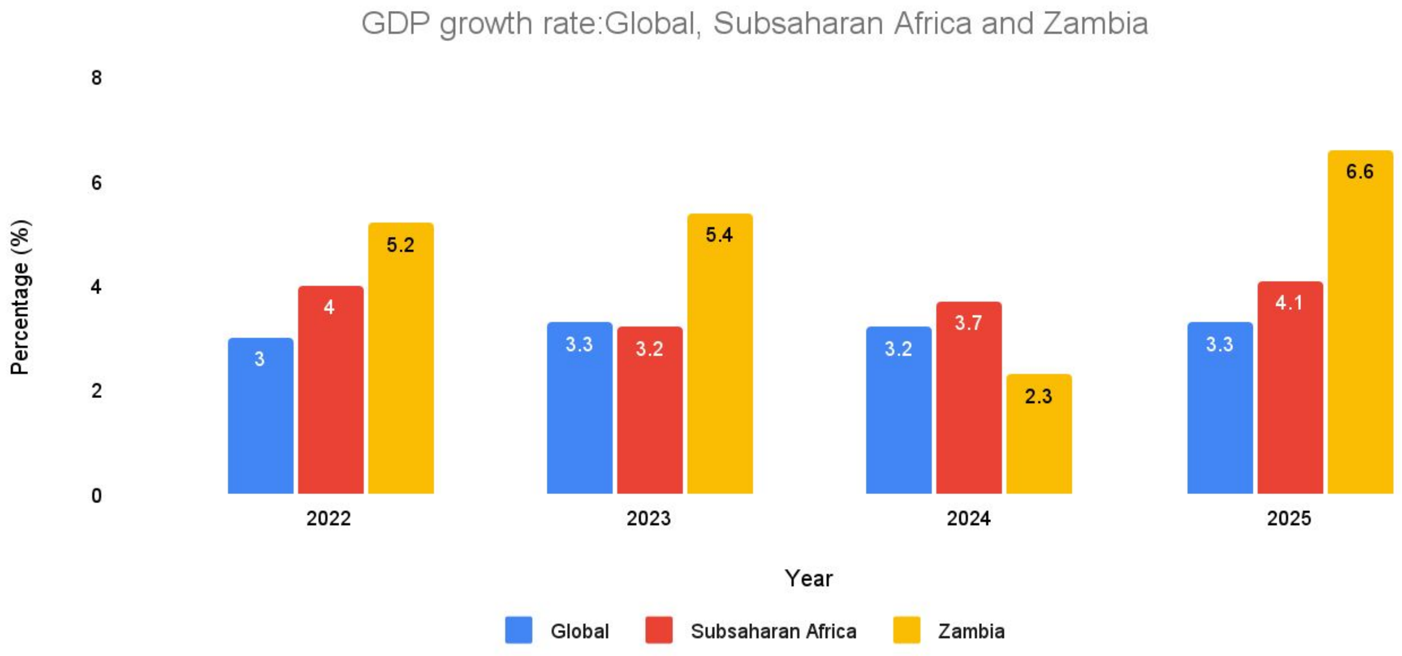
Global and Regional Performance

The economic performance as depicted in Figure 1, shows that the global economy is expected to decline to 3.2% in 2024 from 3.3% in 2023, owing to the subdued growth in the major advanced economies. In 2023, Zambia outperformed both regional and global growth levels. However, this growth is expected to contract in 2024 before rebounding in 2025. The region has continued to remain vulnerable to external shocks, climate conditions and political instability. These factors, coupled with commodity price volatility, are likely to influence inflation movements.

The Zambian Economy

The impact of climate change on energy and agricultural sectors has led to significant effects of the overall economic growth with projections for 2024 growth showing a slowdown to 2.3% compared to 5.4% recorded in 2023. The drought-induced power deficit negatively impacted industrial productivity with the Purchasers Managers' Index ranging below the 50 mark since the beginning of 2024.The agricultural sector too has suffered from inconsistent rainfall patterns, as maize production reduced from 3.3MT during the 2022/23 farming season to 1.5MT in the 2023/24 farming season.

Zambia's GDP performance in context



Source: IMF Economic outlook and Ministry of Finance

The Economy

Fiscal and Monetary policy

Debt Restructuring: Although yet to be concluded several, milestones have been achieved with legally binding terms concluded, the status is highlighted below :

- Official Creditor Committee (OCC) : US$6.3bn owed, 0.75bn to be paid by 2032
- Bondholders: US$3.89bn owed US$3.05bn to be paid after restructure.

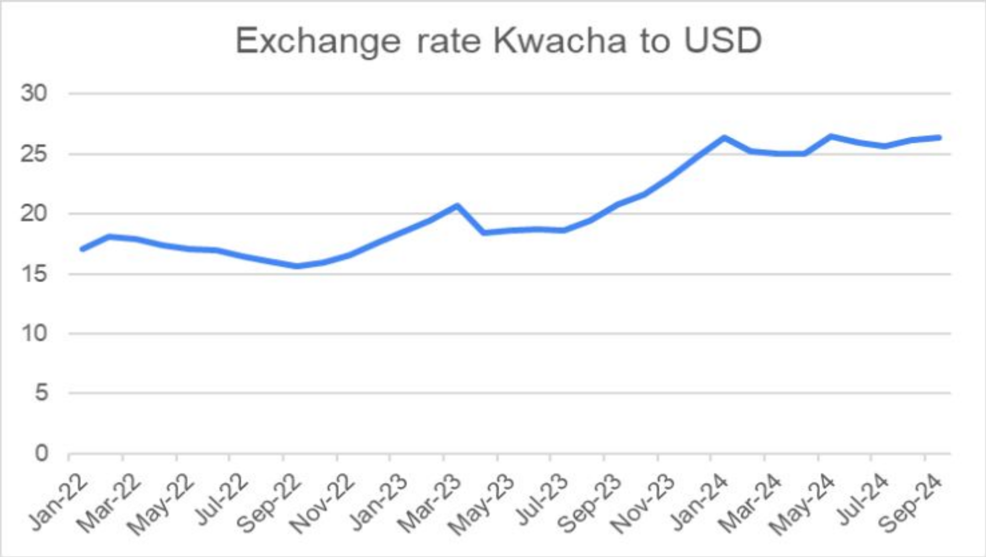
This progress has resulted in the much needed fiscal space, as the amounts to be paid towards debt service are now included in the budget with a greater degree of certainty. In his speech, the Minister indicated that the debt service payable in 2025 will be US$599m as opposed to US$8bn which should have been paid without restructuring.

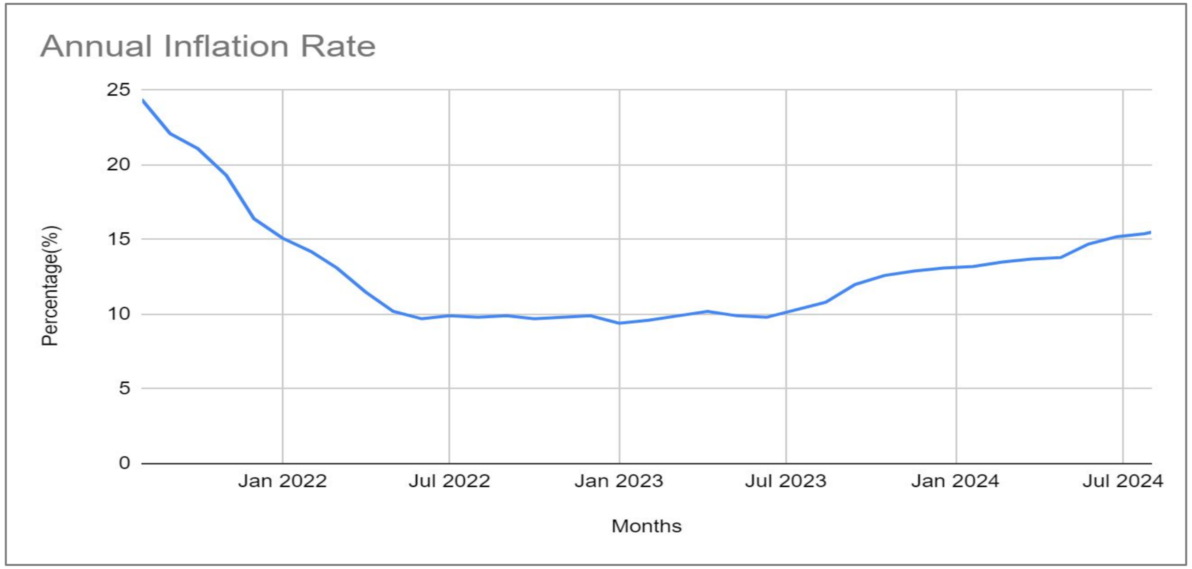
Monetary Policy: To help cushion the negative effects of the economic challenges, the Bank of Zambia employed various monetary policy interventions to support the exchange rate. These included increasing the statutory reserve ratio from 17% to 26% in February 2024, increasing the monetary policy rate from 11% to 13.5% and supporting foreign currency liquidity in the market. As a consequence the exchange has experienced some relative stability in Quarter 2 and 3 of 2024, albeit at the expense of rising interest rates.

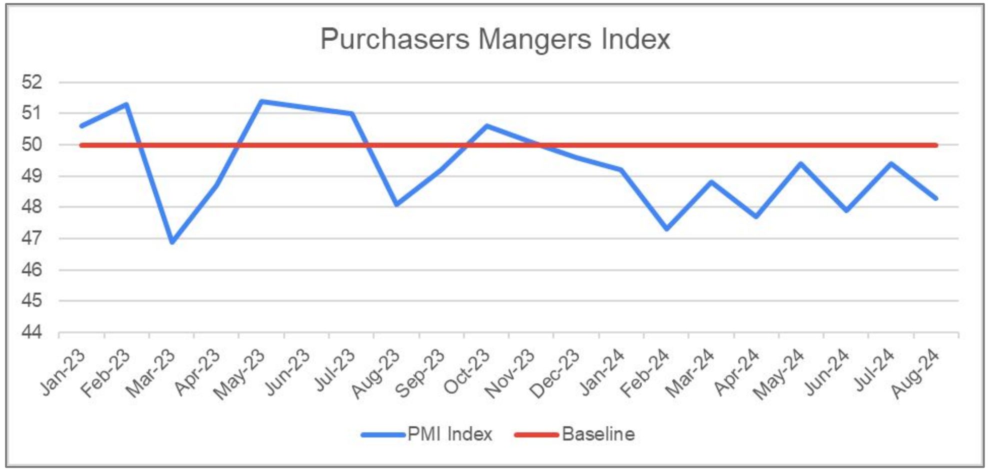
Zambia's performance targets

Economic indicator/variable	2023	At September 2024	2025 (projection)
GDP (%)	5.4	2.3	6.6
Inflation (%)	13.1	15.6	6-8
Exchange rate ($/K)	29.71	26.49	Stable
Budget Deficit (%)	4.8	6.4	3.1

The Economy







Inflation, Exchange rate and Private Sector Activity

- Inflation is projected to diverge further from the Bank of Zambia's target range of 6% to 8%. The country registered a record high inflation of 15.6% as at September 2024 compared to 13.1% in December 2023.This deviation is largely attributable to the depreciating exchange rate and adverse weather conditions impacting energy and food prices.
- The Kwacha depreciation to $1/K26.49 as at 27 September 2024 from $/K25.71 at 31 December 2023 has been fuelled by import demand from the energy, manufacturing, wholesale, and retail industries.
- PMI: Local Private Sector Activity: Economic activity remained subdued in 2024, with the PMI recorded at 49 in December and 48 in August. A score below 50 is considered a contraction in economic activity.

The Economy

2025 Economic outlook

The Government has set targets that are aimed at putting the economy back on a recovery path from drought and enhancing resilience in both the people and the economy to better handle future challenges.

1. Attainment of real GDP growth rate of 6.6%;
2. Reduce inflation to the Central Bank's target of 6%-8%;
3. Maintain international reserves above 3.0 months of import cover
4. Increase domestic revenue to at least 21.3% of GDP;
5. Reduce the fiscal deficit to 3.1% of GDP; and
6. Limit net domestic borrowing to 1.9% of GDP

These economic targets are deemed ambitious in light of the current drought and subdued economic performance. Some of the potential risks towards attaining these targets are:

- Achievement of real GDP growth of 6.6% is dependent on productive sectors of the economy returning to capacity The government plans to raise 80% of revenue from domestic sources which requires a productive economy. Delays in resolving the load shedding situation adversely affected business productivity and profitability and consequently Government revenues.
- With copper exports contributing over 70% of foreign exchange earnings, overall economic growth ambition will remain highly sensitive to performance of the mining sector. The availability of power to enable the sector achieve its production targets is therefore critical.
- The lack of a diversified export basket continues to remain a source of concern. Reduced agricultural production in 2023-2024 farming season led to rising food prices in the face of a weakening kwacha.In 2025, it will be important that the Government adequately supports the small scale farmer through input support and meteorological guidance to ensure agricultural output is protected to help curb food inflation.
- Exchange rate volatility and its pervasive impact in the wider economy remain an area of concern. Managing the impact of increased petroleum, energy and trade imports will be important to restrict the pass-through effect of a high exchange rate on inflation and the rest of the economy. However, policy interventions such as regular tightening of monetary policy have the negative consequence of constricting growth and elevating interest rates, impacting overall economic productivity. .

03 Taxes

Direct Taxes: Personal Income Tax

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No changes to PAYE bands / rates

The Hon. Minister has proposed no changes to the Pay As You Earn ("PAYE") tax bands and rates for the charge year 2025. In response to the current economic challenges, which have been worsened by the drought crisis, the Government has decided to adopt a cautious approach by maintaining the existing PAYE regime. This decision contrasts with the previous budget, which provided relief by reducing the marginal tax rate and increasing the annual income tax exemption threshold.

No PAYE concessions as Government focuses on revenue generation measures

This approach suggests that given the current economic conditions, the Government's ability to offer tax concessions to the working population is significantly limited. As a result, the PAYE tax bands and rates will remain unchanged as follows:

Annual Income	2024 Tax Rate	Annual Income	2025 Tax Rate
First K61,200	0.00%	First K61,200	0.00%
From K61,201 to K85,200	20.00%	From K61,201 to K85,200	20.00%
From K85,201 to K110,400	30.00%	From K85,201 to K110,400	30.00%
From K110,400	37.00%	From K110,400	37.00%

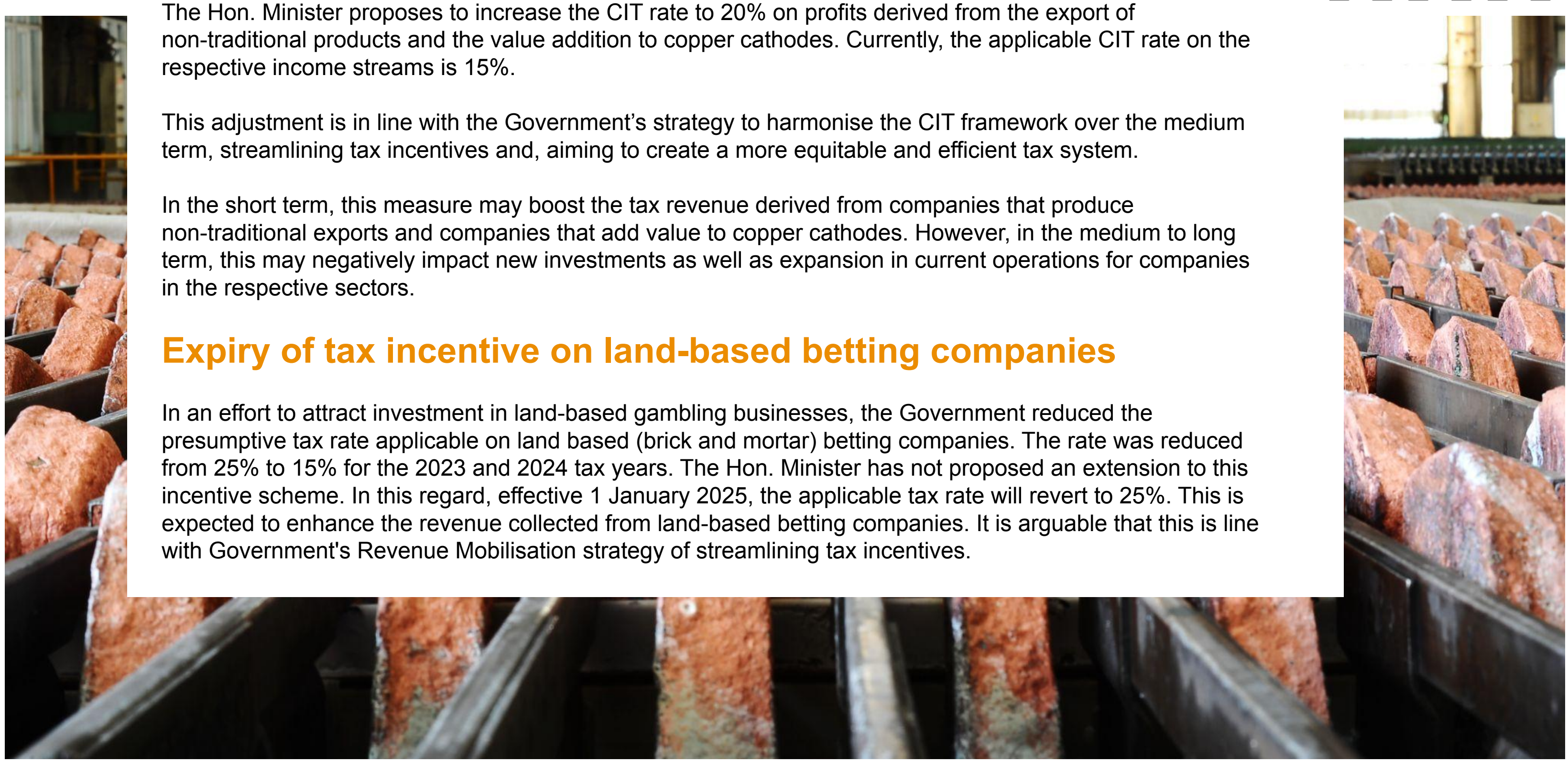
Direct Taxes: Corporate Income Tax

Anticipated effects of Corporate Income Tax reforms

The Hon. Minister has proposed reforms to the Corporate Income Tax ("CIT") regime aimed at bolstering domestic resource mobilisation and unifying the CIT rate. In our understanding, these reforms will, *inter alia,* help the Government to service public debt and sustain the provision of various public services. Additionally, the Hon. Minister has suggested several administrative changes within the tax system to enhance tax compliance among taxpayers.

These reforms are crucial for generating additional revenue, which is essential for funding vital public services and infrastructure projects. By improving compliance, the Government aims to create a fairer tax environment that encourages responsible business practices, ultimately contributing to the country's economic stability and growth.

The proposed reforms also address critical issues related to undeclared income and illicit financial flows. The following sections analyse the details of these reforms.



Increase of Corporate Income Tax ("CIT") rate on profits from non-traditional exports and value addition to copper cathodes

The Hon. Minister proposes to increase the CIT rate to 20% on profits derived from the export of non-traditional products and the value addition to copper cathodes. Currently, the applicable CIT rate on the respective income streams is 15%.

This adjustment is in line with the Government's strategy to harmonise the CIT framework over the medium term, streamlining tax incentives and, aiming to create a more equitable and efficient tax system.

In the short term, this measure may boost the tax revenue derived from companies that produce non-traditional exports and companies that add value to copper cathodes. However, in the medium to long term, this may negatively impact new investments as well as expansion in current operations for companies in the respective sectors.

Expiry of tax incentive on land-based betting companies

In an effort to attract investment in land-based gambling businesses, the Government reduced the presumptive tax rate applicable on land based (brick and mortar) betting companies. The rate was reduced from 25% to 15% for the 2023 and 2024 tax years. The Hon. Minister has not proposed an extension to this incentive scheme. In this regard, effective 1 January 2025, the applicable tax rate will revert to 25%. This is expected to enhance the revenue collected from land-based betting companies. It is arguable that this is line with Government's Revenue Mobilisation strategy of streamlining tax incentives.

Direct Taxes: Corporate Income Tax

Introduction of Advance Income Tax on remittances

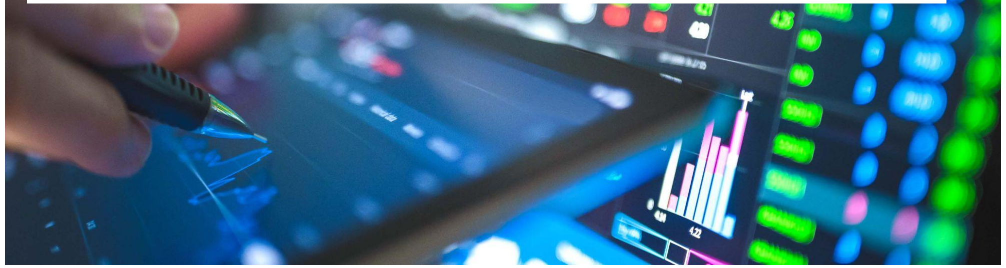
The Hon. Minister also proposes to introduce an Advance Income Tax (“AIT”) of 15% on remittance of funds exceeding $2,000 or its equivalent. If legislated, the AIT will be applicable on transactions carried out by persons without a valid Tax Clearance Certificate (“TCC”). Additionally, the 15% AIT will be applicable to remittances by exporters in the case that the exporter does not have a valid TCC.

Currently, obtaining a TCC is not mandatory on exports and remittances of funds outside Zambia.

This proposal is envisaged to achieve the following:

- Harmonise the practice on exports and outbound remittances with the current practice on imports. Currently, importers without valid TCC are subject to AIT of 15% of the value for duty purposes; and
- Enhance tax compliance and curb illicit financial flows.

The measure is not expected to negatively impact compliant taxpayers.



Increase in bands for presumptive taxes

The Hon. Minister proposes to revise the bands for presumptive tax on operators of public service vehicles involved in the carriage of persons. The table below details the proposed increase per annum per vehicle seating capacity. The proposed increase seeks to adjust the current rates for inflation.

Vehicle seating capacity	Current tax per annum (K)	Proposed tax per annum (K)
64 seater and above	12,960	15,552
50-63 seater	10,800	12,960
36-49 seater	8,640	10,368
22-35 seater	6,480	7,776
18- 21 seater	4,320	5,184
12-17 seater	2,160	2,592
Below 12 seater	1,080	1,296

Direct Taxes: Housekeeping measures

Tax deductibility of Skills Development Levy ("SDL") in advance of payment

The SDL is a tax imposed on the gross emoluments of employees at a rate of 0.5%, which is payable by employers. This levy is accounted for in conjunction with PAYE.

It is proposed that taxpayers be permitted to deduct the SDL as a tax-deductible expense prior to the actual payment of the levy. This proposed change is in alignment with the accrual principle, a fundamental accounting concept that mandates the recording of income and expenses when they are earned or incurred, irrespective of the timing of the actual cash transactions.

Although the SDL generally does not constitute a significant liability, this proposed change is expected to simplify the accounting process for taxpayers. By providing clarity regarding the tax treatment of the SDL, the measure aims to enhance the ease and accuracy of accounting for its impact.

Remove of reference to the Fourth Schedule from the Income Tax Act

The Fourth Schedule of the Income Tax Act ("the ITA") granted authority to the Commissioner-General to approve pension funds. However, this was repealed and currently, the mandate of approving pension funds rests with the Pensions and Insurance Authority ("PIA"). The proposed revision is aimed at aligning the ITA with the existing provisions.

General Tax Clearance Certificate mandatory requirement for specified transactions

This measure seeks to introduce a mandatory requirement to present a general Tax Clearance Certificate for the following transactions:

- When property is being transferred;
- When obtaining any licence issued by a Government ministry, department or agency; and
- When obtaining finance from any institution registered under the Banking and Financial Services Act.

This measure is aimed at enhancing compliance and ensuring that persons undertaking the respective transactions have met the minimum tax compliance requirements. It is however, not clear whether this requirement will be applicable to non-resident persons undertaking the listed transactions.

Clarification on the period of application for incentives for Special Purpose Vehicles carrying out Public Private Partnership projects

The ITA provides for a five year relief period from tax for Special Purpose Vehicles ("SPVs") carrying out Public Private Partnership ("PPP") projects. Currently, it is unclear whether the relief can be suspended in periods when the SPV is loss making subsequent to realising a profit.

The proposed amendment aims to clarify that the relief is applicable in the year when profits are first declared, followed by four consecutive years. Therefore in the case that the SPV carrying out PPP projects makes a profit in year one of operations and losses subsequently, the incentive will still elapse within the five year period from the initial year of realising a profit.

Waiver of penalties on underestimation of provisional tax

The underestimation of provisional tax carries a mandatory penalty of 25% of the amount under-declared once a taxpayer submits the final income tax return for a given charge year. Currently, the provisions of the ITA do not allow for a waiver of these penalties. This measure proposes to empower the Commissioner-General with the authority to waive underestimation penalties in cases where reasons provided for the underestimation by the taxpayer are to the satisfaction of the Commissioner-General.

Direct Taxes: Housekeeping measures

Broaden list of transactions where a Taxpayer Identification Number is required

The ITA provides for various institutions to request a Taxpayer Identification Number ("TPIN") from any person requiring a prescribed service or transaction. With an aim to enhance compliance, the following list of transactions have been proposed for inclusion in respect of this requirement:

Institution	Type of transaction
Water utility companies	Account opening and holding
Mobile money operators	Account opening and holding
Mobile network operators and internet service providers	Account opening and holding
Airline operators and agents	Ticketing where buyer is of majority age and Zambian resident
National Health Insurance and Management Authority	Account opening and holding
National Pension Scheme Authority	Account opening and holding
Professional bodies	Membership registration, subscription and renewal
Local Authorities	Registration of title deed

Direct Taxes: Withholding Tax - Housekeeping measures

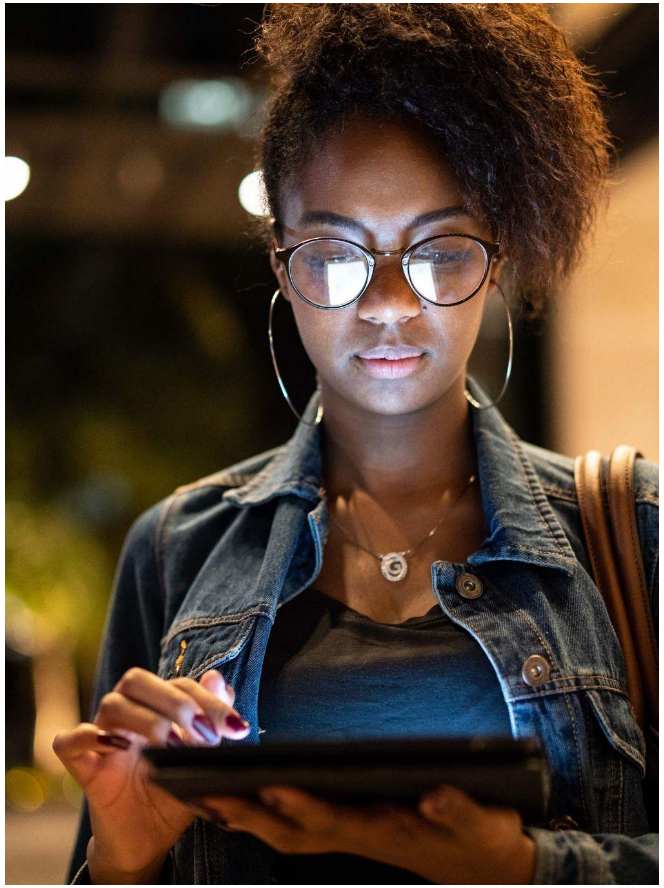
Withholding Tax Exemption Certificate on Royalty Income

The Hon. Minister proposes to introduce a domestic exemption from the Withholding Tax (“WHT”) obligation on the payment of a royalty.

Currently, resident taxpayers receiving royalty payments from resident customers are subject to WHT at 15% and no exemption is provided for under the ITA. On the contrary, taxpayers receiving domestic management or consultant, interest arising from a property linked unit of a property loan stock company and commission payments may be granted exemptions and issued with tax exemption certificates for these payments.

This change aligns the treatment of royalties paid between resident persons with the treatment accorded to the other payments that are subject to WHT. The WHT exemption certificate is issued by the ZRA Commissioner-General upon application for exemption.

We expect that this measure will allow taxpayers to manage their cash flows more efficiently and effectively during the tax charge year. Additionally, this provision would encourage tax compliance as the exemption certificate is only granted to compliant taxpayers.



Payment due date and penalties for appointed WHT Agents

The Hon. Minister proposes to introduce a payment deadline on which all WHT agents will be required to remit withheld taxes, failure to which, the ZRA would impose late payment penalties on the WHT agents. In this respect the Hon. Minister proposes that the payment deadline be at least two days prior to the date on which the tax is due. For example where a WHT agent withholds tax on rent whose rental income turnover tax is due on 14th of the month, then the WHT tax agent should pay the withheld amount on the 12th of the month.

At present, the due date for taxes withheld has not been specified and there are no late payment penalties applicable. The proposal intends to eliminate the ambiguity surrounding the due date for the payment of the withheld taxes and aims to eliminate the administrative burden on both the taxpayer and ZRA.

The taxpayer faced an administrative burden because they needed to reconcile their tax account after submitting their tax return and to follow up with the WHT agents for tax certificates. This measure will also encourage WHT agents to comply, as penalties will apply for non-compliance.

Direct Taxes: Property Transfer Tax

The proposed changes to the Property Transfer Tax ("PTT") regime are aimed at improving compliance, ensuring accurate tax assessments, and providing clarity in the application of PTT. The measures are expected to streamline property transactions, enhance revenue collection, and align the PTT framework with other existing legal provisions. The changes, which are included in the Housekeeping Measures, are noted below:

Requirement to obtain a General Tax Clearance Certificate for property transfer transactions

It will now be mandatory for both the buyer and seller of property to obtain a General TCC. Previously, obtaining a General TCC was not a requirement. This new measure ensures that taxpayers have a "clean bill of health" for tax compliance before any property transfers can be executed. Consequently, the ZRA will no longer issue PTT clearance certificates to taxpayers who do not possess a General TCC.

This measure will support the compliance drive that the ZRA has been undertaking therefore ensuring that taxpayers comply with the return submission requirements, including the payment of taxes that arise in the returns.

Introduction of certain definitions in the Property Transfer Tax Act

A number of definitions have been proposed to be included under Section 2 of the Property Transfer Tax Act.

The additional definitions provide clarity on the specific types of intellectual property that are subject to PTT by linking their definitions to existing Zambian Acts of Legislation as follows:

- **"Copyright"** will have the meaning assigned to the word in the Copyright and Performance Act, Cap 406.
- **"Industrial Design"** will have the meaning assigned to the words under the Registered Designs Act, Cap 402.
- **"Patents"** will have the meaning assigned to the words in the Patents Act, Cap 400.

The above clarifications should provide more certainty for taxpayers, in determining the PTT treatment on the transfer of intellectual property.

Expanding PTT coverage and valuation basis on foreclosure property

The Hon. Minister has proposed an expansion of PTT coverage to include regulated lenders who are not currently governed by the Zambian Banking and Financial Services Act. This proposal aims to base foreclosure property valuations on the actual sale price rather than the open market price.

Under the current legislation, the determination of the realised value, based on received sale proceeds, is restricted to financial service providers covered by the Banking and Financial Services Act. The proposed measure seeks to harmonise the treatment of all regulated entities that provide funding or other means of financing secured by land and buildings.

By including regulated lenders outside the purview of the Banking and Financial Services Act, the government intends to ensure a uniform approach to PTT across all financial entities involved in property financing.

Key Tax and Non-Tax Changes Impacting the Mining Sector

The 2025 budget proposes minimal tax changes specific to the mining sector. This highlights the Government's responsiveness to stakeholders' calls for a more stable tax legislation system to attract investment.

Increase of Corporate Income Tax rate on profits from value addition to copper cathodes

The Hon. Minister proposes a revision of the CIT rate on profits from the value addition to copper cathodes, increasing it from 15% to 20%. This change is aimed at gradually harmonising the CIT rate across all sectors and support the government's medium-term fiscal goals.

The increased tax rate on profits from the value addition to copper cathodes is likely to generate additional revenue for the government. However, this may impact producers' net profits, reducing the amount of capital available for reinvestment and expansion.

Excess Mineral Royalty to Finance Stabilisation Fund

The Hon. Minister has announced the creation of a stabilisation fund to address disasters, considering the increasing frequency and intensity of geo-political and climate change-induced shocks. Revenues from mineral royalties that exceed budget projections will finance this fund.

Proposed Legislative Amendments

The Government is currently amending the legislation governing Mines and Minerals Development. The proposed changes involve repealing and replacing the Mines and Minerals Development Act of 2015, which oversees the administration of the Mineral Royalty Tax ("MRT"), with the Minerals Regulation Commission Bill of 2024, currently under debate in Parliament. The draft bill does not propose any changes to the MRT administration or tax rates at this time.

Since the budget allocation is based on the existing MRT legislation, the anticipated surplus in mineral royalty revenue is expected to result from the opening of new mines and increased production in existing ones.

Indirect Taxes- Value Added Tax

Smart Invoice system implementation deadline- 30 September 2024

The Hon.Minister emphasised that the deadline for VAT registered entities to register and implement the Smart Invoice System is 30 September 2024. This is an extension from the initial deadline of 1 July 2024, which the ZRA announced in a media briefing held on 8 July 2024.

At the time of the National Budget address, over 50% of VAT registered taxpayers are yet to implement the system which poses adverse compliance concerns for such taxpayers in the coming months.

Full implementation of the Smart Invoice System would provide ZRA an avenue to leverage technology to undertake data matching and electronic auditing (as opposed to physical onsite audits) which would ease the tax administrative efforts. Further, it would improve ZRA's ability to effectively control the tax compliance processes to promote transparency in tax administration. On the other hand, taxpayers will eventually benefit from standardised invoicing solutions for purposes of claiming input VAT and simplify return filing requirements that would eventually reduce the cost of compliance.

Indirect Taxes-Value Added Tax - Housekeeping Measures

Exemption from Smart Invoice system requirements

The Hon. Minister has proposed to empower the Commissioner to exempt a taxable supplier from the Smart Invoice System requirements. This could have been informed by the challenges certain sectors and category of taxpayers such as banks and telecommunication entities, may have experienced implementing this solution since its roll out in July 2024.

The proposed amendment is welcome, however, there has been no indication on the consequences that such taxpayers who have had significant hurdles in complying with the Smart Invoicing requirements, will be treated in the interim (i.e. between 1 October 2024 until the exemption is granted).

Restriction of input VAT claim on invoices generated off the smart invoice system

The proposal requires taxable suppliers to use an invoice issued from the Smart Invoice System in order to claim input VAT except where the Commissioner provides an exemption. This aligns with the provisions of Section 18 of the VAT Act on the requirements for input VAT claim eligibility.

Accordingly, failure to comply with the Smart Invoice System requirements may result in loss of business opportunities as customers will be reluctant to accept non-compliant invoices due to the lost opportunity to claim input VAT. This restriction will encourage the uptake of the Smart Invoicing System by taxpayers.

Change to empower the Commissioner to waive penalties under the VAT Act

The proposal seeks to empower the Commissioner to approve the waiver of penalties for VAT related offences under the VAT Act. This is a welcome move aimed at expediting the tax administrative procedures upon submission of waiver of penalty requests by taxpayers.

This may further encourage the uptake of voluntary disclosure programmes with a trickle down effect of ZRA collecting revenue at a point earlier than upon conclusion of audits which takes a prolonged period to conclude.

Excluding the definition of “life policy” from the VAT Exemption order to align with the Insurance Premium Levy Act.

The proposal seeks to delete the definition of the term “life policy” in the VAT Exemption Order as the taxation of insurance products is no longer under the provisions of the VAT Act. This aligns with the provision of the Insurance Premium Levy Act

Clarification on the amount that does not constitute a supply for VAT purposes

Regulation 3 of the VAT General Regulations prescribes the conditions to be met by a taxpayer for goods supplied for promotional or publicity purposes to be treated as transactions not constituting supplies for VAT purposes.

The proposed amendment intends to clarify that the supply of promotional goods per individual whose value is one hundred kwacha in any accounting year does not constitute a supply for purposes of accounting for VAT. This amendment will take into account the rebasing of the Kwacha.

VAT returns for zero-rated supplies whose turnover does not exceed two hundred thousand kwacha per annum

The proposal, considering the rebasing of the Kwacha, aims to clarify that a registered supplier who makes zero-rated supplies and whose turnover does not exceed two hundred thousand kwacha per annum must submit a tax return every six months in accordance with Regulation 15 of the VAT General Regulations.

Indirect Taxes-Value Added Tax - Housekeeping Measures

Clarification on the elimination of the use of cash registers

The proposal intends to remove the provisions that allows the use of cash registers to align with the requirements of the Smart invoice System. This reinforces the enforcement of the mandatory adoption of the Smart Invoice System except where exemption is expressly provided by the Commissioner-General.

Use of manual systems to record transactions in case of Smart Invoice System disruptions

The proposal clarifies that if the Smart Invoice System is disrupted, all manually recorded transactions must be uploaded onto the system within 72 hours of restoration and submitted to the ZRA to comply with the Smart Invoice System requirements.

Additionally, this aligns with Regulation 6, clarifying that taxpayers can claim input VAT on manually generated invoices during system disruptions. This is a welcome move to further clarify the compliance requirements for the Smart Invoice System.

Additional reasons for the deactivation of the Smart Invoice System

Currently, Regulation 10 of the VAT (Electronic Invoicing System) Regulations provides that a taxpayer should submit a written request to the Commissioner to deactivate the Smart Invoice System within thirty days from the date of cessation of business.

The proposal seeks to allow taxpayers to submit other legitimate reasons for discontinuing the use of Smart Invoice System other than cessation of business operations as currently provided.

Customs and Excise Duty

The Hon. Minister proposes changes to Customs, Excise Duties and Surtaxes on specified goods aimed at enhancing revenue generation, curbing illicit trade, protecting domestic industries, and promoting economic stability. The expected outcomes include increased compliance, a boost in domestic production, and a broad and reliable tax base to support public services and infrastructure development. The proposed changes are analysed below.

Manufacturing Industry

Non alcoholic beverages

The Hon. Minister proposes to increase excise duty on non-alcoholic beverages from 60 Ngwee to K1 per litre. Given the rapid growth of this industry, this measure is anticipated to significantly bolster the government's efforts in mobilising domestic revenue. This is in line with the proposals to increase revenues collected from indirect taxes.

Protectionist measures

To support local industries and attract more investments, The Hon. Minister proposes to introduce 5% surtax on imported printed paper products and packaging with HS code 4819.20.00.

In addition to the above, the Hon. Minister proposes to introduce and revise upwards surtax applicable on imported garden hose pipes that are also manufactured locally. The table below highlights the proposed rates.

HS code	Description	Current rate (%)	Proposed rate (%)
3917.21.20	Garden hose of an internal diameter not exceeding 30.00mm	0	20
3917.21.90	Other	0	20
3917.22.20	Rigid, of an internal diameter not exceeding 203.00mm	0	20
3917.22.90	Other	0	20
3917.23.20	Rigid, of an internal diameter not exceeding 30.00mm	5	20
3917.23.90	Other	0	20

These measures are expected to increase local manufacturers' competitiveness in the market, enabling them to better compete with similar imported products. In the long run, this measure may reduce dependence on imports, in effect, enhancing trade balance and fostering economic stability. While this measure may support local manufactures, the long term goal of Government should be to provide a stable macroeconomic environment that ensures the cost of doing business in the country is kept at an optimal level to enable local manufacturers to compete with imported products.

It should also be noted that protectionist measures may contradict the principles of free international trade, it is therefore important to evaluate their potential impact, such as the benefit that may be derived (i.e protecting local industries and jobs) and also the likely drawbacks such as higher prices for consumers or potential trade tensions with other countries.

Customs and Excise Duty

Indexation of excise duty rates to the inflation rate

In an effort to provide a predictable tax structure, The Hon. Minister proposes an automatic annual adjustment to the specific excise duty on tobacco and tobacco products, fuel, and used motor vehicles. This adjustment will be indexed to the average inflation rate of the prior year, ensuring that the tax keeps pace with inflation. In addition, to prevent the tax from becoming excessively burdensome, the increase will be capped at 20%.

The measure can also be viewed as a means to discourage and limit the use of tobacco which is a public health concern. Additionally, recognising the environmental impact, the excise duty on used motor vehicles will account for their higher carbon emissions, encouraging the adoption of more environmentally friendly transportation options.

Gambling

The Hon. Minister proposes to introduce a 10% excise duty rate on betting amounts as a measure to increase the tax base and raise revenues for the provision of public services.

This measure will result in an increase in the betting amounts charged by betting companies.The higher cost of betting is expected to act as a deterrent to betting addiction and its related negative social impact.

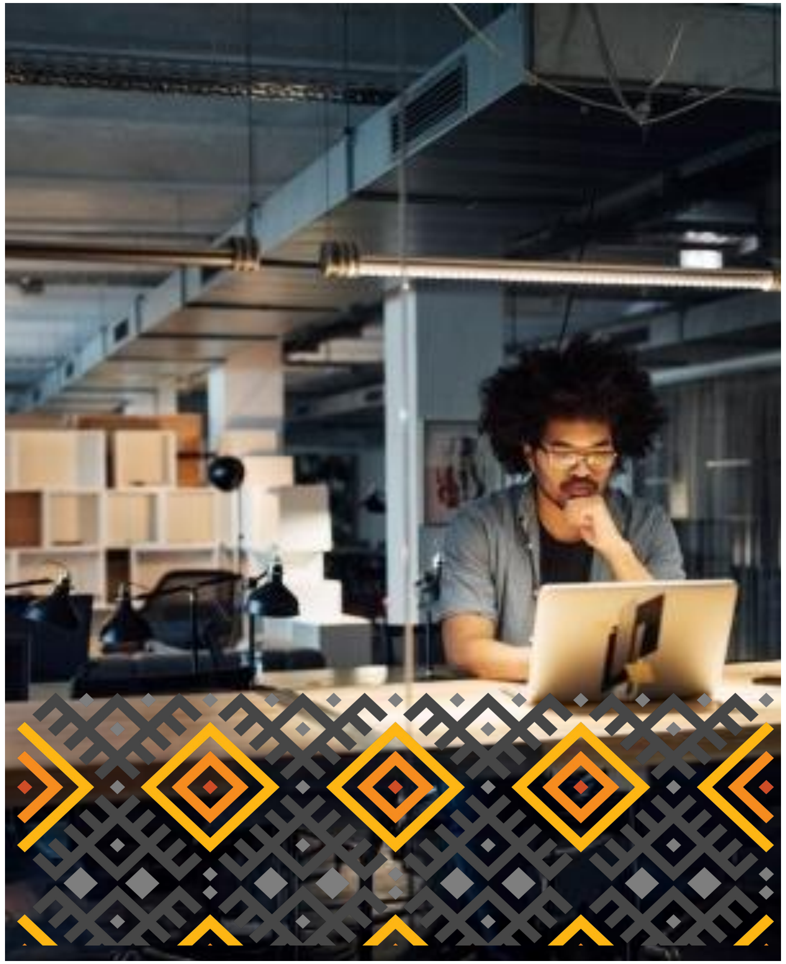
Housekeeping measures

The Hon. Minister proposes a series of housekeeping measures aimed at clarifying existing regulations and improving the efficiency of tax administration. These changes are designed to eliminate ambiguities and streamline processes, ensuring a more effective and transparent tax system and processes.

We highlight below some of the proposed measures:

- Provide for the preclearance of goods at any time prior to the arrival of goods in Zambia. To encourage this, the penalty fee for anyone who fails to lodge a declaration for goods prior to importation has been increased from 1,667 fee units (K 664.40) to 10,000 fee units (K 4,000).
- To reduce the numbers of days within which payment of duty at importation must be made following an assessment from 5 days to 3 days.
- To reduce the time limit for goods to stay under bond from 15 days to 10 days.
- Provide for the Commissioner-General to make rules relating to the conditions applicable to a person authorised to transact business on behalf of another. In addition, empower the Commissioner-General to suspend user accounts for customs clearing agents and their principals, with outstanding obligations under Section 171 A of the principal Act. *This measure is intended to enhance compliance with payment of duties as failure to pay will result in the customs clearing agents' Taxpayer Identification Numbers being blocked.*
- Increase fee units for duplications and cancellations of Bills of Entry from 5,000 (K 2,000) to 10,000 (K 4,000)
- Reduce the period from 15 days to 10 days for entering warehoused goods for consumption, re-warehousing, or export after the one-year expiry under Section 62 of the principal Act.
- Provide for a general penalty for offences committed by licensed manufacturers of excisable goods under Section 155 of the Customs and Excise Act.
- Include electrical energy (of not more than 100KW) as one of the goods that can be produced for personal and domestic use without a licence and without payment of duty. *This measure is intended to simplify regulatory requirements and promote off-grid power generation, thereby contributing to efforts being made to overcome the reliance on hydro electricity by enhancing innovation and a more self-sufficient energy landscape.*

Customs and Excise Duty



- Amend Section 162 of the principal Act to provide for an appeal to be made on seized goods, additional methods of serving a seizure notice and the period for which a determination on the seizure can be made by the Commissioner-General

- Introduce a Simplified Trade Regime with a value threshold of exported goods aligned to that of imported goods ($2,000) for which an entry can be dispensed with as the Commissioner-General may prescribe. *This measure is expected to facilitate easy exports of products for small scale cross border traders who will benefit by way of:*

  1. *A simplified certificate of origin*
  2. *A simplified customs document*
  3. *A common list of qualifying goods*

  In addition, it is also expected to significantly enhance the Export Proceeds Tracking mechanism which was effective in January 2024, to enhance trade balance.

- The definition of Tribunal and the alignment of Revenue Appeals Tribunal have been proposed to be included under Section 2 of the Customs and Excise Act. In addition, the Hon. Minister proposes to align the period within which a person can appeal to the Tax Appeals Tribunal on valuation assessments with that provided in the Tax Appeals Tribunal Act of 2015.

  The proposed amendments are aimed at aligning the Customs and Excise Act with the Tax Appeals Tribunal Act of 2015 and to ensure consistency in the Customs and Excise Act.

Customs and Excise Duty

Delete the reference to “electronic fiscal device” in the Insurance Premium Levy Act

The proposed change aims to replace the reference “ electronic fiscal device” with “Electronic Invoice system” to prescribe the use of the Smart Invoice System for purposes of accounting for insurance premium levy.

This enforces ZRA’s objective to onboard taxpayers onto the Smart Invoice System.

Non-Tax Measures - Fees

In further enhancing revenue collection, The Hon. Minister has outlined several non-tax revenue measures aimed at bolstering the country's fiscal position. These measures are designed to enhance domestic resource mobilization and ensure sustainable public service delivery.

Amendment of Mobile Money Transaction Levy Act

The Hon. Minister proposes to appoint the ZRA to administer the Mobile Money Transaction Levy Act of 2023 instead of the Bank of Zambia. The Act introduced a levy of between K0.08 and K1.80 on the transaction value for person to person mobile money transfers.

The proposed amendment to allow ZRA to administer this levy intends to leverage off of the improved digital systems and mechanisms introduced by ZRA. This should encourage compliance from mobile operators and enhance revenue collection of the levy.

Occupational Safety and Health Training Fee

The Hon. Minister proposes introducing a fee of K1,500 for occupational safety and health training offered by the Ministry of Labour and Social Security.

The proposal intends to generate additional revenue for the government and support the improval of the quality of the training services offered by the Ministry.

Mine Safety and Examination Fees

New fees for mine safety and examination will be introduced, alongside an upward revision of geological survey fees. These adjustments are intended to reflect the true cost of providing these essential services and to support the regulatory framework governing the mining sector.

Agricultural Licensing Fees

Licensing fees will be introduced for crop variety, basic and certified seed sales, and parental lines sales. The proposed fees are as follows:

- Crop variety licensing (Royalties): 3% of net sales for crop hybrids and 2.5% for open-pollinated varieties.
- Basic and certified seed sales: K35 per kg for cereals, K45 per kg for legumes, K110 per bundle for cassava cuttings, and K35 per bundle for sweet potato vines.
- Parental lines sales: K150 per kg.

These fees aim to support the provision of improved technologies and advisory services to farmers, thereby enhancing agricultural productivity and sustainability. It is however noted that affected Zambian farmers and seed producers may find themselves at a competitive disadvantage compared to their counterparts in neighbouring countries where such fees are not imposed or may be lower. This may impact investment levels in the local seed industry.

Foreign Artist Fees

The fees for foreign artists performing in Zambia will see a significant increase. For artists from Southern Africa Development Community ("SADC") countries, the fee will rise to K5,000, while for non-SADC based artists, it will increase to K15,000 from the current K1,778. Additionally, the art promoter license will be categorised into international, local, and venue and exhibition licenses with respective fees of K20,000, K5,000, and K1,500. This measure is expected to boost revenue from the entertainment sector and ensure that local artists and promoters are adequately supported.

Resident Permit Holder Fees

A new fee of K2,500 will be introduced for resident permit holders who stay outside Zambia for more than six months. This measure aligns with international practices and is expected to generate additional revenue from expatriates and long-term residents.

04 Sector analysis

Agriculture

Look Back

The 8NDP touts the agriculture sector as a key driver of economic transformation and job creation. Unfortunately, the sector faced a decline in 2024 due to the adverse effects of the drought. Below is a reflection of a stimulate growth, the Government proposed measures for the three main sub-sectors on which we have provided insights on their fulfilment.

Crop agriculture

- The 2023 / 2024 farming season was severely affected by the drought resulting in reduced production of crops and giving rise toa national food deficit of 2.1 million metric tonnes of maize.
- From a projected 4.4 million tonnes of maize harvest, only 31% was harvested due to the impact of the drought.
- Out of the 300 kilometres of roads budgeted for construction in Nansanga, Luena and Shikabeta farm blocks, only 50 and 30 kilometres were constructed in Nansanga and Luena respectively.
- The budgeted construction of 200 kilometres of powerlines in Luena, Luswishi and Shikabeta farms were adversely impacted due to budget constraints.

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Livestock

- The Government enhanced the registration of livestock farmers on the e-Voucher modality of inputs supply under the Farmers Input Support Programme in 2024 in 74 districts countrywide.
- The strengthened legal reforms on animal identification and traceability, the Government enacted the Animal Identification and Traceability Bill on April 18, 2024, replacing the 2010 Act;
- The Government has also enhanced the disease surveillance and response system through regional veterinary laboratories which are fully operational; and implemented a community-based livestock breeding program using a pass-on scheme to provide farmers with high-quality breeding stock.

Fisheries

The Government enhanced fisheries production through establishment of three new fish hatcheries in Kasempa, Mushindamo, and Samfya districts. The Government also promoted sustainable capture fisheries by enforcing a fishing ban and enhancing surveillance of water bodies.

Building on

Crop agriculture

- In July 2024 the Comprehensive Agricultural Transformation Support Programme (CATSP) was launched with the aim to improve overall food security, create jobs and increase agricultural exports. Furthermore, to better support farmers, the Government will fully migrate the Farmer Input Support Programme from Direct input Support to e-voucher modality in 2025; K9.3 billion has been allocated towards the program
- Government has continued with farm block development evident by 275 hectares of Avocado under production at the Luena Farm block. In addition, green 2000 has embarked on the production of winter maize on a 1000 Ha of land. Furthermore, the ministry of agriculture demarcated 350 farms and approved 36 co-ventures across the Country.
- The Ministry of Agriculture launched the National Agricultural Mechanization Strategy on 29th February 2024 in each province and preparation for its implementation is underway.

“ 15.4 billion Kwacha towards Agriculture approved (2024: 13.8 billion Kwacha)

Agriculture

Building on

Livestock

- In line with the Government's priority to control and prevent diseases, they procured 620,000 doses of CBPP vaccine for 380,783 cattle in Muchinga, Northern, Northwestern and Western provinces. Further, 437,051 cattle were vaccinated against foot and mouth diseases in Itezhi-tezhi, Kalomo, Mkushi, and Namwala.
- The Government has operationalized regional veterinary laboratories in Chipata and Choma, while those in Isoka and Mongu are partially operational. The completion of Kasama, Ndola, and Solwezi laboratories is expected by the end of 2024.
- The Government aims to increase livestock production to 7 million by 2027.

Fisheries

- The national fish deficit has reduced from 74,000 metric tonnes in 2023 to 51,000 metric tonnes.
- In line with promoting fish hatchery in Zambia, the Government is currently constructing fishery greenhouses at Chadiza, Kaoma, Mwenda, Mwinilunga, and Sinda government fish farms. This is targeted at ensuring all-year-round production of fingerlings.
- The Government is establishing three hatcheries in Kasempa, Mushindamo and Samfya aqua parks to further increase fingerling production, bringing the total to 84 hatcheries in 2025.
- The above interventions will increase fingerling production to 460 million in 2025 from the current 433.4 million.
- The Government has made an allocation of K15.4 billion towards agriculture, fisheries and livestock sub-sectors for 2025.

Our view

The 2025 budget shows that the Government continues to prioritise the agriculture sector. In the current year, the allocation to this sector has increased by 20.3% (K2.6 billion) from K12.8 billion to K15.4 billion. Increased investment in agriculture will serve to attract more foreign investment into the sector, as is evident from the recent approval of the Zambia Farm to Market Compact program between the Government of the Republic of Zambia and the Millennium Challenge Corporation that will give rise to a $458 million investment into the agriculture and agro processing sectors.

The Minister has announced the Government's continued commitment to the Farmer Input Support Program as a key mechanism to support small scale farmers. However, its effectiveness in improving production and yields remains challenged as small scale farmers struggle to achieve yields higher than 2MT per Ha. This suggests that investment of funds alone into the program is not the solution and there is need for the Government to recognise the limitations faced by farmers that hinder their success. Challenges include poor accessibility for farmers in remote areas, poor connectivity, late delivery of farming inputs or lack of awareness on how to respond to droughts or floods. What remains to be seen is what measures the Government will take to recapitalise the numerous small scale farmers that lost their harvest and household capital in the drought. Will this be an increase in the FISP allocation value?

La Niña conditions are predicted to emerge toward the end of 2024 (October 2024-February 2025). La Niña episodes often lead to above-average rainfall, which can cause flooding in some areas, soil erosion and an increased risk of landslides. While this can be positive for the replenishment of water resources, above-normal precipitation can also disrupt agricultural activities and impact infrastructure and properties. We hope that adequate meteorological support will be provided to farmers to help them navigate this farming season.

Energy

Electricity

Look back

Zambia's electricity generation mix remains predominantly hydro-based accounting for 84% which is highly dependent on rainfall from October to April each year. The mining sector (51%) is the largest consumer of electricity followed by residential consumption (33%). (*Source: Energy Sector report 2023*)

In the Integrated Resource Plan (IRP) of 2023, the Government prioritised production of power from a combination of sources that includes hydro, solar, wind, coal and geothermal. By 2030, the Government intends to have a generation capacity of 2,205MW from hydro, 1,550 MW from solar, 400MW from wind, 600MW from coal and 30 MW from geothermal. The recommended capacity for hydropower and geothermal sources is based on the long development timescales for these projects. Development of solar and coal sources is expected to take a shorter time and will compensate for any delays in other projects. (*Source: Integrated Resource Plan*)

In 2024, to enhance growth in the energy sector, the Government implemented measures to increase electricity generation capacity which currently stands at 3,811MW as at August 2024. The government also implemented certain energy sector reforms that are aimed at building a more resilient sector. These included; open access regime, single licensing system and net-metering.

Building on

The acute power shortage that the country is facing is partly a result of our nation's inability to diversify its generation mix as previously advised by energy experts. In warning against over dependence on hydroelectric power the experts have, over the decades, advised to have an energy mix that included non-hydro power sources in order to avoid the risk of the very problem that the county is going through now. (*Source: 2025 Budget speech*)

In view of the ongoing drought conditions, the Government is enhancing efforts to build a climate-resilient energy sector. In the near-term, the authorities are promoting investment in power generation infrastructure as well as in alternative green and renewable energy sources.(*Source: IMF Country report June 2024*).

In order to address the power deficit, the Government has taken a multi-pronged approach which includes:

1. Importation of power from member states of the Southern African Power Pool , notably Mozambique, Namibia, South Africa and Zimbabwe.
2. Promoting the use of off-grid solutions such as industrial generators and solar systems, which are being installed in markets, public hospitals and schools.
3. Encouraging the construction of an additional thermal power plant in Maamba to double capacity to 600 megawatts by 2025.
4. Zesco and private developers are investing in a number of solar power plants at several strategic locations. These include, Chisamba 100 MW, Choma 50 MW, Kasama 100 MW, and Kariba 100 MW.
5. Implementing sector reforms such as net metering, which allows customers who produce their own electricity to feed excess electricity into the national grid, an open access regime which will allow IPPs to sell electricity directly to consumers and a single licensing system that will reduce the wait time for obtaining licences and permits for power development.

The Government through the Rural Electrification Authority(REA) has completed 131 Grid Development and 38 Off-Grid Renewable Energy Projects. The Rural Electrification Authority is currently operating 12 mini grid projects and 15 new solar projects to be completed by the end of the year resulting in 2,095 and 3,421 connections respectively.

The Ministry of Energy has been allocated K2.3 billion for the year 2025. This allocation will support various programmes, including Petroleum Development and Management, Electricity Development and Electrification Management, Renewable and Alternative Energy Development and Management of Energy Sector Standards and Regulations.

Energy

Electricity

Our View

We acknowledge the bold step taken by the Energy Regulatory Board (ERB), who recently rejected ZESCO's application for implementation of an emergency tariff. In its refusal, ERB noted the following unintended consequences that would negate the benefits of having a commercially viable tariff:

1. An increase in cost of production further exasperating the existing inflationary pressure.
2. Slow switch to renewable sources of energy for lower income areas.
3. Lack of guarantee that imports would be available.
4. Lack of a guarantee that the tariff would meet all of ZESCO's financial needs for purposes of importing electricity.

However in his speech the Minister somewhat acknowledged that commercially reflective tariffs are vital, indicating a u-turn on the ERB position.

The Minister indicated Government's resolve to implement the various aspects of the IRP to address the energy crisis in the short, medium and long term, While focus is placed on generation, it is equally important that investment is made into the country's grid capacity to support the ambitions of the power sector and economy as a whole. This requires an enabling environment that includes a regulatory and fiscal framework that supports investment in the individual phases of the power value chain - generation, transmission and distribution.

Considering the likely negative impact of the energy crisis on ZESCO's funding, we expected the Minister to have announced measures to support the operational activities of the entity, through an operational grant or funding subsidy of some sort. In the short term, ZESCO is likely to be dependent on the World Bank Grant of US$ 700m - under the NEAT Program, over the next 10 years, before a more long term solution that is favourable to the utility company and to consumers is established.

Oil and Gas

Look back

In a bid to promote oil and gas exploration, the Government proposed to remove customs duty on machinery, equipment and other goods designed for petroleum exploration. To ensure wider participation and enhanced competition in the supply of petroleum products, the Government developed regulations to enable players in the sector to have third party access to the TAZAMA Pipeline. The Government further called for the private sector to take advantage of the open access to the pipeline and participate in the supply of petroleum products.

According to the IMF, to enhance transparency in the pricing, the Energy Regulation Board (ERB) published the price build-ups for wholesale and retail from February 2024 as part of the monthly fuel price. In May 2024, the Government had commenced a slate mechanism in the fuel price formula to compensate for exchange rate fluctuations, incorporating a compensation factor for the difference between the current and previous months rates.

Building on

Government had to re-align the 2024 national budget to accommodate the necessary expenditure of K41.9 billion to finance drought response interventions, resume servicing of the restructured external debt and dismantling of the costly fuel arrears. (*Source: September President address*). This is important to ensure consistent supply of petroleum products into the country.

Our view

Zambia has faced rising fuel prices over the past years, primarily due to increasing international oil prices and the depreciation of the Kwacha against the US Dollar. Although global oil prices declined, the depreciation of the Kwacha, along with higher import cash premiums on petroleum products, offset any potential gains. As a result, changes in wholesale prices remained below the 2.5% threshold. Consequently, the ERB maintained pump prices for September 2024 at K33.47/litre for Petrol, K30.05/litre for Diesel, K27.52/litre for Kerosene, and K30.53/litre for Jet A-1 fuel.

Mining

Look back

According to the Ministry of Finance and National Planning, the mining sector contributed 13.74% to Zambia's GDP in 2023, up from 12.9% in 2022. For the first quarter of 2024, this contribution increased to 15.55%, making the sector the second largest contributor to GDP. Mid-year copper production for 2024 was 346,747 metric tonnes, a 6.2% increase from the same period in 2023. The Government remains committed to increasing annual production to 3 million metric tonnes by 2031 to enhance the sector's contribution to economic development.

The Government has successfully addressed issues at Konkola Copper Mine and Mopani Copper Mine, leading to their steady progress towards resuming operations. The revival of these mines is anticipated to boost production, create jobs, and significantly contribute to the nation's economy. As of August 2024, Mopani had produced the first 200 tonnes of copper following its revival.

In 2024, significant investments in the mining sector include Barrick Lumwana's US$2 billion expansion project, the super pit, which is being commissioned this year. Kobold Metals and ZCCM Investments Holding are developing the Mingomba mine in Chililabombwe. Additionally, Shaft 28 in Luanshya is being revived. These investments are also expected to boost production, create jobs, and contribute significantly to the nation's economy.

Building on

The Government's initiative to formalise gold trading by establishing marketing centres in Mumbwa and Rufunsa districts aims to create a transparent and efficient market, attract investors, boost local economies, create jobs, and support the mining sector's development in Zambia. Additionally, the Government has proposed introducing fees for mine safety and examination, as well as revising geological survey fees upwards. These measures aim to enhance regulatory oversight and generate additional revenue for the sector.

The Government has increased the allocation for a countrywide high-resolution aerial geophysical survey to K364.0 million from K160.0 million in 2024. This survey aims to produce reliable geological information to support investment in greenfield and brownfield projects, using technology that is the first of its kind in Africa. Additionally, to stimulate investment in mineral exploration by enhancing regulation to bring mining regulation stability, the Government proposed changes which included the introduction of a Minerals Regulation Commission to enhance administration and regulatory compliance in the sector.

Our view

In the 2025 Budget, the Government has proposed introducing fees for mine safety and examination and revising geological survey fees upwards. These measures will create a safer working environment and attract further investment, contributing to the long-term growth and development of Zambia's mining sector. Ongoing changes to the Mining and Minerals Act for 2024 could deter investment if seen as unpredictable or burdensome. As seen from the recent past, stability in the policy regime spurs inflows of investments into the sector. It is therefore imperative for the Government to ensure that extensive consultations are made with the industry players so that the growth in the sector can be sustained.

For the ongoing geological mapping exercise, it would be beneficial for the Government to phase the release of report findings on a regular basis, say every six months or at the end of each quarter. This approach would enable investors to make informed decisions earlier, thereby accelerating the timeline for mining exploration and eventual construction, ultimately increasing production and facilitating a steady flow of investments into the country.

Given the lengthy exploration and construction phases in mining, the Government should create policies that encourage AI skills development and favourable pricing of AI technology such as providing tax incentives on technology used on exploration; this will ensure the Country benefits from the current surge in copper prices. KoBold Metals has shown that AI can significantly accelerate the time to commercial production, aiming to start producing copper and cobalt within 10 years, compared to the average 14 years from exploration to full production. Implementing similar AI-driven strategies could boost investments in the mining sector and help achieve the target of 3 million metric tonnes of copper production by 2031.

Over the years, the Government has played a pivotal role in developing and regulating emerald mines, positioning Zambia as the third world's leading producer of emeralds. This demonstrates the Government's capability to support and elevate an industry to its peak. It is encouraged that similar efforts and mechanisms can be applied to other minerals to help Zambia achieve its full potential.

Transport

Look back

In the Fifth strategy of the Eighth National Development Plan (8NDP), the Government stressed the importance of improving the transport and logistics sub-sectors, focusing on positioning Zambia as a regional transport and logistics hub. To actualize this, the Minister made pronouncements emphasizing Public-Private Partnerships (PPP) to continue to leverage private sector capital, with the Government's focus on providing sound policies. Some of key pronouncements from the previous budget include:

- The Lusaka-Ndola dual carriageway project, a PPP with MOIC-LN Consortium, spans 327 km and includes 45 kms of the Luanshya-Fisenge-Masangano Road. As of September 2024, the dual carriageway was 12.5% complete,
- The Luanshya- Fisenge-Masangano section was over 70% complete.
- The Chingola-Kasumbalesa road was commissioned in April 2024 while the 210 km Chinsali-Nakonde Road which started in 2018, is 98% complete.

Following upgrades at Kasama airport, Proflight, one of Zambia's local airline began twice-weekly flights with direct connections to Mansa improving access to key tourist sites like Northern waterfalls, Shiwa Ng'andu, and Lake Tanganyika, while enhancing trade routes to Mpulungu Port. The increased connectivity supports business growth and creates jobs, boosting regional commerce. The Kasaba Bay airport announced in the 2024 budget is scheduled to begin construction in 2025. The construction of the airport at Kasaba Bay will boost tourism, enhance regional connectivity and attract investment in agriculture and trade.

Building on

The Government's pursuit of Public-Private Partnerships (PPP) is showing results having signed several projects with a total coverage of 838 Kms. Under the PPP, the Chingola-Kasumbalesa Road is operational, while ongoing projects include the Katete-Chanida, Mufulira-Mokambo, and Ndola-Mufulira roads. Additionally, alternative funding, such as US$460 million from the Millennium Challenge Corporation, is allocated for the rehabilitation of several roads, including the Chipata-Lundazi-Old Magodi and Landless-Mumbwa roads.

Lusaka-Ndola Dual Carriageway, including the rehabilitation of the Masangano-Fisenge-Luanshya Road, are progressing well and are earmarked to be completed in 2026 ahead of schedule.

In 2025, the Government plans to upgrade urban roads in several districts to enhance mobility and trade. Over 4,800 kms of feeder roads have been maintained, with 2,980 kms funded by the Constituency Development Fund.

A Memorandum of understanding with China and Tanzania aims to modernise TAZARA Railway. This modernization will increase its capacity to 2.5 million metric tonnes annually, while efforts continue to revitalise the Zambia Railways system with support from co-operating partners

Our View

The Zambian Government's approach to developing the transport and logistics sector through PPPs, grants, and targeted investments is commendable. However, beyond PPPs, the Government must also focus on:

1. **Feeder Roads:** Ensure proper oversight and explore alternative funding mechanisms.
2. **Rail Infrastructure:** Secure long-term investments and improve operational efficiency.
3. **Air Transport:** Prioritise airport construction and modernization, and encourage local airlines.

By adopting a holistic approach that includes PPPs for strategic roads, CDF for feeder roads, and targeted investments in rail and air transport, the Government can create a robust and integrated transport network that supports sustainable development and economic growth. Addressing challenges such as quality of work and having a predictable maintenance program in each of these areas will be key to maximising the long-term benefits of the investments made.

Tourism

Look back

The tourism sector is praised for its ability to generate foreign exchange, create jobs, integrate the local population into the mainstream economy, promote social cohesion, and sustainable development.

In 2023, the Government secured a US$100 million loan from The World Bank through the Green, Resilient, and Transformational Tourism Development Project, to enhance key tourism infrastructure. These funds will be channeled to improving accessibility and expanding tourism experiences at three vital sites: Kasaba Bay, Liuwa National Park, and the source of the Zambezi with the aim of broadening Zambia's tourism offerings.

Plans to refine the regulatory and licensing framework in the tourism sector remain underway. These reforms aim to reduce the cost of doing business, making the sector more appealing to both domestic and international investors.

Building on

The Government's current budget allocation to tourism has increased from K769 million to K1.3 billion, representing a 41% increase. This increase reflects its commitment to enhancing the tourism sector's output and highlights the industry's significant potential.

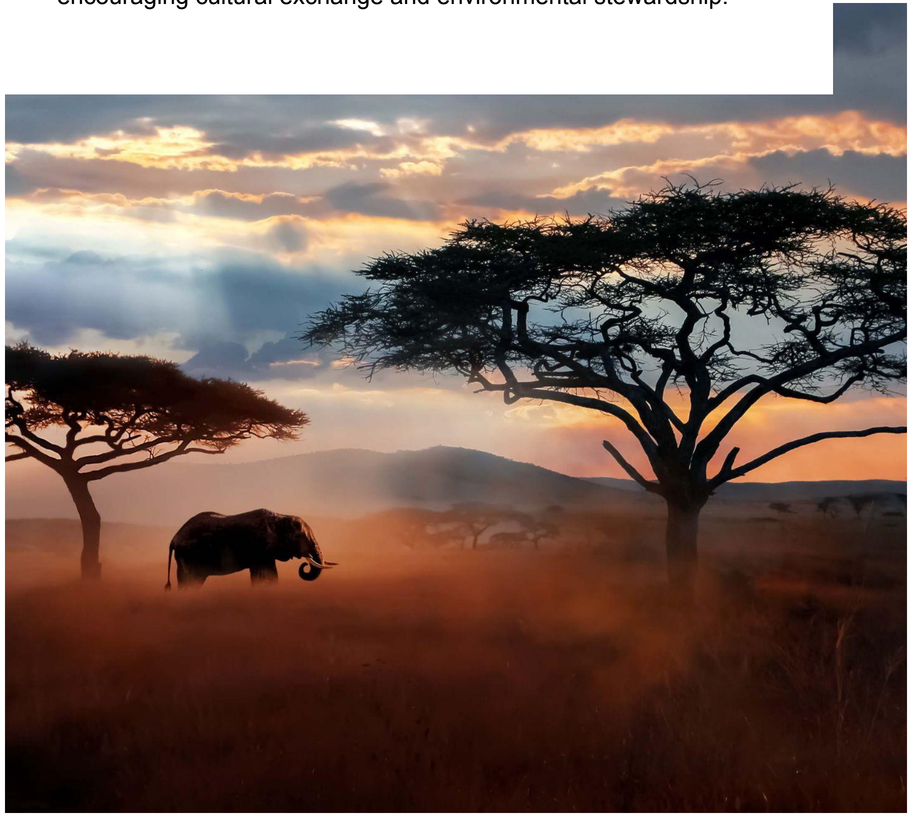
Growing evidence suggests that the ecology and numerous activities in the Zambezi Valley, home to the Livingstone and the source of water for the Victoria Falls, are being impacted by the drought. This bedrock of tourism in Zambia is supported by the flora and fauna as well as animal migration and the low rainfall patterns largely impact these essential parts of the tourism industry. However, the tourism sector is experiencing a steady rise despite the ongoing drought and energy crisis in the country. Furthermore, the government recognizes the crucial role of biodiversity conservation in tourism.

Collaborating with neighbouring countries to establish transfrontier conservation areas, like the Kavango-Zambezi region, is imperative for facilitating seamless cross-border movement for tourists. This collaboration not only enhances Zambia's appeal as a tourist destination but also contributes to the preservation of its rich natural heritage.

The tourism industry is a rich environment for attracting foreign investment. Zambia recently made its mark in the global investment arena with an average of US$969.7 million in foreign direct investment in tourism, with a consistent growth rate of 3.2 % over the last decade, surpassing Sub-Saharan Africa's average of 3.0%. This affirms the nation's resilience and stability (UN Tourism,2024). These optimistic projections underscore Zambia's potential for sustained economic expansion and development inclusive of the tourism sector.

Our View

The tourism sector remains a viable avenue to diversifying the Zambian economy. The increased budgetary allocation of K1.3 billion serves as a clear indication of the Government's commitment, reflecting a proactive strategy to enhance the tourism sector's contributions. The tourism sector offers a unique opportunity to generate foreign exchange while encouraging cultural exchange and environmental stewardship.



Manufacturing and International Trade

Look Back

In the 2024 budget, despite challenges faced such as a decline in manufacturing growth to 4% in Q1 2024 from 6.9% in 2023, the sector remained pivotal. The Government introduced various measures aimed at addressing inadequacies in Multi-Facility Economic Zones (MFEZs), such as harmonizing land rates, increasing income tax relief for rural businesses, and providing quotas for expatriate employees based on job creation. These interventions sought to improve the attractiveness of MFEZs to investors.

Zambia's trade surplus of K7.2 billion as of August 2024, driven by exports of K185.6 billion, reflected strong external trade performance, which accounts for nearly 80% of the country's GDP. The Government continued to push for trade diversification, hosting the 22nd COMESA summit and solidifying its participation in key regional infrastructure projects like the Lobito Corridor. These efforts aimed to enhance trade efficiency and regional integration.

Building On

The manufacturing sector while pivotal to economic transformation faced a significant setback due to electricity shortages caused by drought. In the first quarter of 2024, the sector grew by 4%, but contracted by 2.7% in the second quarter.

In the 2025 budget, the Government plans to continue with development of Multi-Facility and Special Economic Zones (SEZs). The Lusaka South MFEZ secured $110 million in investment, bringing total investment to $1.6 billion, with 30 operational companies creating 16,000 jobs. The Jiangxi MFEZ in Chibombo has attracted over $40 million for battery recycling and copper cable production creating 400 jobs.

The Government is also establishing SEZs for beef in Kafue Flats and crop production in several districts, aiming to position Zambia as an export hub. Key achievements include reopening Zambia-China Mulungushi Textiles with a $170 million investment, creating over 500 jobs.

Zambia has also become a net exporter of Compound D fertilizer, with exports expected to reach 91,000 metric tonnes this year. Additionally, a urea plant with a capacity of 300,000 metric tonnes is set to be commissioned by 2025, creating 2,000 jobs

Our View

Zambia's manufacturing sector has been adversely affected by the ongoing energy crisis with with companies reporting a reduction in customer purchasing power due to load shedding and rising costs, pushing the sector further into contraction, with the purchasing managers index (PMI) dropping to 48.3 in August, down from 49.4 in July, as per Stanbic Bank Zambia. With the expectation that 80.2% of the budget will be financed by domestic revenue, it is critical that production is normalised as soon as possible. For this to happen, an immediate solution to the power situation is critical. A commonly held view is that some expensive power is better than no cheap power.

Government interventions, such as harmonizing land rates, extending tax relief, and enhancing border post efficiency, aim to create a more conducive environment for manufacturing and trade. However, the effectiveness of these incentives in attracting investment and boosting productivity must be carefully evaluated.

Technology and science

Look back

In the 2024 national budget, the Government aimed to improve ICT infrastructure, which is critical to Zambia's economic growth. Key projects included:

- Implementation of the Integrated National Registration Information System (INRIS).
- Increased investments in ICT infrastructure with the construction of 169 additional communication towers and enhanced fibre connectivity.
- Migration of 102 additional public services to the online platform, ZamPortal.
- Construction of research institutions and five innovation hubs.

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The Honourable Minister has further made the following commitments in the 2025 budget.

- Allocation of K217.8 million towards the implementation of INRIS, as part of the Public Order and Safety function.
- Revision of the National Payment Systems Act of 2007 to align with the current payment systems landscape, aiming to create a cashless economy through digital financial platforms.

Building On

The Honourable Minister has announced several achievements in the 2025 budget presentation as highlighted below:

- An increase in active mobile cellular subscriptions from 20.1 million to 21.9 million in 2023, with the government currently working on the construction of 202 towers to accelerate digital transformation.
- The commencement of operations by a new fourth mobile network operator, Zed Mobile, in August 2024, with an investment of over US$400 million and the creation of more than 450 jobs.
- Connection of unserved and underserved areas following the granting of a low-earth-orbit satellite licence to Starlink, with the government procuring 525 Starlink kits to improve public service delivery.
- Establishment of 48 Digital Transformation Centres by rehabilitating post offices in 2024, with plans to repurpose 75 post offices into Digital Transformation Centres by the end of 2024 and an additional 50 in 2025.
- The ZRA is rolling out a smart invoicing system to digitise the invoicing process and receive near real time transactional information. This system is aimed at enhancing revenue collection and reduce revenue leakages. Currently, there are 19,262 registered taxpayers, including 10,019 VAT registered taxpayers. However, there are still 14,076 VAT registered taxpayers who must register by September 30, 2024, indicating that 58% of VAT registered taxpayers are to register on the Smart Invoicing System, which is concerning.

Our view

The Government's allocation of funds for the implementation of the INRIS project, initiated in March 2022, is noteworthy. However, it is important to highlight that in 2024, the project was defunded as national resources were redirected to combat the effects of the ongoing drought in the country. The INRIS project has the potential to revolutionize the Government e-service delivery, enhance security, and generate cost savings; therefore, it is crucial for the Government to ensure its completion.

Additionally, the revision of the National Payment Systems Act of 2007 is commendable, as it addresses several gaps in the regulatory landscape for fintech and commercial banks in Zambia. This update will help create a level playing field and foster innovation while maintaining financial stability. To further support the digital transformation and innovation agenda, as well as to promote the establishment of a cashless economy, the Government should continue investing in ICT infrastructure development.

Education and skills development

“Building a Knowledge-Based Economy for Sustainable Development

Lookback

Education and skills development have been recognized as critical drivers for sustainable economic growth and social equity in Zambia, with the Government’s policy being to improve both the access and quality of education. In 2024, the Government allocated K 27.4 billion, which constitutes 15.4% of the national budget, to support various education initiatives.

Efforts to improve the quality of teaching entailed the recruitment of 4,200 teachers in 2024 to address shortages and enhance the teacher-pupil ratio. The teacher-pupil ratio decreased from 1:60 in 2022 to 1:51 in 2023; bringing the Government closer to their national target of 1:40. Since 2022, the Government has recruited 39,600 teachers.

In 2024, the Government increased its target for the construction of secondary schools from 115 to 317, of which 151 were completed by 2024. Furthermore, the Government has so far procured 812,600 desks against the national target of one million. Of those procured, 712,562 (representing 87%) were financed through the Constituency Development Fund (CDF).

In a bid to improve the learning environment, the Government made inroads on infrastructure at public universities and training institutions, including the construction of 58 hostel blocks across the eight public universities.

Building on

In the current budget, the Government has allocated K31.5 billion to the Education sector. These funds are aimed at improving access to quality education through several key initiatives including:

- **Infrastructure Expansion:** The Government aims to complete the remaining 161 secondary schools and 480 early childhood education centres in 2025. This expansion is essential for accommodating the increasing number of pupils seeking free education and improving the learning environment.
- **Teacher Recruitment and Training:** The Government intends to recruit 2,000 additional teachers in 2025. The proposed recruitment’s in 2025 will further reduce the teacher-pupil ratio and improve learning outcomes.
- **Improving Learning Environments:** The Government remains committed to improving the learning environment through the continued procurement of desks using the constituency development fund (CDF) and other forms of financing.
- **Vocational Skills Development:** Skills development is key to enhancing entrepreneurship and employability, especially for the youth. As such, the Government has committed to enhancing infrastructure in rural areas to ensure that technical education is accessible to Zambians populace. This is done through investment in state-of-the-art training equipment.

The above initiatives are designed to create a more inclusive education system that not only addresses current challenges but also lays a strong foundation for future growth and development.

Our View

While the Government has made significant strides in increasing access to education, evidenced by the enrollment of 2 million new learners since the introduction of free education in 2022, the pupil-to-teacher ratio remains a critical factor affecting the quality of education outcomes. Increased enrollment alone is not enough; it must be accompanied by improvements in the quality of education through adequate infrastructure and teacher recruitment.

Currently, only 50% of the planned school construction projects have been completed, which is insufficient to accommodate the growing student population. This creates an imbalance between the surge in student numbers and the available facilities, potentially undermining the benefits of free education.

As such, the Government’s focus on addressing the pupil-to-teacher ratio through the recruitment of additional teachers is a necessary and positive step. However, this initiative must be paired with accelerated school construction to prevent overcrowded classrooms and strained educational resources. Ensuring both infrastructure development and teacher recruitment is essential to maintaining and enhancing the quality of education in Zambia.

Additionally, the reduction in Zambia's education sector budget allocation from 15.4% in 2024 to 14.5% in 2025 raises concerns about meeting education quality goals, especially when the global recommendation for education spending, as cited by UNICEF, stands between 15% and 20%. Fortunately, substantial international support from the World Bank, UNICEF, and USAID continues to bridge critical gaps in Zambia’s education system. Therefore, while the reduced budget allocation poses challenges, the combined efforts of the Zambian Government and international partners help mitigate the potential adverse effects, ensuring continued progress in critical areas such as infrastructure expansion and teacher recruitment.

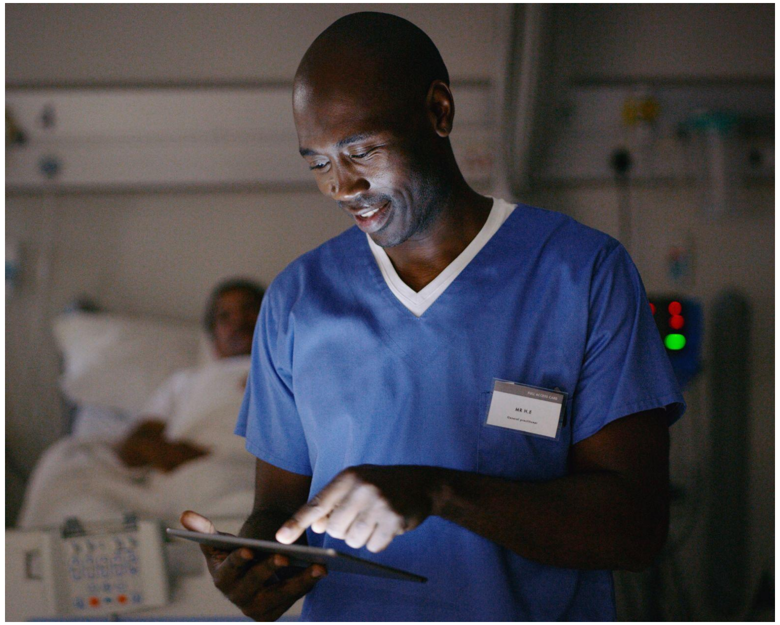
While this assistance helps mitigate the impact of budget cuts, sustained domestic investment is essential for achieving long-term educational goals and reducing reliance on external aid.

Health

A Look Back from Previous Years

In the past few years, Zambia has made significant investments in its health sector, although challenges persist. Between 2021 and 2023, health spending increased substantially with budget allocation increasing from K9.7 billion in 2021 to K21 billion in 2023. Further, the budget allocation as a percentage of the total national budget has shown steady growth to about 11.8% in 2024 from 10.4% in 2023. This is, however, still below the target set in the mid-term budget plan (2024-2026) allocation which forecasted about 11% allocation to health and the Abuja declaration's 15% budget share.

In the same period, the National Health Strategic Plan (NHSP) 2022-2026 laid the groundwork for improving health outcomes, focusing on improving service delivery, human resource capacity, and health infrastructure across the country.



Building on

In 2024, the Zambian Government continued to prioritize health sector spending despite fiscal constraints largely influenced by local and foreign debt servicing. The 2024 budget saw a slight increase in the share of the overall budget allocated to the health sector as compared to 2023 in response to the high demand for hospital care. The Ministry of Health received K15.2 billion in 2024, representing about 8.6% of the total national budget.

The current year's spending focused on expanding access to essential services, with particular attention given to combating preventable and non-communicable diseases and addressing maternal health.

So far, the Government has recorded successes including the completion of 7 level 1 hospitals, 279 health facilities, and 123 maternity annexes at various health facilities, 70% completion of the specialized 800-bed space women and children King Salma hospital and the procurement of 42,000 health centre kits and essential medicines under bulk procurement. But there are challenges that remain in this sector. The country still faces inadequate funding in health infrastructure, especially in rural areas, and tackling critical issues on human resources i.e. healthcare worker shortages. The recruitment of 4,000 health workers in 2024 is still pending.

Looking forward, the Zambian Government is investing heavily in healthcare development. Key infrastructure projects in 2025 will include 30 maternity annexes, 120 health facilities to be completed by 2027, roll out of Smartcare Pro to an additional 1,600 health facilities, construction of cancer treatment centers in Ndola and Livingstone and modernization of the Cancer Diseases Hospital in Lusaka.

The Government intends to further strengthen health products and medicines visibility through digitalization of the supply chain.

Investments in health personnel recruitment and training and increased access to essential drugs are the other key focus areas for 2025.

Further, to respond to the current energy crisis for which the health sector has not being spared, the Government is launching the Solar for Health (SfH) project. The SfH project is an initiative between the GRZ and cooperating partners to install solar energy systems in health facilities across Zambia to ensure reliable and renewable energy for clinics, especially in rural areas. As part of this project, Zambia has targeted to electrify over 1,000 facilities through off grid system.

To further strengthen the availability of medicines to the community, the Government continues to invest in the construction of regional warehouse hubs through ZAMMSA to improve last-mile distribution of health commodities and equipment to the health facilities.

In the 2025 budget, the Government has increased the health budget from K 13.9 billion in 2022 to K23.1 billion in 2025 (8% to 10.7% of the total budgets in the respective years). This represents a commitment to addressing the population's health needs.

Our view

The Government continues in its quest to provide quality, affordable and accessible healthcare services by strengthening the health care system, recruiting health personnel, providing medicines and medical supplies, as well as developing infrastructure. Specifically, we highlight and comment on the following initiatives envisaged in the 2025 budget:

Drug supply – The continued procurement of medical supplies ensuring drug stock availability of 85% at health centers and 76% at the hospital level from 37% and 46% respectively in 2021 is a move in the right direction. However, it is worth noting that the health needs are wider than essential drugs and hence, it's critical to ensure access for other non-essential health commodities.

Workforce - The planned recruitment of 2,000 health workers, resulting in the attainment of 20,276 health workers in 2025 is commendable on the part of the Government. We highlight the need for the recruitment of quality and specialised health personnel to support medical staff in specialised centres and other hospitals within the country.

Infrastructure – Notably, the Government has not only completed the construction and equipping of seven level 1 hospitals but has also completed the construction of 123 maternity annexes, construction and modernisation of cancer treatment centres, 279 health facilities across the country among others. However, running and scheduled/preventive maintenance of critical infrastructure and equipment remains a key challenge post deployment and commissioning within the country. As such, there is a need for sufficient resource allocation to ensure that the infrastructure maintains its functionality as envisaged.

Logistics and supply chain - Government's incentive to implement digital inventory management systems to track medicines from procurement to dispensing is worth noting. This is not only a theft prevention measure but will also provide tracking of the adequacy of the inventory levels at health facilities there by enabling the distribution of medical supplies efficiently based on demand. A critical aspect of the supply chain that was not covered includes the construction and expansion of the regional hubs that play a critical role in the distribution of medicines, health commodities and equipment.

Data management for patients – The roll out of Smartcare Pro to an additional 1,600 health facilities enhances case management for patients. However, the expectation is to ensure that all 3,543 facilities have SmartCare by 2026 which calls on additional efforts on the part of the Government to meet this goal.

In our view, the measures and interventions proposed within the health sector will enhance quality and affordable health care. It remains to be seen, however, whether they are extensive enough to spur the requisite demands within the health sector space to meet the SDG 3 (Good health and wellbeing).

Water and sanitation

Look back

The Government prioritises providing accessible clean water and adequate sanitation as part of the Eighth National Development Plan to meet the United Nations Sustainable Development Goal (SDG) number 6. However, access to adequate sanitation and improved water sources remains low, with only about two-thirds of the population having access to clean water and less than half having access to adequate sanitation (World Bank). This is partly due to the sector's high reliance on public investment, with over 87% of the 2024 budget funded through development partners (UNICEF).

The Water, Sanitation, and Hygiene (WASH) budget has been on a declining trajectory in the last few years with an allocation of K2.3 billion in 2023 which subsequently dropped to K1.9 billion in 2024. With the current levels of access to clean water and adequate sanitation, unless there is a drastic increase in budget allocation for the sector, the country will struggle achieve the targeted access to safe water of 98% for urban population and 67% to the rural population by 2026 and access to adequate sanitation of 90% for urban population and 55% for rural population as per Eighth National Development Plan.

Additionally, the country has experienced the “worst drought in 30 years”, leading to water supply problems. Commercial water utilities have been affected by the power deficit arising from the drought as their capacity to pump water to households has been significantly reduced. Low access to basic water services and adequate sanitation is further exacerbated by population growth and other climate-related risks.

To address some of these challenges, the Government has constructed 16 dams, rehabilitated 12, and maintained 770 dams across the country since 2022. These dams are expected to harvest at least 15.7 million cubic metres of water, benefiting 2 million people for domestic use, livestock, and irrigation. The Government has also constructed 2,277 boreholes and rehabilitated 3,025 boreholes since 2022.

Works on the Integrated Small Towns Water Supply and Sanitation Projects in Luapula, Muchinga and Northern provinces have been completed. Works in Western Province are at 78 percent and expected to be completed in 2025.

To improve sanitation and mitigate against waterborne diseases, such as cholera, having recently had a major outbreak, a total of 706 waterborne sanitation facilities have been constructed since 2022.

Building on

In the 2025 budget, the Government has allocated K2.3 billion, for water and sanitation, an increase of 21% from the allocation last year. The Government plans to undertake the following projects countrywide in 2025:

- Construction of 12 dams, rehabilitation of 14 dams and maintenance of 385 dams.
- Construction of 947 boreholes and 500 piped water schemes and rehabilitation of 500 boreholes.
- Construction of 1,835 water points under the Food Security and Drought Response Plan to benefit over 3.5 million people and ensure sustenance of livestock and wildlife.

These projects will contribute to improved water management and public health as they will enable communities to have access to reliable water sources and help to reduce waterborne diseases.

Our view

The Government needs to promote sustainable management of water resources and sanitation infrastructure to ensure long-term availability and functionality of water and sanitation services. This includes strategies for water conservation,such as water harvesting which is increasingly being adopted on the continent, with Kenya, Tanzania, Burkina Faso, Niger and Ethiopia being some countries that are using it (African Union Development Agency). This would go a long way to help Zambia achieve strategy number 8 of the Eighth-National Development Plan to meet the rising demand and productive use of water, while safeguarding water security.

Overall, the rainwater harvesting industry is poised for continued expansion globally in the coming years due to the increasing demand for sustainable and innovative products.Considering the substantial financial investments needed in the WASH sector, the country will need to significantly increase the financial allocation for the sector in future budgets.

Social protection

Look back

Social Protection is crucial in promoting social equity, eradicating poverty, and cushioning the vulnerable against shocks. It directly feeds into the overarching Sustainable Development Goal No.1: No poverty. The main social protection programmes include the Social Cash Transfer (SCT) scheme, the Food Security Pack, and various pension programmes.

Between 2021 and 2023, the Government focused on expanding coverage and increasing budget allocations to mitigate the effects of poverty and vulnerability in response to climate change, inflation, disease outbreaks, and high costs of basic commodities. In 2024, the Social Cash Transfer (SCT) programme expanded to K9.7 billion from K8.1 billion in 2023. Additionally, the supplementary budget of 2024 allocated K5.2 billion out of a total budget of K41.9 billion to the SCT programme in response to the drought situation.

> "
> 1 million households on Social Cash Transfer

Building On

In 2024, the Zambian government continued to prioritize social protection as a critical tool for reducing poverty and vulnerability. The 2024 budget reflected a strong commitment, with over 5% of the national budget allocated to social protection, translating to K5.4 billion, a 31% increase from K4.1 billion in 2023.

As of 31 August 2024, the government has announced the following improvements to scale up and enhance social protection programmes, with improved targeting and selection mechanisms:

- Increased SCT Programme beneficiaries from 1,027,000 in 2023 to 1,311,000 in 2024, with beneficiary households now receiving up to K400.
- Distributed a total of 40,865 metric tonnes of relief white maize by mid-August 2024.

In 2025, the finance minister has proposed to spend K16.2 billion on social protection. Of this amount, K8.3 billion is allocated to the general Social Cash Transfer initiative (which includes the drought SCT programme), with K2 billion for the Cash for Work initiative.

The government promises to alleviate poverty and increasing growth amongst the ordinary people through:

- An enhanced cash for work initiative, allowing community involvement though solid waste and garbage collection, as well as cleaning of public spaces and maintenance of roads in communities
- The Keeping of girls in school initiative to reach at least 262,444 girls country wide
- Scaling up Women empowering programmes to all 116 districts with a target of reaching at least 200,000 women countrywide

Our view

Zambia's social protection sector has witnessed growth over the past five years, particularly in the expansion of the SCT program. In 2020, Zambia's SCT program had approximately 700,000 households as beneficiaries which has grown to approximately 1.2 million households in 2024. This reflects a 71% increase in the reach of the program, driven by the government's continued focus on scaling up social protection to mitigate poverty and vulnerability. The expansion also aligns with the government's broader goals to achieve social equity and support vulnerable populations, and ultimately meet SDG No. 1: No Poverty.

In a nation where poverty remains a pressing issue, the success of social protection systems is not just a fiscal priority but a moral one. The road ahead requires sustained commitment, stronger coordination between ministries, and continual investment in the digitalization and decentralization of services.

Environmental sustainability

Look back

Zambia is navigating a critical season as it confronts one of its worst droughts in recent history, compounded by significant power outages. These challenges, both linked to climate change, have placed unprecedented demands on the sectors including agriculture, energy, and mining, highlighting the urgent need for sustainable solutions and making it a crucial time for policy and action aimed towards fostering a more sustainable future.

Since its inception, the Ministry of Green Economy and Environment (“MGEE”) has been working towards balancing economic progress and environmental quality and continues to drive sustainability efforts, shaping the direction and extent of economic sectors' embedding of sustainability. Notable actions from the 2024 budget include the installation of automatic weather stations in 116 districts in Zambia.

Additionally, the Government through the MGEE aims to finalise its Climate bill by the end of 2024. This legislation is intended to establish a comprehensive legal framework for addressing climate change, promoting sustainable practices, and enhancing the country's resilience to environmental challenges.

Further, Zambia is currently in the process of developing its Carbon Market Framework, as part of its broader strategy to address climate change and promote sustainable development. The framework has been partially published and is expected to be finalised by December 2024.

However, there still remains work to be done, particularly regarding the entrenchment of environmental practices in the financial sector and the provision of more tax incentives to promote sustainable practices in the transport, logistics, and energy sectors.

Building on

The Zambian government has shown a strong commitment to sustainability and environmental protection through various initiatives. The 2025 budget focuses on increasing access to weather related information by modernising and maintaining weather monitoring infrastructure. The Zambian government has successfully installed automatic weather stations in the 116 districts across the country, as well as digitising climate data records.This initiative is aimed towards providing increased access to weather-related information.

In April 2024, the Government launched the National Green Growth Strategy (NGGS) which aligns with the broader vision of balancing economic growth with environmental protection. The NGGS will unlock numerous opportunities enabling the Government to create green jobs.

This proactive approach is expected to enable the country to mitigate and adapt to climate related disasters and pave a way for a more sustainable, resilient and prosperous Zambia.

Our view

The Government's focus on integrating and adapting sustainability efforts to enhance resilience is a commendable step forward. However, due to the negative impacts of climate change on the country's economic growth, it is essential that existing policies receive adequate budgetary allocation to effectively support the implementation of these initiatives.

The automatic weather stations installed in the 116 districts across Zambia are a key resource in ensuring the availability of climate related data. It is imperative that the government makes use of the data generated to make informed decisions to minimise the impact of climate change. Further, it is equally important that insights obtained are adequately translated, and information shared with various stakeholders such as farmers, in order to reap the benefits of the availability of climate related data, which is key in building resilience against possible climate related shocks and ensure that timely decisions are made.

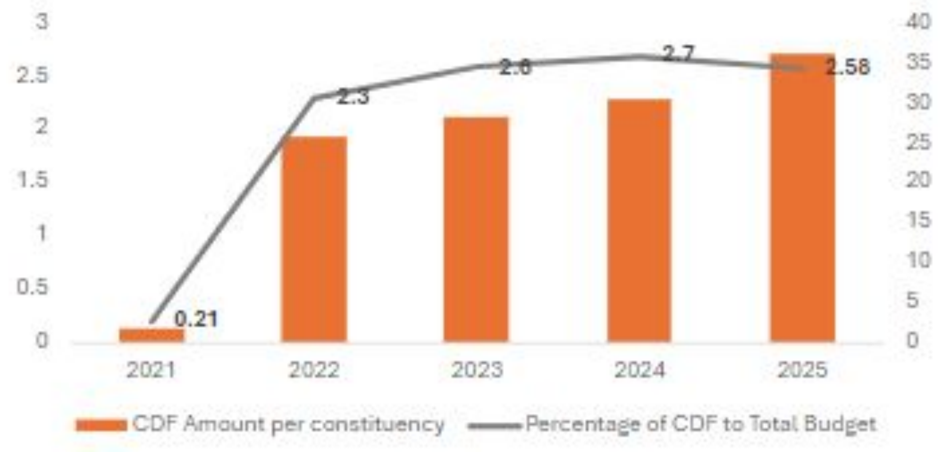
The launch of Zambia's NGGS is a vital step in Zambia’s commitment to achieving sustainable economic development. The NGGS is expected to be implemented between 2024 and 2030 at a cost of approximately US$10 billion. It is therefore imperative that the launched strategy is supported by adequate funding in each annual budget between the years 2025 and 2030 to ensure that its implementation supports Zambia’s ambition to transition to a low carbon, resource efficient, resilient and socially inclusive economy by 2030.

There is a need to hasten the implementation of the NGGS as it will be key in achieving desired climate change adaptation and, by extension, building resilience in the economy and achieving sustainable growth. For this to be attained, the Government should adopt an aggressive approach towards mainstreaming the NGGS with one of the quick wins being the Energy workstream given the current power deficit the country is experiencing. By aggressively mainstreaming the green economy in respect of renewable energy in this regard, Zambia can accelerate its transition to a sustainable and resilient future.According to the IMF Country Report for June 2024, the Government is enhancing efforts to build a climate-resilient energy sector. We look forward to the aggressive implementation of the Government's overall plans in this regard.We also look forward to the aggressive implementation of the rest of the work streams in the NGGS.

Decentralisation - CDF focus

Look back

The CDF allocation as a percentage of the total national budget, has been increased year on year since 2021 as per graph below. In absolute numbers, the total CDF allocation per constituency increased from K25.7 million in 2022, K28.3 million in 2023 to K30.6 million in 2024.This speaks to the Government's resolve to push the decentralisation agenda by dedicating more resources to this key goal to the attainment of the current Eighth National Development Plan.



As of 31 December 2022, out of the K1.97 billion that was disbursed to the 116 Local Authorities by the Ministry of Finance, only K321.9 million was utilised by the constituencies representing a 17% utilisation (the Office of the Auditor General Press release dated 13 December 2023). There was an improvement in 2023 where utilisation stood at 57% as of November 2023.

This increase in utilisation highlighted Government's implementation of key lessons and recommendations from the 2022 cycle, which if maintained going forward, will result in significant CDF impact at the communities' level.

Building on

The 2025 CDF allocation has been increased by 17% to K5.6 billion in 2025 from K4.8 billion in 2024. This will increase the allocation to each constituency by 17% to K36.1 million in 2025 from K30.5 million in 2024, of which K3.3 million per constituency, has been set out for the construction of feeder roads in rural areas. This measure is a build on of the 4,806 kilometres of feeder roads that have been graded, rehabilitated or maintained across the country during the year 2024.

Furthermore, the Hon. Minister announced the following measures aimed at stimulating development and ensuring effective use of the CDF:

1. Enactment of the CDF Act No. 1 of 2024 to streamline the approval processes and expanded participation of marginalized groups such youths, women and persons with disabilities among others.
2. Building a strong information, communication, and technology system that will improve management and oversight of the CDF's implementation.
3. Devolving functions to local authorities in Livestock and Fisheries, Agriculture, Community Development, and Social Welfare services. All these functions are being devolved with matching resources. This builds on the Government's previous devolution of eight functions under the CDF in 2024.

There is no indication of major changes to the Current CDF guidelines the allocation breakdown, which are as follows:

1. Community projects - 60%: allocation to infrastructure will result in development of projects which will stimulate production and growth in each constituency
2. Youth and Women empowerment - 20%: Cheaper access to financing will allow for locals to have access to funds that could be used to stimulate production at a consistency level
3. Secondary School & Skills Development Bursaries - 20%: Scholarships and bursaries will assist with the education and skills development which will improve labour force at a constituency level.

Decentralisation - CDF focus

Our view

We commend the government for allocating K3.3 million for the development of feeder roads. This development has the potential to increase access to markets by connecting rural agricultural areas of production to large markets, lower transportation costs and enhance development in rural areas. However, the Government is encouraged to take a more coordinated approach to using these funds efficiently. Further, we see Government drive to devolve functions to be managed under CDF in line with the 8th National Development plan. This has the potential to increase food security, enhance agricultural production, and empower local communities, given that the devolved functions have an immediate impact on the communities' livelihood.

In 2022, only 17% of the CDF was utilized while in 2023 the utilization was at 57%. This is an existing challenge that, in our view, can be attributed to the following reasons:

1. **Lack of awareness** – There remain concerns around the utilization of CDF due to lack of sensitization around the availability of the funds and processes involved in benefitting from the fund.
2. **Bureaucratic red tape and compliance requirements** – Whilst certain requirements are necessary in order to prevent the misuse of CDF funds, this presents challenges in areas where skills are lacking and hence, less people benefit from the fund.
3. **Lack of Capacity at a local level** – Many constituencies particularly in rural areas do not have the required expertise to plan, execute and monitor CDF projects.
4. **Lack of community participation** – while the fund is intended for community development, community engagement in the planning and decision-making process are low. This can result in projects failing to meet the actual needs of the population further hampering utilization.

We noted that similar concerns were raised by the Jesuit Centre for Theological Reflection who carried out a research on understanding the usage of CDF in 2019.

Despite the challenges faced, utilization of the CDF may be improved by the following measures:

1. **Capacity building initiatives** - Capacity development at a constituency level will be essential to bringing awareness of staff at each constituency and assist in higher utilisation of CDF funds. We understand that enhancements have been made at a provincial level, but it remains unclear whether the expertise is being utilized at constituency level.
2. **Robust Monitoring and Evaluation** – Implementation of periodic CDF utilisation results would allow transparency and accountability which would enhance disbursements and utilisation of the CDF.
3. **Enhance coordination between stakeholders** – improved coordination between councils and government agencies can reduce duplication of efforts and ensure that CDF projects align with government projects

As a final point, there have been allegations of misuse and rising corruption incidents affecting CFD funds. Its commendable that the Hon Minister of Finance issued a stern warning to would be offenders. We encourage that the internal audit and Office of the Auditor General should play to critical role in preventing and timely detection of such matters.

05 Tax Data Card

Corporate Rates

Corporate tax rates	2025	2024
Standard rate	30%	30%
Banks	30%	30%
Telecommunication companies	35%	35%
Farming/agro-processing or export of non-traditional products from farming/agro-processing	10%	10%
Income earned by producers of organic and chemical fertilizers	15%	15%
Export of other non-traditional products*	20%	15%
Income earned from value addition to gemstones through lapidary and jewellery facilities	25%	25%
Income from the cotton value chain (tax holiday)**	0%	0%
Companies add value to copper cathode	15%	15%
New listings on LuSE***	2% discount	2% discount
New listings on LuSE> 33% shares taken up by Zambians****	5% discount	5% discount
Listings on LuSE>33% shares taken up by Zambians	5% discount	5% discount
Advanced Income Tax (on importation of goods in the absence of a valid tax clearance certificate (TCC))	15%	15%
Advance Income Tax (on exporters and on remittance transactions exceeding US$2,000 without a valid TCC)	15%	N/A
Turnover tax levied on business (both corporates and individuals) with turnover below K800,000 (excludes income earned from consultancy service, property rental and VAT registered businesses)	4%	4%
Rental income of K12,000 or less p.a.Turnover	0%	0%
Rental income from K12,001 to K800,000 p.a.	4%	4%
Rental income above K800,000	12.5%	12.5%

* Excludes income from export of minerals, electricity, services and cotton lint exported without an export permit from Minister of Commerce
**5 years income tax holiday on profits for local producers of cotton seed and ginning of cotton,
***10 years income tax holiday on profits earned from spinning of cotton and weaving of thread
****Discount applicable to corporate tax rates and only available for the first year

September 2024

Tax on Casinos, Lottery, Betting and Gaming

Tax on Casinos, Lottery, Betting and Gaming	2025	2024
Casino live games	20% of gross takings	20% of gross takings
Casino machine games	35% of gross takings	35% of gross takings
Lottery winnings (brick and mortar)	35% of net proceeds	15% of net proceeds*
Lottery winnings (online)	35% of gross takings	35% of net proceeds
Betting (brick and mortar)	25% of gross takings*	15% of gross takings*
Betting (other than brick and mortar)	25% of gross takings	25% of gross takings
Excise duty on the betting amount	10% of betting amount	NA
Gaming – Slot machines (Bonanza)	K250 per machine per month	K250 per machine per month
Gaming – Gaming machines (Limited pay out)	K500 per machine per month	K500 per machine per month
Withholding tax on winning from gaming, lotteries and betting	15%	15%

*The reduced rate was applicable for the 2023 and 2024 charge years

Capital deductions and losses

Capital deductions*	2025	2024
Investment allowance on industrial buildings** (one off)	10%	10%
Initial allowance on industrial buildings** (one off)	10%	10%
Industrial buildings wear and tear allowance	5%	5%
Commercial buildings wear and tear allowance	2%	2%
Implements, machinery and plant		
• Used for farming and agro-processing	100%	100%
• implement, plant or machinery for Multi-Facility Economic Zone***	100%	100%
• Used for mineral processing, manufacturing, tourism, leasing	50%	50%
• Used for electricity generation	50%	50%
• Used in mining companies	20%	20%
• Implements, machinery and plant- Other uses	25%	25%
Commercial	25%	25%
Non-commercial	20%	20%
Farm improvement/ Farm works allowance	100%	100%
Tax concession (percentage of reduction of taxable income tax) for businesses in a rural areas****	20%	20%
Local content allowance*****	2%	2%
Carry forward of trading losses		
Electricity generation and mining operation	10	10
Other companies	5	5

*Capital allowances are computed on a straight line basis.
** Investment and Initial allowance granted in the charge year in which the industrial building has been put into use. Total allowances claimed should not exceed the cost of the asset.
***Extended to developers, currently only applicable to investors
****Extended to all sectors except mining, currently only applicable to businesses in manufacturing, hotels, motels and lodges for the first 5 years
*****Extended to sorghum and millet, currently only applicable on purchase of tomato, cassava, pineapples and mangoes for processing.

Mining taxes

Corporate Income Tax rate	2025	2024
Mining Profits		
Profits earned from mining operations (for both base metals and industrial minerals)	30%	30%
Mineral Processing	30%	30%
Mineral Royalty Rate*		
On ***norm value*** of minerals/precious metals ***under* licence:**		
Base metals excluding copper and cobalt	5%	5%
Precious metals	6%	6%
Cobalt and Vanadium	8%	8%
On ***gross value*** of gemstones/energy minerals ***under* licence**:		
Energy/Industrial Minerals	5%	5%
Gemstones	6%	6%

Industrial Minerals: includes a rock or mineral other than gemstones, base metals, energy minerals or precious metals used in their natural state or after physical or chemical transformation. Examples include salt, sand, clay, talc, laterite, gravel, potassium minerals, granite and magnetite.

Withholding Tax on dividends paid by companies carrying on mining operations

	Resident	Non-resident
Dividend*	0%	0%

September 2024

Mining taxes

Mineral Royalties on Copper

2025 MRT bands - price per tonne

	Price per tonne from US$	Price per tonne to US$	Tax rate %	Tax on band (maximum) US$	Cumulative tax US$
First	0	4,000	4	160	160
Next	4,001	5,000	6.5	65	225
Next	5,001	7,000	8.5	170	395
Above	7,001		10	X = (Price - $7,000) * 10%	X + $396

Mineral Royalties on Copper

2024 MRT bands - price per tonne

	Price per tonne from US$	Price per tonne to US$	Tax rate %	Tax on band (maximum) US$	Cumulative tax (maximum) US$
First	0	4,000	4	160	160
Next	4,001	5,000	6.5	65	225
Next	5,001	7,000	8.5	170	395
Above	7,001		10	X = (Price - $7,000) * 10%	X + $396

Income Tax individuals

Income Tax Individuals

2025 Monthly income bands

	Income from K	Income to K	Tax rate %	Tax on band (maximum) K	Cumulative tax on income (maximum) K
First	0	5,100	0	0	0
Next	5,101	7,100	20	400	400
Next	7,101	9,200	30	630	1,030
Above	9,200		37		

Income Tax Individuals

2024 Monthly income bands

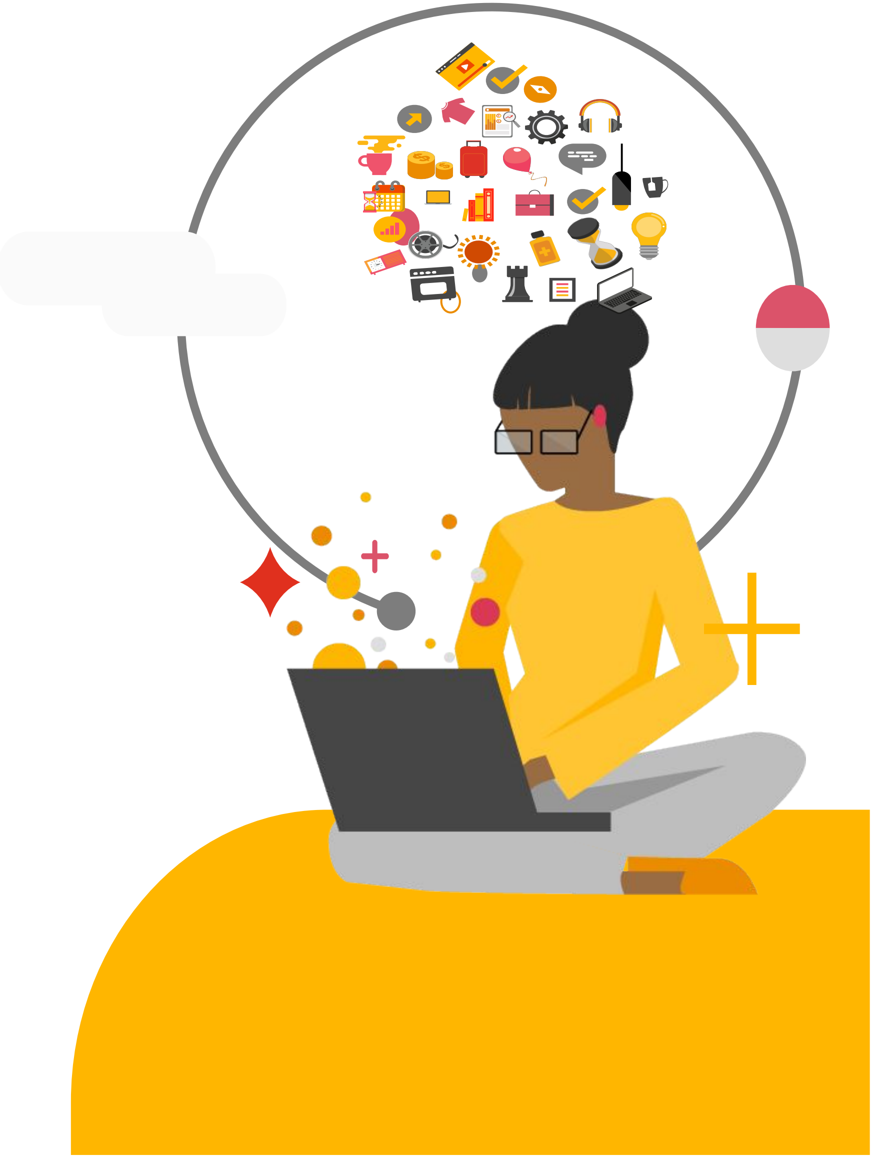
	Income from K	Income to K	Tax rate %	Tax on band (maximum) K	Cumulative tax on income (maximum) K
First	0	5,100	0	0	0
Next	5,101	7,100	20	400	400
Next	7,101	9,200	30	630	1,030
Above	9,200		37		

Non-cash benefits

Housing benefit :

a) Where an employer provides free housing to the employee in a house that an employer owns, then 37% of the employee's annual taxable income is disallowed in the employer's tax computation. In cases where an independent and objective valuation of the rentable value of such housing can be determined, the cost to be disallowed is rentable value of that housing.

b) Where employer leases housing and provides this to one employee, then the rentals are taxed under PAYE for that employee. In cases where the leased housing is occupied by more than one employee, then the housing benefit is taxed in the hands of employer by disallowing the rentals.



Staff benefits and withholding tax

Non-cash benefits

Tax on car benefit is payable by the employer at the corporate tax rate based on the following scale charges:

	2025	2024
Engine size < 1,800 cc:	21,600	K21,600 p.a.
Engine size > 1,800 cc, < 2,800 cc:	36,000	K36,000 p.a.
Engine size > 2,800 cc:	48,000	K48,000 p.a.

Withholding Tax (WHT)	Resident	Non Resident
Dividend	15%*	20%*
Branch profits	n/a	20%
Interest	15%**	20%
Coupon Income (Interest) on Government Bonds	15%	15%
Management or consultancy fee	15%	20%
Royalties	15%	20%
Commodity royalty	15%	15%
Commissions	15%	20%
Non-resident construction and haulage contractor	n/a	20%
Non-resident entertainers/sports persons fees	n/a	20%
Reinsurance placed with non-resident reinsurers	n/a	0%

Note: The above rates remain unchanged from 2020
**0% for dividends paid by LuSE listed companies to individuals.
**interest payable to local banks and financial institutions are exempt. Interest earned by individuals from interest earning accounts and from loans advance by members under the savings group such as co-operatives and village banking is exempt. Also interest income earned on green bonds listed on the securities exchange in Zambia with maturity of at least 3 years is exempt.

Tax Treaties
Zambia has tax treaties with the following countries:
Canada, China, Denmark, Finland, France, Germany, India, Ireland, Italy, Japan, Kenya, Netherlands, Norway, Seychelles, South Africa, Sweden, Switzerland, Tanzania, UAE, Uganda, United Kingdom, Yugoslavia*, Zimbabwe*, Botswana**
*These treaties have not been ratified and are therefore infective currently.
**Status of tax treaty currently uncertain.

VAT and Property Transfer Tax

Taxable supplies- rate	
Supply of goods & services in Zambia	16%/0%
Import of goods & services into Zambia	16%/0%
Export of goods & services from Zambia	0%*
*Services are deemed to be exports only when physically rendered outside Zambia	
Registration	
Threshold	K800,000 p.a.
Payment and return - due date	
Supply of taxable goods & services	18 days following the end of the VAT accounting period***

***accounting period typically means the month following the month of registration and each succeeding calendar month
Note: The above rates, threshold and deadlines remain unchanged from 2020.

Property Transfer Tax (PTT)*	2025	2024
Land (including buildings)	5%	5%
Shares**	5%	5%
Transfer or sale of mining right for a mining licence;	10%	10%
Transfer of mineral processing licenses	10%	10%
Transfer or sale of mining right held by exploration companies	5%	5%
Intellectual property	5%	5%
Shares listed on the LuSE	0%	0%

*PTT is payable by the seller by reference to the realised value of property being transferred. In the case of shares, the realised value is greater of open market value and nominal value.
**PTT also applies on indirect transfer or control of a Zambian entity where the value of transferred shares is more than 10% of the value of the Zambia company.

Carbon tax and Presumptive tax

Carbon Tax

An annual carbon tax is payable on all motor vehicles as follows:

	2025	2024
Motor cycles	K168 p.a.	K168 p.a.
Engine size < 1,500 cc	K168 p.a.	K168 p.a.
Engine size > 1,500 cc, < 2,000 cc	K336 p.a.	K336 p.a.
Engine size > 2,000 cc, <3,000 cc	K480 p.a.	K480 p.a.
Over 3,000cc	K660 p.a.	K660 p.a.
Vehicles propelled by non-polluting energy sources	nil	nil

Validity period of the carbon emission tax certificate for vehicles in transit and those that enter for short periods is 90 days.

Presumptive Tax

Public Service Vehicle (PSV) operators are required to pay presumptive tax on each motor vehicle as follows:

Type of Vehicle	Tax per Vehicle per annum (2025)	Tax per Vehicle per annum (2024)
64 Seater and above	K15,552	K12,960
50-63 Seater	K12,960	K10,800
36-49 Seater	K10,368	K8,640
22-35 Seater	K7,776	K6,480
18-21 Seater	K5,184	K4,320
12-17 Seater	K2,592	K2,160
Below 12 Seater	K1,296	K1,080

Deadlines and penalties

2025 Deadlines	Penalty	Interest
Income Tax - Companies		
Provisional tax **Return deadlines:** **First Provisional Tax Return:** 5 March 2025 (manual submission) 31 March 2025* (electronic submissions) * Returns for companies registered for income tax after 31 March are due 90 days from the date of registration	Provisional tax: Late filing of return: K800 per month or part month	N/A
Revision of Provisional Tax Return 30 June 2025, 30 September 2025 & 31 December 2025 (where applicable)		
Payment deadlines: Within 10 days following the end of the quarter	Late payment of tax: 5% per month or part month **Underestimation of tax: 25%	Late payment: 2% + DR N/A
**Note: 2/3 of the total tax liability must be paid by the final quarter or else the 25% penalty applies.		
Final tax return & payment		
Deadline: 5 June 2025 (manual submissions) 21 June 2025 (electronic submissions)	Late filing of return: K800 per month or part month	N/A
	Late payment of tax: 5% per month or part month	Late payment: 2% + DR

September 2024

Deadlines and penalties

Deadlines and Penalties		
2025 Deadlines	**Penalty**	**Interest**
Income Tax - Individuals		
Final tax return & payment	Late payment of tax: 5% per month or part month	Late payment: 2% + DR*
Deadline: 5 June 2025 (manual submissions) 21 June 2025 (electronic submissions)	Late filing of return: K400 per month or part month	N/A
Withholding Tax (WHT)		
Filing & payment deadlines: Within 14 days after the end of the month of accrual/payment	Late payment of WHT: 5% per month or part month	Late payment: 2% + DR*
	WHT late filing of return: K136 per month or part month (for companies) K58 per month or part month (for individuals)	N/A
Payroll (PAYE)		
Filing & payment deadlines: Electronic returns to be filed within 10 days after the end of the month of accrual/payment	Late payment of PAYE: 5% per month or part month	Late payment: 2% + DR*
Manual returns to be filed within 5 days of after the end of the month	Late filing of PAYE return: K800 per month or part month	N/A

Deadlines and penalties

Deadlines and Penalties		
2025 Deadlines	**Penalty**	**Interest**
VAT		
Filing & payment deadlines: 18 days** after the end of the accounting period	VAT late filing of return: Daily penalty – higher of K400 and 0.5% x tax payable	Late payment: 2% + DR*
All annual Income Tax, PAYE and VAT returns should be submitted electronically to the ZRA except for certain small businesses with minimal transactions	VAT late payment of tax: Daily penalty – 0.5% x tax payable	
Turnover Tax		
Filing & payment deadlines: Within 14 days after the end of the month of accrual/payment	Late payment of tax: 5% per month or part month	Late payment: 2% + DR
	late filing of return: K100 per month or part month	N/A
Key		
*DR = Bank of Zambia discount rate **Withholding VAT agents will be required to submit returns within 16 days after the accounting period.		

Transfer pricing

The penalties for non-compliance with transfer pricing regulation is 80 million penalty units (K32,000,000)

Tax Evasion

The penalties for tax evasion on conviction is 300 thousand penalty units (K120,000) .

Contacts

Andrew Chibuye
Country Senior Partner
+260 211 334 000
andrew.chibuye@pwc.com

George Chitwa
Tax Services Leader
+260 211 334 000
george.chitwa@pwc.com

Charity Mulenga
Assurance Services Leader
+260 211 334 000
charity.mulenga@pwc.com

Malcolm Jhala
Partner, Tax Services
+260 211 334 000
malcolm.jhala@pwc.com

Martin Bamukunde
Partner, Assurance Services
+260 211 334 000
martin.x.bamukunde@pwc.com

Lyndon Lane-Poole
Partner, Consulting & Risk Services
+260 211 334 000
lyndon.l.lane-poole@pwc.com

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