

**Deloitte.**



**Zambia Budget 2022**  
Recovery. Repair. Revive  
October 2021





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# Economic Analysis – 2022 National Budget

## Unbundling the 2022 National Budget

On 29 October 2021, the Honourable Minister of Finance and National Planning, Dr. Situmbeko Musokotwane (The Minister), presented to the National Assembly the 2022 National Budget. Under the theme “Growth, Jobs and taking development closer to the people,” the Budget Address sets both the tone and tempo of the new Administration of President Hakainde Hichilema regarding how it intends to pursue its economic and social transformation from 2022 onwards. This analysis attempts to understand and interpret some of the main messages of the New Dawn Administration, checking their integrity and realism in a country where there is considerable anticipation from the new Administration against the backdrop of constrained economic growth opportunities occasioned by the effects of Covid-19 and pre-existing poor macroeconomic performance.

### The macroeconomic landscape has been disabling...

The Minister of Finance and National Planning, in his 2022 Budget Address, made the following observation that spoke directly to the macroeconomic challenges that the new Administration perceives to face:

*“This Government has inherited an economy suffering from the effects of extreme indebtedness and COVID-19. The immense task we have as a New Dawn Government is not only to overcome these effects but also to transform the economy, help the poor escape the vicious cycle of poverty and bring prosperity to all Zambians...”*

*During the official opening of the First Session of the Thirteenth National Assembly, the President emphasized the need to rebuild the economy, deliver jobs and better the livelihoods of our people. He also placed emphasis on creating an environment to invigorate economic activity in which every citizen will have the opportunity to participate and benefit.”*

What are these challenges that the Minister is referring to? In the last couple of years, the Zambian economy has witnessed significant headwinds, which have resulted in significant disturbances to the macro economic environment not least the low GDP growth;

crippling fiscal deficits; escalating inflation; dwindling foreign reserves; and unsustainable debt service obligations.

Over the 2011 to 2020 period, for example, the Zambian economy assumed a declining growth trajectory. The country’s Real GDP contracted by an estimated 4.9 percent in 2020, subsequent to a growth of 4.0 percent in 2018 and 1.9 percent in 2019 (Source: World Bank). The output contraction resulted from an unprecedented deterioration in all the key sectors of the economy.

Manufacturing output fell sharply as supply chains were disrupted by the effects of COVID-19, while the service and tourism sectors faced challenges as private consumption and investment weakened due to measures taken to contain the spread of the pandemic.

Similarly, growth in agriculture experienced significant declines in 2013, 2015 and 2018 while mining output, which declined initially due to falling global demand for copper, has been recovering for quite a while now.

The annual inflation rate in the country worsened exponentially in recent months reaching an inflationary rate of 24.6 percent in July 2021, a month prior to the August 2021 Presidential and Parliamentary elections, which

was the highest since March of 2005. The increase in inflation was primarily on account of the pass-through effects of the depreciation of the kwacha and the elevated food and transport prices. Post the general elections, the monthly increase in inflation has been moderating, reducing to 21.1 percent growth in October 2021 (from 22.1 percent in September 2021).

Additionally, Zambia’s external position worsened in 2020 with dwindling reserves (averaging 1.6 months import cover), and remained depressed much of 2021 due, in part, to rising public debt payments and elevated non-oil imports. As at end of August 2021, gross international reserves increased to US\$2.9 billion following receipt of Special Drawing Rights (SDRs) equivalent to US\$1.33 billion from the IMF, also supplemented by the Central Bank’s net market purchase of foreign exchange. The implication being that currently, Zambia’s foreign reserves sit at the equivalent of 5.5 months of import cover.

It is noteworthy that the previous Government’s expansionary fiscal policy that targeted public investments, resulted in widening fiscal deficits (8.3 percent of GDP in 2019 and 11 percent of GDP in 2020). The expansionary fiscal policy, mainly financed by external

and local borrowing, resulted in Zambia's public and publicly guaranteed debt to reach 91.6 percent of GDP in 2019 and 104 percent in 2020.

Zambia's GDP contracted significantly in 2020, which resulted in the country experiencing its first recession in two decades. This was attributed mainly to the COVID-19 containment measures put in place by the Government, which included the closure of schools; imposition of international travel restrictions; public gatherings restrictions; and the closure of public places.

Notwithstanding these challenges, output and employment moderated towards the end of 2020 and business confidence in the country increased. The notable improved mining production during 2020 and to-date is on account of significant improvements in copper prices on the global market, which has watered-down the severity of the economic contraction. Copper price on the London Metal Exchange was selling (as at 30 October 2021) at around US\$9,955 per tonne (cash offer).

### ...and worsened by the Debt Menace

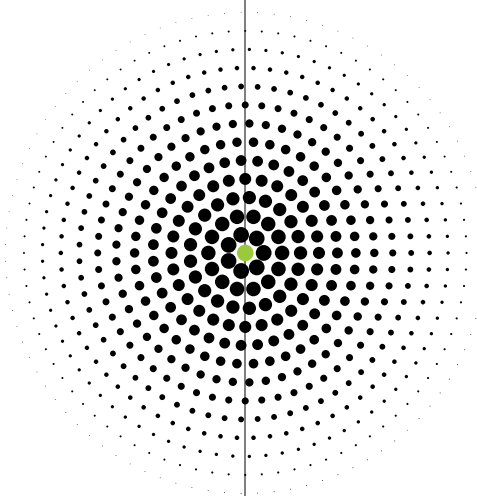
The growth of Zambia's fiscal deficits resulted in mounting concerns over the last few years. The situation became more prominent during the second half

of 2017 when the International Monetary Fund (IMF) and the World Bank declared that Zambia was at a high risk of debt distress.

This had a specific meaning for the IMF and the World Bank, which relates to debt and debt interest payments breaching pre-determined thresholds that were deemed appropriate for a country such as Zambia. The substantial accumulation of public debt in recent years has resulted in a large increase in interest payments.

Currently, debt servicing, combined with civil service salaries, account for over 90 percent of Government revenue, which leaves very little allocation for other government expenditures particularly in social sectors such as education and health. This is a situation that the new Administration aims to correct with its first National Budget targeting enhanced social sector spending in a substantial manner.

Since 2011 when the PF Government came to power, external debt portfolio has been moving significantly from concessional to non-concessional debt. Concessional sources, for example, dropped to 21 percent in 2016 from a high of approximately 60 percent in 2011. Private banks' and investors' share of debt rose to around 50 percent last year (2020), a phenomenon that has resulted



in a reduction in long-term funding sources. The weak exchange rate during much of the pre-August 2021 period also contributed to the increases in interest payments.

When the Kwacha weakened, external debt, mostly borrowed in foreign currency, increased in Kwacha terms, as did the required debt service payments. The foreign currency risk of external borrowing, thus, increasingly became a source of concern particularly in the face of serious volatility of the Zambian exchange rate that stood at close to K23 to one US Dollar shortly before the new Administration took office in August.

In recent years, fast-growing external debt has been accompanied by a significant increase in domestic debt, with the issuance of Government securities being one of the main drivers. As of end of September 2021, the stock of public external debt (both government and guarantees to State Owned Enterprises, mainly ZESCO) stood at US\$14.71 billion.

The Minister, in his 2022 Budget Address, observed that the ongoing debt service standstill, combined with principal arrears, amounts to US\$1.8 billion, which highlight the crippling cost of defaulting.

The speed of debt escalation in Zambia in the recent past suggested

the lack of a robust framework within which debt was to be managed, which calls upon the new Administration to manage the debt contraction process more effectively through a robust Medium-Term Debt Management Strategy. There is a clear need under the new Administration for closer monitoring and management of portfolio risks against the inherited high external debt payments and better planning for the nearing Eurobond maturities to avert further defaults.

Zambia defaulted on a Eurobond \$42.5 million payment in November 2020 and \$56.1 million in January 2021, which made the country become Africa's first COVID-19 pandemic-era sovereign to default. This was closely followed by the rejection by bondholders of the previous Administration's application for a six-month moratorium. The absence of clarity on debt management in the past brought about a higher degree of uncertainty to the economy.

### With help from external sources, a solution seems to be in sight...

The new Administration's approach to resolving the debt challenge seems to be the most rational solution under the current circumstances. Addressing the problem as a "good governance" issue, the Minister defined the new

Government's approach as follows:

*"To provide an anchor to our debt restructuring engagement, the New Dawn Administration is actively engaging the IMF for a funded programme... Once attained, Zambia will be able to engage creditors to restructure its debt under the Common Framework... For now, we aim to conclude with creditors for restructuring of debt [which] will be realised by the first quarter of 2022... There is no option to this otherwise the debts we owe will choke this nation to a stand-still...debt service and public service salaries exceed domestic revenues. In 2022, we shall only manage to finance other activities [from] grants or gifts we shall receive and [from] borrowing... We are engaging collaboratively with our various categories of creditors... to work towards a consensual debt resolution...To curtail further accumulation of debt, Government will not contract any external non-concessional loans except in instances of refinancing."*

This Government position deserves support going forward as the State has to ensure that a large, frontloaded, and sustained fiscal effort is put in place during this 'honeymoon period' to bring debt down to relatively reasonable levels. This should include a moratorium on contracting new external non-concessional borrowing; halting the build-up of domestic expenditure arrears; better prioritization

of public investment projects, particularly the need to reduce the appetite for unsustainable road infrastructure projects; reduction of debt accumulation; adequately tight monetary policy to secure macroeconomic stability; foreign reserves replenishment; and making businesses more profitable and viable by paying steady attention to the business environment to support private sector growth through realistic stimulus packages/incentives especially under COVID-19 pandemic conditions.

### Private sector-targeting incentives are already visible...

In the agriculture, livestock and fisheries sectors, the new Administration aims to address the perennial structural challenges that have included low production and productivity, limited market access, underdeveloped value chains and dependence on rain-fed agriculture.

Taking a swipe at the delivery modality of the Farmer Input Support Programme (FISP), the Minister lamented that the:

*"Direct Input Support mode of delivering inputs is unsustainable to the Treasury with expenditures increasing significantly over the years with limited change in the number of beneficiaries and input package. It is also characterised by serious challenges in delivery as beneficiaries have received fewer inputs than what they have paid for."*

*Similarly, in areas where the e-voucher system is being used, some farmers have not been receiving inputs despite making a contribution."*

As a solution to this, the Minister announced that the new Administration, from the 2022/2023, will put in place "a new comprehensive agriculture support programme" whose elements are yet to be made known though save for his stating that "this programme will be cost effective, better targeted and equitable across beneficiaries" and that "it will also support the supply of quality inputs, attain diversification of crops as well as increase production and productivity."

Looking at the ineffective management of FISP over the years, this new policy direction is music to the ears of those that have been calling for the re-engineering of the Government support system for smallholder farmers.

### A word of caution though on the best approach to promote large scale estate production...

The Minister made the following announcement:

*"It is only right that we continue to support our small-scale farmers... But we can do more in agriculture by promoting large scale estate production for both domestic and export markets. The estates can employ many people at different levels of skills, create associated*

*business opportunities, support agroindustry, support viable outgrower schemes and earn foreign exchange. A good example of a successful estate is the Nakambala Sugar Estate. [Therefore] the Government will promote the establishment of large-scale agricultural estates across the country that will produce and process agricultural products that are suitable in the respective areas...The task of Government in realizing this initiative is to provide the necessary infrastructure for farm blocks to be operational."*

While the enthusiasm and spirit with which this planned policy direction are understandable given the high unemployment levels in the country, the new Administration will need to tread carefully with this approach for a host of reasons.

Firstly, Zambia has had experience with government-supported large-scale estates and farming blocks and the record of success has been quite marginal and, in some cases, regretted. Unless carefully crafted, out grower schemes in Zambia and elsewhere in other developing countries have had a checkered record not least because of the unfair contractual relationship between the contracted farmers and agribusiness.

Experience in sugarcane and tobacco growing in Zambia utilizing contract farming/out grower schemes modalities has revealed some serious equity challenges in terms of who benefits more from

the contractual arrangement and at whose expense. Thus, although the promotion of government-supported large estates could be one of the solutions to the challenges of unemployment and improvements of rural livelihoods, it has to be approached with caution with Government taking keen interest to ensure that the partnerships between the smallholders and their 'counterparts' (agribusiness) is mutually rewarding and results in win-win benefits.

Secondly, perhaps more importantly, an alternative to the Government pouring Treasury-sourced significant investments into "*the necessary infrastructure for farm blocks,*" the same results could be achieved more cost-effectively through smart partnership with the private sector using commercial principles.

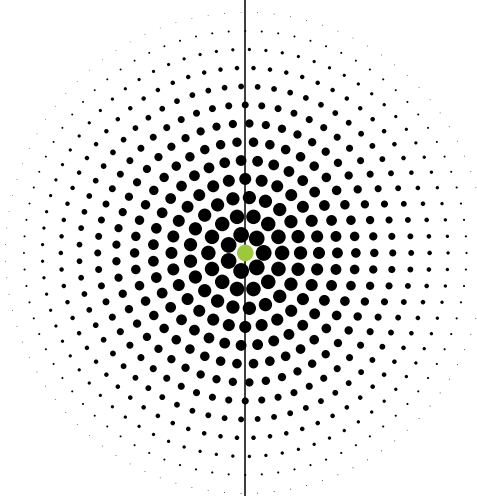
Many times, in the past, past Governments in Zambia have invested in heavy machinery and equipment in their quest to support farmers but, quite often, realize that the model used could not yield the anticipated outcomes and impact. Without relying on market forces, poor targeting of such schemes has often resulted in imprudent application of scarce public resources with marginal benefits to the intended and targeted beneficiaries. The Public-

Private Partnership approach, with the private sector (not the State) taking the lead, thus, seems to hold greater promise for an otherwise well-meaning intention on the part of the new Administration.

One low-hanging fruit to support livelihoods and employment creation in the agriculture sector is through the allocation of land (which is abundantly available in Zambia) to the youth and supporting them with easier access to Government-underwritten guarantees for financial access (through partnerships with commercial banks) and providing extension services to the 'young farmers,' which should include providing market linkages, both locally and regionally (like in the DRC).

The young farmers can engage in a host of income-yielding farming activities, which may include crop farming, poultry, piggery, livestock, aquaculture, etc. Again, linking the farmers to agro-industry through well thought-out partnership arrangements, especially at the level of giving them skills in value-addition, could be rewarding.

In the same context, the announced plans by the new Administration to support manufacturing and industrialisation value addition through reinvigorating the programme of Multi-Facility Economic Zones and industrial parks has been received with



positive sentiments. Young entrepreneurs, including those to be supported in agro-industries, could be given a special consideration in their access to these Zones.

The current approach of viewing Multi-Facility Economic Zones as exclusive enclaves for the 'well-to-do' players partially explains why these facilities have remained white elephants. The Lusaka South Multi-Facility Economic Zone is not easily accessible. There is also almost zero marketing of these facilities and yet young people are clamoring for business premises along crowded motorways. Something does not seem right.

### **The mining sector remains a major driver in the economy... but...**

One of the main issues around copper mining development in Zambia since privatization relates to the impact of the sector on the larger economy, in general, and whether the country has benefited sufficiently from the foreign-owned mining activities. This issue reached its apex when the price of copper on the global market began to increase exponentially. The raging debate during the previous Administration created an atmosphere that threatened the attractiveness of mining as a preferred sector for FDI.

The historical absence of a

consistent and predictable tax regime did worsen an already volatile situation. The frequent reference to mining companies not contributing sufficiently to the treasury could have been perceived as misleading (given that tax payments are only a fraction of a host of other contributions to the national economy through, for example, many multipliers) but generally missed better appreciation of the nature of the sector.

The mining tax regime has had a debilitating effect on both investment expansion and tax revenue collection. In 2019, the previous Government instituted a barrage of new fiscal measures that for the mining sector, significantly informed by the mounting resource nationalism.

While maintaining the price-based royalty, they increased mineral royalty rates by 1.5 percentage-points at all levels of the existing scale and introduced a fourth-tier rate at 7.5 percent when the copper price is between US\$7,500 and US\$9,000 per tonne, and a fifth-tier rate at 10 percent, when the copper price goes beyond US\$9,000 per tonne.

Similarly, mineral royalty tax remained non-deductible for income tax purposes. This meant that mineral royalty that is paid by mining companies in Zambia is not a deductible expense during the computation of what is due for income tax payment.

In the light of this, the fiscal regime under the previous Administration was unlikely to secure a sustained fiscal flow into the Treasury simply because its effects drained investment in the sector; slowed down growth for the mining sector as well as for the larger economy; reduced both direct and indirect employment; and diminished tax revenue in the medium term.

The overall effect of the 2019 mining tax regime was to significantly raise the tax burden on mining companies to unsustainable and uncompetitive levels.

**Then comes the new Administration to find a solution...**

Unlike in the case of the previous regime, the new Administration, as demonstrated in the 2022 Budget, maintains that an effective and efficient mineral tax regime should aim to attract FDI as well as seek to adequately compensate the country while remaining internationally attractive and competitive.

The new Administration maintains that overtaxing the mines today will discourage the development of existing and new mining projects, which would translate into low tax receipts tomorrow. As the Minister of Finance and National Planning aptly put it in his 2022 Budget Address:

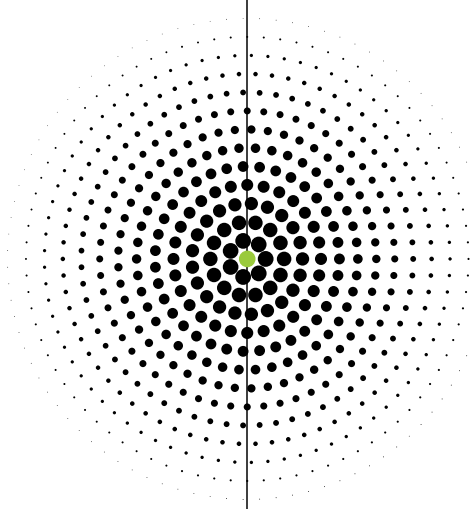
*“To benefit from the expected copper*

*boom, Zambia must not depend just on the high prices. Rather, it is now time to ramp up production. The New Dawn Administration will facilitate the increase in copper output from the current 800,000 to over three million metric tonnes in a decade...*

*Complications surrounding the existing mines will be addressed... The targeted copper production level will bring higher earnings, more jobs, business opportunities, taxes and foreign exchange... To attract investment and boost production in the mining sector, I propose to reintroduce the deductibility of mineral royalty for corporate income tax assessment purposes. This measure is in line with international best practice”.*

The significance of this measure is far-reaching as, effective January 2022, it would reverse the punitive provision that was part of the 2019 mining tax regime introduced by the former Administration.

This singular measure should enhance the mining sector's contribution to job creation, to investment and to economic development because it should encourage expanded mining development/investment. Zambia is presently the only jurisdiction globally (among comparator countries) where mineral royalties are not deductible against profit-based corporate tax, which has effectively introduced double taxation.



**...Is the new Administration going to attend to the sliding scale issue?**

One remaining hurdle that the 2022 Budget proposals has not addressed relates to the formula of the sliding-scale of mineral royalties. Briefly, rather than applying the sliding scale principle along the lines of Pay-As-You-Earn (i.e. taxing at the higher rate only the segment of the copper price that is above a given band), the previous Administration opted to apply the higher mineral royalty rate to the whole copper price.

The adverse consequences are numerous and serious not least the unusual situation whereby copper producers in Zambia have ended up hoping for a lower price for them to earn better profit margins. Under this formula, the effective tax rate for Zambian miners could be as high as 105 percent if the copper price surpasses \$9,000 per tonne, as it has done recently.

At high prices, this has resulted in the extraordinary situation where a mine would be obliged to pay more in tax than the profit it had made. The new Administration is requested to urgently think through this issue.

**The new Administration set its eyes on the value of Human Development Index**

Perhaps the most visible and exciting part of the 2022 budget relates to how Administration wants to fix the human welfare side of his development equation. The UNDP Human Development Index (HDI) provide a glimpse of what has happened to human welfare in a country.

The HDI measures average achievement in three basic dimensions of human development, namely, (a) a long and healthy life; (b) knowledge; and (c) a decent standard of living. The HDI is, therefore, a broader measure of human welfare than per capita income.

Zambia's human development index value for 2019 (the latest available as reported in the March 2020 Human Development Report) is 0.584, which puts the country in the medium human development category and at position 146 of the 189 countries.

While Zambia has recorded that level of improvement, the country is still far from reaching its vision 2030 aspirations. Poverty levels are still very high, particularly in rural areas, and access to quality educational services and medical facilities has deteriorated. This is the situation the new Administration has to attend to.

In his address to Parliament, the

Minister of Finance outlined what is intends to do at the level of improving learning achievements:

*"The New Dawn Administration believes that education is the greatest equalizer. Sound education requires teachers. Unfortunately, most of our schools, especially those in rural areas, do not have enough teachers. The New Dawn Administration has found money to recruit teachers and it will always prioritise education...We will recruit 30,000 teachers in 2022... The recruitment will help reduce the backlog of unemployed teachers. Over the next five years, the Government will continue to hire more teachers...These recruitments are aimed at improving the quality of education by reducing the pupil-teacher ratios."*

This announcement was greeted with jubilation on the floor of the House and from both sides of the political divide, for that matter. The expectation is that significant improvements in the quality of education will be recorded, which is a plus for the country's HDI.

To address the 'equity in access' issue, which has been a big challenge in the country given the high poverty levels, the Minister announced that:

*"Tuition, Parent Teachers Association and examination fees that learners pay in public schools will be abolished. For the avoidance of doubt, the fees charged [from] public early childhood*

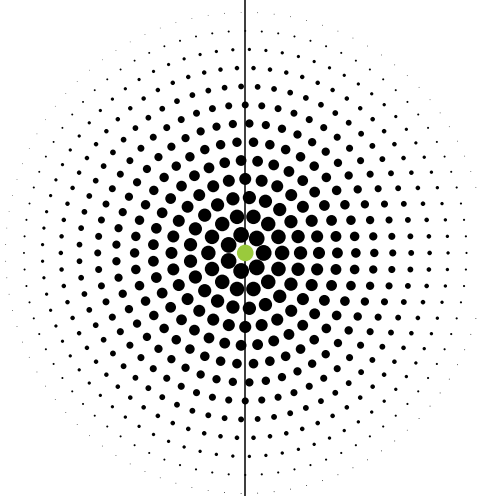
*[to] secondary schools for a child to be allowed to attend class are done away with. To this end, grants from the Government to public schools will be increased to meet the operational costs that were previously financed by the fees. Regarding boarding fees for secondary school learners, a bursary scheme will be introduced for vulnerable learners."*

Similarly, with respect to the health sector, the Government will recruit and equitably deploy 11,200 health personnel... [Furthermore], measures have been put in place to improve supply management systems to ensure availability of essential medicines and medical supplies." All this has been welcome to the Zambian people.

### ...Lastly, decentralisation

One of the flagship strategies by the new Administration, as expressed in the 2022 National Budget, speaks to one of the most elusive modality of service delivery, namely, decentralisation.

The Minister is proposing to Parliament that he increases the Constituency Development Fund (CDF) allocation from the current K1.6 billion to K25.7 billion per constituency starting in 2022. It was not surprising that there was so much jubilation on the floor of the House among MPs, but perhaps for quite varied reasons, I should add. It is noteworthy that there



has been little correlation between the provisions of the Zambian Government's Decentralisation Policy as reflected in actionable activities in the two Decentralisation Implementation Plans thus far adopted, on the one hand, and actual devolution of power, authority and resources (through fiscal decentralisation) to sub-national authorities, on the other.

Much of what has transpired has been the deconcentration of power from the centre rather than real devolution of authority and resources to sub-national authorities. The enthusiasm to decentralise varied from one political regime to another since independence in 1964 and the differing governance styles of successive governments. This has influenced the level of commitment to the ideals of devolution over the decades.

The perceived loss of political and economic control by the centre seems to have significantly defined the level of effort-cum-commitment over the years towards the devolution of power and authority to sub-national authorities.

Notwithstanding the Political Will expressed, the new Administration still needs to take a more holistic view of decentralisation to ensure that all its facets are taken into account and to be clear that a

singular decision to increase the amount of what is transferred, not even to councils (city, municipal and district councils) but to CDFs would not solve the huge challenges that ought to be contended with when wanting to move forward and positively with the policy of decentralisation. The following are food for thought for the Administration and the Minister as they ponder over decentralisation:

- a. CDFs' institutional location and how they operate at sub-national levels require serious introspection prior to them receiving considerable amount of money to apply to development projects. Presently, most, if not all, of them do not have a systematic way of inclusively consulting the constituency stakeholders that they represent.
- b. The relationship between CDFs and Councils need to be redefined and better understood. There has been weak management capacity in the institutions that are responsible for implementing decentralization. Almost all Councils in Zambia under the previous Administrations struggled with integrated planning and budgeting, strategic planning and



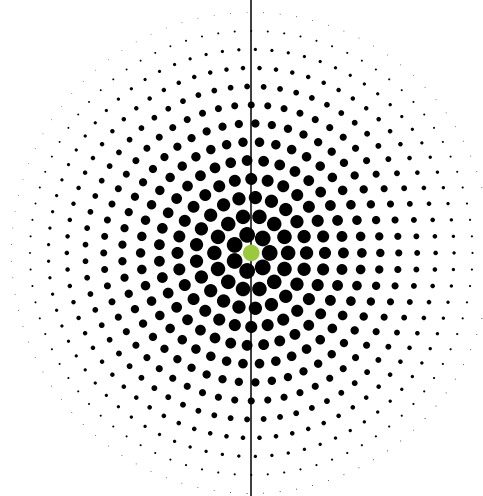
performance management.

- c. The Central Government's power and authority over sub-national authorities have remained overwhelming to a level where it has begun to invalidate the assumptions behind the Policy of Decentralisation and its enabling provisions in the 2016 Republican Constitution. The provision of the 2019 Local Government Act further underscored the previous Government's inclination to reclaim the power back and re-centralise. Legislative reforms may be required.
  - d. Devolved ministries currently undertake their planning and budgeting functions independently of Councils and the resources at the disposal of CDFs are rarely factored in. This has reduced sector devolution to deconcentration of central ministries that still maintain authority and control over their departments at the sub-national levels.
  - e. District Councils have continued to suffer from multiple allegiance in terms of reporting lines following sector decentralisation. This situation has triggered considerable confusion in
- f. service delivery.
  - f. Besides weak capacity and limited co-ordination at the local level, the co-ordination mechanism between the centre and provinces/districts is known to be inadequate.
  - g. District Councils are particularly weak with respect to their capacity to discharge their assigned devolved mandates. This is particularly so in the councils that were newly created by the former Administration.
  - h. Councils' fiscal difficulties have been worsened by their own poor record in revenue collection and management as evidenced by the build-up of aggregate non-collected revenue. This has been worsened by the existence of very limited and low-yielding revenue streams; inefficiency in revenue forecasting; and weak revenue collection techniques on the part of local Councils.
  - i. The position of District Commissioner has brought about an operational complication in the discharge of devolved functions and their role in the decentralised structures, which have

over the years remained significantly partisan, should be reviewed. At present, they have caused more complications in reporting lines, which has adversely affected service delivery at sub-national levels.

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# Taxation changes

The taxation and other changes as contained in the Budget Speech and the Zambia Revenue Authority (“ZRA”) publication “The 2022 Budget Highlights” are summarised below:

The measures will come into effect on 1 January 2022, subject to Parliamentary approval.

## Direct Taxes

### Pay As You Earn

The following are the proposed and current Pay As You Earn (“PAYE”) bands:

Proposed Regime		Current Regime	
Income Bands (K)	Tax rate (%)	Income Bands (K)	Tax rate (%)
0 – 4,500	0	0 – 4,000	0
4,501 – 4,800	25	4,001 – 4,800	25
4,801 – 6,900	30	4,801 – 6,900	30
Above 6,900	37.5	Above 6,900	37.5

### Corporate Income Tax

- Reduce the standard rate of corporate income tax from 35% to 30% with the exception of telecommunication companies whose rate will be maintained at the top marginal tax rate of 40%.

### Deloitte Comment

*Most businesses will welcome this measure as it is intended to provide some level of relief, following the negative impact of the COVID-19 pandemic. Ironically, the maintenance of the 40% marginal rate for telecommunications companies does not appear to sit well with the Government’s pronouncements on the promotion of Information, Communication and Technology (“ICT”) as a tool for innovation, financial inclusion and creation of employment.*

- Re-introduce the deductibility of mineral royalty for corporate income tax assessment purposes.

### Deloitte Comment

*A notable and welcome response to the sustained lobby for reforms to the mining tax regime that currently yields a very high effective tax rate for the sector. However, we also note that the Minister has indicated that government will ensure that, the determination of mineral royalty is adjusted to reflect both incremental and aggregate norm values in the medium term. It will be interesting to see how this will pan out for*

*businesses given the projected revenue loss of K3.2 billion from this measure.*

- Suspend corporate income tax for persons carrying on the business of manufacturing ceramic products for the 2022 and 2023 charge years.
- Reform the rental income tax regime by charging turnover tax at 4% for income below ZMW800,000 and to apply the income tax regime for individual and corporates for rental income above this threshold.

### Deloitte Comment

*We anxiously await the transitional mechanisms that will be put in place for those businesses that will be migrating back to paying taxes based on profits. A number of these businesses may have had some deferred tax assets such as unclaimed capital allowances, unutilised tax losses and unrealised exchange losses at the time of migrating to the turnover based tax but now have to revert to a profit-based method of determining income tax.*

- Increase the period for which disallowed interest can be carried forward from 5 to 10 years.

### Deloitte Comment

*Currently, only interest up to 30%*

*of the Tax Earnings Before Interest, Depreciation and Amortization (“EBITDA”) is allowed as a deduction. Any amount above 30% of EBITDA is disallowed and carried forward for 5 years. The proposed change therefore increases the carry forward period to 10 years.*

*This is a welcome move, especially for early-stage capital intensive businesses that have significant finance costs to fund their investments.*

- Key housekeeping measures:
  - Removal of the reference to “an approved fund” in the Second Schedule Part IV Paragraphs 7 (a) and (q) of the Income Tax Act to align with the provisions of the constitution.
  - Make Public Benefit Organisation Approvals issued under the Income Tax Act renewable and align the renewal with the renewal process under the Customs and Excise Act where there is a 3-year renewal period.
  - Amend Paragraph 1(1)(b) of the Charging Schedule to require persons with disability to be registered with the Zambia Agency for Persons with Disabilities.

- Amend the Tenth Schedule of the Income Tax Act, which provides the list of activities that can qualify an organisation as a Public Benefit organisation to:
- include care or counselling of, or the provision of, education programmes relating to abandoned, abused, neglected, orphaned or homeless children; and
- clarify that the provision of higher education by a public university is a public benefit activity.

of this measure is to enhance tax compliance on betting, casino, lottery and gaming activities.

- Amend Section 82A of the Income Tax Act to clarify that the due date for both filing of a return of withholding tax and payment of the tax falls within 14 days from the end of the month in which a payment subject to withholding tax is made.

### Property Transfer Tax

- Introduce Property Transfer Tax (“PTT”) on the transfer of mineral processing and other mine related licenses at the rate of 10%.

### Withholding Tax

- Extend the tax exemption relating to payments of interest to all interest earning bank accounts held by individuals. Currently, only interest earned in respect of savings or deposit accounts is exempt from withholding tax.
- Introduce 20% withholding tax on re-insurance placed with re-insurers not licensed in Zambia.
- Introduce a mandatory requirement for tickets to display the withholding tax payable on potential winnings. The objective

### Presumptive Tax

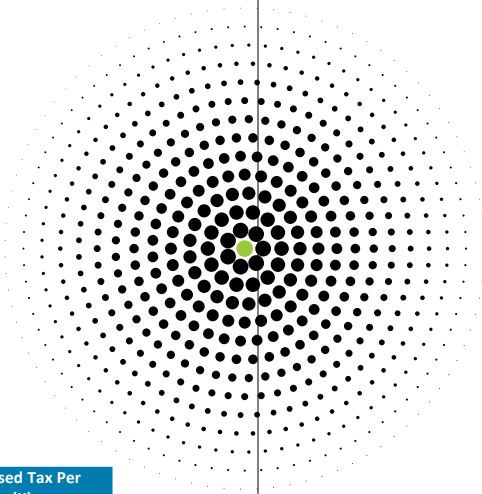
Below are the current and proposed bands for presumptive taxes:

Vehicle Sitting Capacity	Current Tax Per Annum (K)	Proposed Tax Per Annum (K)
64-seater and above	10,800	12,960
50 - 63-seater	9,000	10,800
36 - 49-seater	7,200	8,640
22 - 35-seater	5,400	6,480
18 - 21-seater	3,600	4,320
12 - 17-seater	1,800	2,160
Below 12-seater	900	1,080

### Transfer Pricing

Key Housekeeping Measures:

- Amend Regulation 22A (5) part (iii)



to replace the words “system failure” with “systemic failure”.

### Deloitte Comment

*We consider that this proposed change is intended to capture repeated structural or other code breaches or failures, arising in the state of tax residence of the ultimate parent entity, in meeting their obligations to comply with country-by-country reporting requirements. In the event of such failures, a constituent entity, which is not an ultimate parent entity of the multi-national enterprise group, shall be required to file a country-by-country report with the Zambia*

- Amend Regulation 22 (4) to introduce two new schedules to provide for submission of information required under international obligations for Country by Country (“CbC”) reporting provided in the annex.

### Deloitte Comment

*This measure intends to update and align the Regulations with international guidance relating to Country by Country (CbC) Reporting. This will require Multinational Enterprises (“MNE”) to include two new schedules in their reports, listing the constituent entities of an MNE’s group aggregated per tax jurisdiction and providing additional information. This additional information will include such information as the*

*nature of activities of each entity.*

*Aside from complying with the globally accepted practice, this measure has been introduced in order to provide clear guidance to MNEs operating locally on their reporting requirements.*

*Regulation 22 (4) as amended by the Statutory Instrument (SI) Number 117 of 2020, referred to a Standard Template as set out in the Schedule of the SI.*

*The Standard Template as set out in the above-mentioned Schedule required the following information;*

- Tax jurisdiction;
- Unrelated party;
- Related party;
- Total;
- Profit (loss) before Income Tax;
- Income Tax Paid (on cash basis);
- Income Tax Accrued (current year);
- Stated capital;
- Accumulated Earnings;
- Number of Employees; and
- Tangible Assets other than cash or cash equivalent.

*The foregoing is already in line with the first table of the model CbC reporting template provided for in the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*

as published in 2017.

The second table in the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations as published in 2017, however, was not included in SI number 117 of 2020. This could be the intended amendment as its inclusion would then align local legislation with international guidance relating to Country by Country (CbC) Reporting.

However, no further guidance has been provided at this point and the proposed wording of the new Regulation is yet to be shared.

- Amend Regulation 22A (4)(b) of the Transfer Pricing Regulations to clarify how the Country by Country (CbC) Report should be submitted to the Commissioner General.
- Amend the Regulation which provides for the threshold for which Multinational Enterprises are expected to report under Country by Country (CbC) reporting to only refer to the local currency threshold of 4.795 billion Kwacha.

**Deloitte Comment**

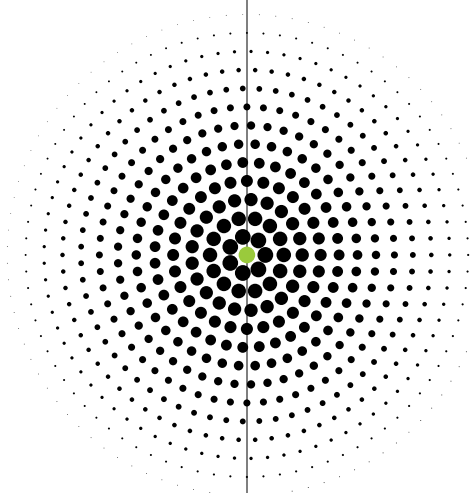
Currently, the TP Regulations provides for either of the following thresholds, applicable to an

ultimate parent entity of a multinational enterprise group resident for tax purposes, for filing of CbC report with the Zambia Revenue Authority:

Consolidated group revenue exceeding seven hundred and fifty million Euros; or  
 Consolidated group revenue exceeding four thousand, seven hundred and ninety-five million Kwacha in the immediately preceding accounting year

The proposed change provides for the use of a single threshold denominated in Kwacha for CbC reporting, and is a welcome move given the recent (and perhaps expected) fluctuations in Kwacha against international currencies such as Euro. The absence of this clarification may have created confusion on the part of taxpayers, on which threshold to apply, for compliance with CbC reporting obligations.

- Amend Regulation 22A (7) (D) through the following proposed wording “The State of tax residence of the Surrogate Parent Entity has been notified in accordance with Sub-Regulation 7 by the Constituent Entity resident for tax purposes in its jurisdiction that it is the Surrogate Parent Entity; and”



**Deloitte Comment**

The above proposed change seeks to clarify the conditions under which a local entity will not be required to file the Country by Country (CbC) Report, by making sub-regulation 7 rather than sub-Regulation 8, for consistency. Sub-regulation 7 provides for conditions for non-filing of a country-by-country report with if the multi-national enterprise group of which it is a constituent entity has made available a country by-country report with respect to that accounting year through a surrogate parent entity that files that country-by-country report with the tax authority of its State of tax residence. On the other hand, Sub-regulation 8 provides for notification procedures.

- Amend the Transfer Pricing Regulations to allow Regulation 11 refer to Section 97A (1) and 97A (2) of the Income Tax Act in order to align it with the changes made by amendment Act No. 20 of 2020.
- Amend Section 6 of the Income Tax Act to correct the side note.
- Amend the definition of commodity royalty (“CR”) so as to include payments made by a person resident in the republic to

another person equally resident in Zambia. Further, amend the definition so as to remove or expand on the element of royalty financing.

**Indirect taxes**

**Value Added Tax**

- Zero-rating of various agricultural equipment such as Manure Spreaders, Balers, Combine Harvesters, Commercial Sprinkler Irrigation Systems, Animal Feed Grinder-Mixers, Pelleting Machines, Sprayers, Trailers of a specific HS code and Dryers for agricultural products of a specific HS code.
- Zero-rating of Solar Charge Control Units and Solar Street Lights.
- To introduce VAT of 16% on property and non-life insurance services.
- To introduce VAT of 16% on supplies of booklets and newspapers.
- Housekeeping measures including:
- Amending Section 7A (1) to provide a clearer meaning of recording daily sales. The objective of this is to ensure

that taxable suppliers use an electronic fiscal device to record each sales transaction for any supply in observance of the tax points stipulated in the VAT Act.

- Amending Regulation 7 of the VAT Electronic Fiscal Device Regulations to allow a taxable supplier to only use an accounting software integrated with the Tax Invoice Management System.
- Amending Section 7 (5) of the VAT Act so as to provide for an escalatory fine chargeable on false returns and statements as follows:

Offence	Applicable Penalty
First Occurrence	Up to 30,000 penalty units per period audited
Second occurrence	Up to 60,000 penalty units per period audited
Third occurrence	Up to 90,000 penalty units per period audited

**Deloitte Comment**

*This measure intends to compel taxpayers to issue tax invoices for all their supplies of goods and/or services. The measure also introduces a graduated penalty regime. Currently, a penalty unit is equal to 30 ngwee.*

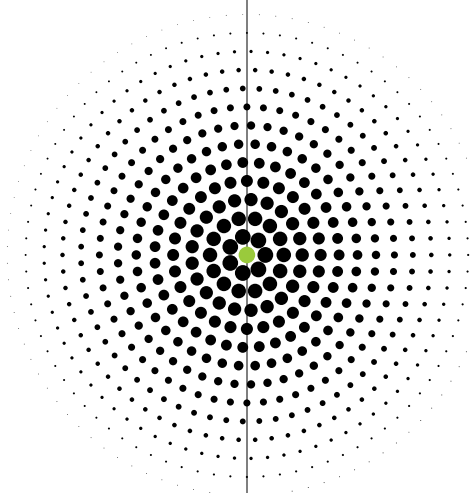
- Amending Section 18(3)(c) of the VAT Act to clarify the documents in support of an import by replacing the word “or” with “and”. This measure clarifies that the provision in the Commissioner General’s Rules pertaining to bills

at entry is provided for in the Act; and

- Change in the tax collection point for VAT on mobile phones from importation and point of sale to point of registration by the Zambia Information and Communications Technology Authority (“ZICTA”). The measure also intends to encourage compliance and enhance proper identification of mobile phones and security.

**Customs and Excise**

- Increases customs duty on floor and wall tiles imported outside COMESA and SADC regions from 15% to 25%.
- Increase customs duty on yarn made from acrylic fibre of specific HS codes imported from outside the COMESA and SADC regions from 5% & 15% to 25%.
- Introduction of surtax at the 10% percent of imported cement bags
- Introduction of surtax at the 5% on imported floor and wall tiles.
- Introduction of surtax at the 20% on imported glass on selected HS codes.
- Removal of 10% export duty on maize effective 1st November



2021.

- Removal of 5% customs duty on filler masterbatch and concentrates on improving the competitiveness and efficiency of local manufacturers of plastic products.
- Removal Increases the surtax on flexible intermediate bulk (FIB) containers from 5% to 20%.
- The following measures are proposed to support the agro-processing sector:
  - Extension on the suspension of customs duty on refrigerated trucks to 31 December 2022.
  - Suspension of customs duty to processors of milk and manufacturers of medicaments for a period up to 31 December 2022.
  - The following measure is proposed to support green energy:
    - Reduction of customs duty on solar streetlights and solar charge control units from 15% and 25% respectively, to 0% for both.
  - The following measures are proposed to support the local livestock subsector mitigate cost of livestock:
    - Removal of 5% customs duty on importation of cattle breeding stock.
    - Removal of the 5% Surtax on importation of Bovine Semen.
    - Suspension of 5% customs duty on grandparent and/or parent stock of day-old chicks imported by a breeding company for a period of 12 months from 1 November 2021 to 31 October 2022.

- The following measures are proposed to raise revenue for the government through excise duty:
  - Introduction 5% excise duty on coal;
  - Increases the specific excise duty on opaque beer from 15 ngwee to 50 ngwee per litre (packaged) and K1(unpackaged); and
  - Increase excise duty on unmanufactured tobacco, tobacco refuse and smoking tobacco, whether or not containing tobacco substitutes, water pipe tobacco and cutrag from K240 to K355.
  - Adjustment of specific excise duty rate on

cigarettes from ZMW302 per mille to ZMW355.

- The following are other measures proposed by the Minister:

- Harmonize the customs duty rates for tyres for lorries, buses, construction and agriculture equipment from 40% or K5/kg, whichever greater, to 15%.
- Increase in the exemption value of goods on a single petty consignment from \$50 to \$500 inclusive of freight and insurance but excludes consignments through post or air freight.

- The following Housekeeping measures have been proposed under the Customs and Excise Act and the Customs and Excise (General) Regulations, 2000:

- Introduce an application form for the beneficiaries of the duty waiver under Regulation 87A.
- Review the categories of goods under the Public Benefit Organisation (PBO) scheme for tax purposes.
- Introduce separate Harmonised System (HS) codes for Popcorn.

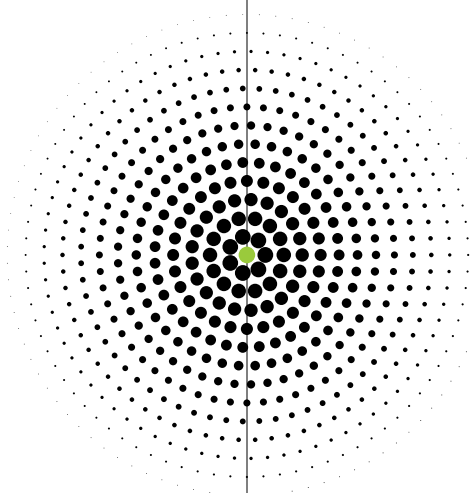
- Introduce a time limit of 30 days within which an objection to an assessment or any other objection can be lodged with the Commissioner-General.

- Extend the time frame within which a taxpayer may appeal to the Tax Appeals Tribunal, after a notice has been served by the Commissioner General, to 30 days from the current 20 days.

- Provide for the Commissioner General to waive ASYCUDA processing fees that arise as a result of administrative omissions and/or errors that are not in any way attributed to a taxpayer.

- Align the First Schedule to the Customs and Excise Act (HS Codes) to the 2022 version of the World Customs Organisation (WCO) Harmonised Coding and Description System. This measure intends to align Zambia's national tariff book with the updated Harmonised Coding and Description system which is revised every four to six years.

- Reduce the number of



hours for goods that remain within customs premises after release from customs control without the payment of a storage fee, to eight (8) hours, from forty-eight (48) hours.

- Increase Storage fees to K150 (500 fee units) from the current K30 (100 fee units) per day to be paid on goods that remain within customs premises after eight (8) hours of being released from customs control.

- Provide a five (5) day limit, prior to the arrival of goods, for which an application for Advance Tariff Ruling may be submitted.

- Provide a time limit of 30 days within which an objection pertaining to a manufacturer's license for goods subject to excise and all surtax can be lodged with the Tax Appeals Tribunal.

- Amend the Sixth Schedule to the Customs and Excise Act to correct the numbering of Clause (1) paragraph (3).

- Amend the Customs and Excise (Spirit) (Refunds, Rebates and Remissions) Regulation, 2004, Statutory Instrument No. 16 of 2004 to update and consider current trends and manufacturing of methylated spirit and its usage.

- Reduce the license fee for excisable manufacturers to K4,500 from K9,000.

### Tax Incentives

- Introduction of zero percent tax for a period of 10 years from the first year of commencement of works in a Multi Facility Economic Zone or Industrial Park on dividends declared on profits made on exports by companies operating in these zones under the Zambia Development Agency Act No. 11 of 2006.

- Introduction of zero percent tax for a period of 10 years from the first year of commencement of works in a Multi Facility Economic Zone or Industrial Park on profits made on exports by companies operating in these zones under the Zambia Development Agency Act No. 11 of 2006. This will then progress as follows:

- For years 11 to 13 only, 50% of the profits should be taxed; and

- For years 14 and 15 only 75% of the profits should be taxed.
- Reduce the threshold to US \$50,000.00 from US \$500,000.00 for a Zambian citizen to qualify for incentives provided under the Zambia Development Agency Act No. 11 of 2006.

### Tax policy responses to COVID-19

- Suspension of import duty and VAT to zero on selected medical supplies for the period from 1 October 2021 to 30 September 2022 through Statutory Instrument No. 78 of 2021 and Statutory Instrument No. 79 of 2021, respectively.

#### Deloitte comment

*The medical supplies qualifying for both import duty suspension and VAT zero-rating are as follows:*

- *Diagnostic test instruments and apparatus;*
- *Textile face mask without replaceable filter;*
- *Gas masks with mechanical parts or replaceable filters;*
- *Plastic face shields;*
- *Plastic gloves;*
- *Other rubber gloves;*
- *Knitted or crocheted gloves which have been impregnated or covered;*
- *Textile gloves that are not knitted or crocheted;*
- *Disposable hair nets*
- *Protective garments for surgical or medical use;*
- *Other protective garments of textiles of rubberised textile;*
- *Protective garments made from plastic sheeting;*
- *Liquid filled thermometer for direct reading;*
- *Other thermometers;*
- *Alcohol solution-undenatured 80% by volume;*
- *Alcohol solution-undenatured 75% ethyl alcohol;*
- *Hand sanitiser;*
- *Other disinfectant preparations;*
- *Medical, surgical or laboratory sterilisers;*
- *Hydrogen peroxide in bulk;*
- *Hydrogen peroxide presented as a medicament;*
- *Hydrogen peroxide put up as a disinfectant preparation for cleaning surfaces;*
- *Other chemical disinfectant;*
- *Extracorporeal membrane oxygenation (ECMO);*
- *Patient motoring devices electro-diagnostic apparatus;*
- *Intubation kits; and*
- *Paper bed sheets.*
- To extend the period for which a reduced rate of corporate income tax, at 15%, will be applied on income earned by Hotels and Lodges on accommodation and food services to 31st December 2022.

- Reduce Visa fees of all categories by 50%.

### Non-tax measures

- Revise downward immigration permit fees under the non-governmental and non-profit organisation category.
- Reduce various immigration permit fees for the country to remain competitive.
- Reduce Visa fees of all categories by 50%.
- Revise upward the fees charged by organisation such as the Road Transport and Safety Agency, Department of National Registration, Passport and Citizenship, Forestry department and Seed Certification and Control Institute etc., among others.
- Increase the Public Service Vehicles (PSV) driver's renewal period from one (1) year to five (5) years.





# Sector Analysis

## Economic Transformation and Job Creation

### Agriculture, Livestock and Fisheries

The Government has identified the agriculture sector as the best opportunity for growth given that the majority of citizens are dependent on it. The sector also has a relatively short gestation period with low capital requirements, readily available labour, abundant water resources and arable land.

The sector however faces a number of structural and other impediments to the realisation of its full potential. These include low production and productivity, limited

market access, underdeveloped value chains, dependence on rain fed agriculture and challenges with the current Farmer Input Support Programme.

The fisheries sub-sector faces additional challenges such as over-fishing from natural water bodies and limited investment in fingerling and fish feed production. In order to provide the sector, the much needed lift and address the challenges above, the Government is planning to undertake the following measures:

- Implement a new comprehensive agriculture support programme commencing in the 2022/2023 season. The new programme is intended to be cost effective, better targeted and equitable across beneficiaries;
- Promote large-scale agricultural estates for both domestic and export because of their capacity to create employment and support for viable out-grower schemes;
- Promote establishment of large scale agricultural estates across the country that will produce and process agricultural products suitable in the respective areas;
- Provide necessary infrastructure for farm blocks to be operational;
- Complete and operationalise the ongoing irrigation infrastructure projects in order to reduce sector dependence on rain fed agriculture;
- Recruit additional extension officers to enhance provision of services to livestock farmers across the country, train livestock farmers in open grazing management practices and invest in liquid nitrogen plant to support increased use of artificial insemination;
- Strengthen monitoring and fisheries conservation efforts in natural water bodies; and
- Establish additional hatcheries for fingerlings and completion of other infrastructure such as aquaculture parks.

The above interventions will be complemented by a number of proposed tax incentives meant to attract investment in the sector.

### Tourism

The tourism sector remains pivotal in the stimulation of economic growth. The COVID-19 pandemic has had a severe adverse impact on the industry, and the Government intends to extend the existing relief measures for another year in order to continue sustaining the sector. The Government also intends to maintain a stable economic environment and review the multiplicity of licenses with a view to reduce the cost of doing business.

Furthermore, the Government intends to develop other parts of the country by establishing the necessary infrastructure and regulatory framework to attract private investment in tourism facilities, in addition to the traditional tourist attraction areas of Livingstone and Victoria Falls. Examples of tourism related projects to be undertaken in 2022

are the developments at Kasaba Bay and the Liuwa National Park. The Government has extended the waiver of customs duty on safari game viewing vehicles, tourist buses and coaches to 31 December 2023, as a measure to continue cushioning the tourism sector amidst the COVID-19 pandemic. The waiver only applies to accommodation establishments, convention centres and tourism enterprises. In addition, the 15% corporate income tax rate on income earned by hotels and lodges on accommodation and food services has also been extended to 31 December 2022 from 31 December 2021.

### Mining

The mining sector remains critical to the Zambian economy as the main contributor to foreign exchange earnings. This role is destined to grow on the back of increasing LME prices and demand for copper from rapidly growing industrial sectors such as manufacturing of electric cars.

In order for the country to take advantage of the current strong performance by the mining sector, the Government will facilitate the increase of annual copper output from 800,000 to over 3 million metric tonnes over the next decade in order to boost export earnings and taxes in addition to creation of employment and business opportunities. To attract

investment and boost production in the sector, the Government in the 2022 Budget proposes, amongst other measures, to re-introduce the deductibility of mineral royalty for corporate tax assessment purposes in line with international best practice.

The Government expects the mining industry to play a role in diversification and value addition, not only to copper but also to gemstones, manganese and other high value minerals like gold.

Complications surrounding existing mines will be addressed and the Government is currently undertaking a comprehensive audit of mining licenses that will help in developing and implementing reforms to enable Zambians participate in their own right or in partnership with foreign investors.

The Government intends to promote growth of small-scale mining and address illegal mining by formalising operations of artisanal miners through formation of cooperatives especially for youths and women. The cooperatives will be equipped with skills and knowledge to enhance their productivity as well as training in safe mining practices.

### Manufacturing and Industrialisation

In order to create jobs and achieve economic growth, the Government

intends to support value addition to products from agriculture, forestry, and mining sectors. Growth in the manufacturing sector will be promoted by facilitating trade and investment as well as enhancing the competitiveness of local products.

To attract investment and promote value addition, the Government intends to reinvigorate the programme of Multi-Facility Economic Zones and industrial parks through the provision of tax incentives and undertake a comprehensive review of the investment promotion strategy.

To be able to reduce the cost of doing business in general and support business growth, Government will rationalise the number of licences and permits required to operate and amend the National Pension Scheme Act Cap 256 of the laws of Zambia, to make the penalty regime less punitive to employers.

The Government recognises the fact that the Zambian internal market does not have the capacity to absorb most of the goods such as crops, livestock and manufactured products and in this regard the Government will enhance measures to facilitate access to regional and international markets such as:

- Trade missions;
- Trade facilitations;
- Support services to markets

such as Tripartite Free Trade Area;

- Ensure reliable but cheap access to sea ports to make exports price competitive;
- Facilitate access to the Great Lakes region by expanding the capacity of Mpulungu Port;
- Improving the country's railway system; and
- Significantly improve services at the borders in order to minimise delays.

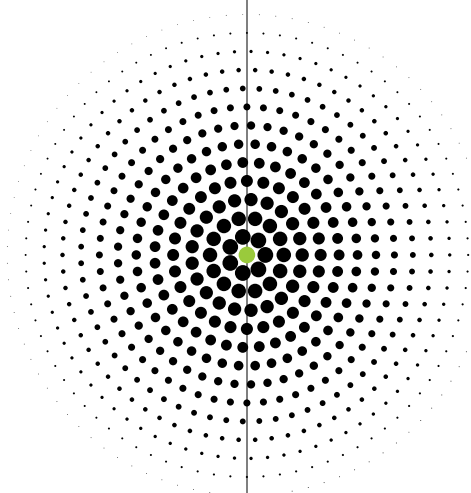
The Government proposes to spend K33.7 billion on Economic Affairs that include road infrastructure development.

### Small and Medium Enterprise Development

Small and medium enterprises play a key role in boosting growth and job creation in the country. It is on this basis that the Government established a dedicated Ministry of Small and Medium Enterprise Development (SME), responsible for policy as well as the development, mentorship and incubation of SMEs.

To enhance the smooth operations of SMEs, the Government intends to provide support to SMEs and Cooperatives such as;

- Infrastructure development, access to markets and credit;
- Products tailored for SMEs;



and

- Guarantee the borrowing of SMEs through the Zambia Credit Guarantee Scheme.

Regarding the access to credit, various International institutions such as the UKAid and European Investment Bank have come on board, a positive move to boosting growth in this sector.

### Energy

The energy sector continues to play a fundamental role towards the transformation of the economy. The sector is confronted with various challenges such as non-cost reflective tariffs, low private sector investment in the electricity sub-sector, alongside procurement inefficiencies and non-cost reflective prices in the petroleum sub-sector.

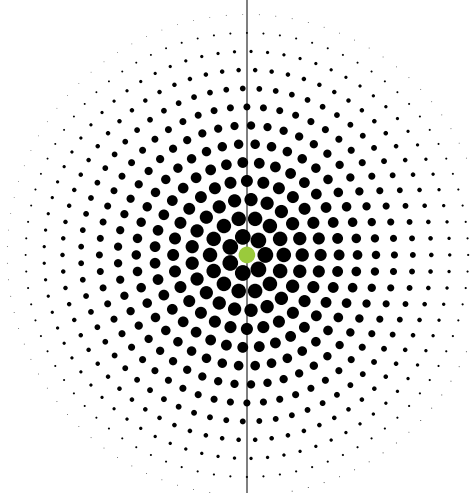
Government intends to address the existing challenges within the sector by focusing on the sustainable development and management of energy resources and has committed to undertake sector reforms that will focus on achieving efficiency and effectiveness within the sector. Government intends on implementing the following in the electricity sub-sector:

- Implementation of the renewable energy investment

plan to improve the energy mix. This is intended to lessen the susceptibility to climate shocks by leveraging the declining cost of technologies to utilise the country's energy sources such as solar, wind and geothermal energy;

- Review of the existing corporate structure at ZESCO;
- Re-negotiation of the power purchase agreements as part of the strategy to sustain ZESCO;
- Implementation of cost reflective tariffs;
- Collaboration with countries in the region to accelerate the integration of electricity infrastructure projects and to enhance access to regional power markets; and
- Scale-up the rural electrification programme through network grid extension and deployment of off-grid electrification solutions.

The petroleum sub-sector continues to encounter infrastructure design challenges stemming from the geo strategic realities of the 1960s. Government will prioritise the restructuring of the fuel supply chain in the petroleum sub-sector, aimed at achieving a low-cost



pricing while maintaining a stable supply of petroleum products. In redesigning the fuel supply lines, Government hopes to tackle the transportation inefficiencies that are a main contributor to the high cost of fuel.

### Transport

Transport infrastructure and systems are critical for facilitating economic activities and trade. Government concedes that the financing requirements to construct new roads as well as rehabilitate and maintain existing road and railway infrastructure is currently beyond its financial capacity. Therefore, the Government will aggressively pursue Public Private Partnerships as a means of overhauling the existing and construction of new railway spurs and roads.

#### Road

The Government intends to place priority on maintenance, rehabilitation and upgrading of feeder roads. The Government has commenced the Improved Rural Connectivity Project to maintain and rehabilitate a total of 4,300 kilometres of rural feeder roads. Emphasis will also be placed on the rehabilitation of economic roads which are in a bad state such as the Lusaka-Ndola, Chinsali-Nakonde and Kazungula-Sesheke roads.

#### Railway

The Government has identified the poor state of the railway infrastructure to be a major challenge for railway transport. To ensure sustainability, priority in the near-term will be maintenance of the infrastructure.

#### Air

The Government intends to focus on completion of Kasama and Mbala airports. In addition, Government will continue to focus on the rehabilitation and maintenance of provincial airports and aerodromes to facilitate air transport for both cargo and passengers.

### Information and Communication Technology

Following the advent of COVID-19 pandemic, information and communication technology has proved to be vital in the social and economic affairs of the country. Information and communication technology is increasingly creating employment opportunities for youth in various sectors such as transport, trade, and financial services.

To enhance these opportunities, Government will increase number of communication towers to enable this technology to reach all citizens.



# Human and Social Development

## Education and Skills Development

The Government believes that education is the greatest equaliser, and that sound education requires teachers. In this regard, the Government will recruit 30,000 from the 55,000 unemployed teachers in 2022. The recruitments are aimed at improving the quality of education by reducing pupil - teacher ratios. Further, to improve quality education, grants to primary schools will be increased three - fold in 2022.

To increase access to education, Government will construct 120 secondary schools, financed through a concessional loan with the world bank. This loan is payable over 30 years.

Further, the Government will abolish tuition, Parent Teachers Association and examination fees that learners pay in public schools. Regarding boarding fees for secondary school learners, a bursary scheme will be introduced for vulnerable learners. The beneficiaries for the bursaries

will be chosen at the community level in the constituencies.

To ensure that the girl child has equitable opportunities to quality education as a boy child, Government will expand support to the girl child through the Keeping Girls in School Programme from the current 28,964 in 2021 to 43,520 girls in 2022.

To achieve the above measures Government has allocated K18.1 billion for the education sector in 2022 compared to K13.8 billion allocated in 2021. Of this amount K1.7 billion will be used to recruit 30,000 teachers and K2.2 billion for general operations of schools countrywide. A further K694.3 million will be spent on construction and completion of ongoing school infrastructure.

## Health

The Government's focus is to improve the quality of healthcare and the accessibility of these services to all Zambians. Key pronouncements from the 2022 budget aimed at improving the

health sector include the following:

- Recruit and equitably deploy 11,200 health personnel across the country, coupled with an increased budget allocation to put health staff on payroll, that have been working without salaries;
- Improve supply management systems to ensure availability of essential medicines and medical supplies;
- Prioritize the equipping of health facilities with modern equipment;
- Reform the National Health Insurance Scheme to make healthcare affordable for all Zambians;
- Continue with the construction and completion of health infrastructure throughout the country and developing partnerships with private sector for the creation of specialised centres in order to provide access to specialized healthcare for all Zambians whilst attracting regional medical tourism; and
- Increase financing towards epidemic and pandemic management to prepare for unforeseen diseases such as Ebola and COVID-19.

Government has proposed to spend a total of K13.9 billion (K9.7 billion in 2021) on the health sector accounting for 8% of the total budget which is a slight reduction from 8.1% in the 2021 budget. Of this, K3.4 billion has been allocated to drugs and medical supplies, K1.6 billion to health infrastructure, K883 million towards hospital operations and K704 million to COVID-19 Vaccines.

#### Water and Sanitation

To enhance the interventions being made by water utility companies to improve and ensure adequate supply of safe and clean water, Government has proposed to spend K2.3 billion (K2.17 billion in 2021) on Water Supply and Sanitation accounting for 1.3% of the budget which is a decrease from 1.8% in the 2021 budget.

#### Social Protection

The Social Cash Transfer Programme will be scaled up by increasing the number of beneficiaries and the transfer value. The beneficiary households under the programme will be increased to over 1 million from 880,539 as at end of August 2021. The Government proposed an increase in the transfer value per household from K150 to K200 per month and an increase from K300 to K400 per month for households with a severely disabled member.

Under the Food Security Pack Programme, the number of beneficiaries will be increased to 290,000 households from 363,700 as of 31 August 2021.

The Government plans to dismantle all pension benefits areas which totalled K1.2 billion as of 30 September 2021.

The Government further proposed to review and amend relevant Public

Service Pensions Act Cap 260 of the Laws of Zambia, Local Authorities Superannuation Fund Act Cap 284 of the Laws of Zambia, and the Pension Scheme Regulation Act No. 27 of 2005 to make the pension system financially sustainable. The new pension system will enable retirees to access accrued benefits before retirement.

# Environmental Sustainability

Government created the Ministry of Green Economy and Environment with the purpose of addressing environmental sustainability. The Ministry is dedicated to champion development of a green economy.

To enhance its efforts to develop environmental sustainability, the Government will embark on the following activities:

- Strengthen climate change adaptation and mitigation. The government has allocated K971.9 million to this measure.
- Promote sustainable natural resources management and enhance the coverage of early warning systems.
- Promote sustainable and efficient social and economic activities with a strong focus on greening the economy.
- Promote innovative

financing for climate change interventions by use of sustainable methods such as Green Bonds; promotion of carbon trading and implementation of supportive legislation that will endorse a National Climate Change Fund; and

- Review of the existing fee structure for environmental impact assessments with the objective of reducing the cost of doing business and alignment them to international best practice.

# Good Governance Environment

## Fight against Corruption

The new Dawn Government has placed a high premium on the fight against corruption. To strengthen the fight against corruption, there has been an increased allocation in the 2022 Budget for law enforcement agencies and investigative wings. Government has also committed to create a good governance environment in which the conduct of public affairs is done in a responsible, accountable, and transparent manner. In addition to the fight against corruption, priorities in this regard will include strengthening the rule of law and ensuring sound public financial management.

## Public Financial Management

Public financial management is a key area in meeting the Government's development agenda. The major focus areas will be on strengthening national planning, internal controls and audit, resource mobilisation, procurement and transparency in debt contraction and management amongst other areas.

In line with Government's plans to bring about rural development,

it will also introduce measures to ensure timely reporting and enhancement of internal controls. The government intends to expand the coverage of the Financial Management System to the district level and develop a standardised Local Authorities Financial Management Information System framework to further strengthen the financial governance of the Constituency Development Fund.

A major concern for the Government has been public procurement which forms a significant portion of the public expenditure and has been subjected to abuse. To counteract public abuse, the Government will enforce strict adherence to the provisions of the Public Procurement Act No.8 of 2020 ensuring that all public investment projects are appraised and therefore all procurements are at the right price, of the right quality and delivered on time.

## Debt Management

One of the topical issues in recent months has been the issue to do with country's debt stock.

It was reported in the budget that the current external debt is unsustainable and calls for restructuring of both public and publicly guaranteed debt which amount to US\$14.71 billion as at the end of September 2021. This restructure is expected to enable the release of cash as Government has had very limited resources to spend on programmes that contribute to economic growth and poverty reduction. In this regard, the Government applied for debt restructuring under the Common Framework for debt treatment beyond the Debt Service Suspension Initiative.

To provide an anchor to debt restructuring engagement, the Government is actively engaging the International Monetary Fund for a funded programme to enable it pursue an economic reform programme. Once attained, Zambia will be able to engage creditors to restructure its debt. The aim is to conclude with restructuring of debt with creditors by the first quarter of 2022. Zambia was granted a condition-free Special Drawing Rights gift equivalent to US\$1.33 billion in August 2021. Part of the Special Drawing Rights will be used to support the 2022 Budget.

To curtail further accumulation of debt, the Government will not contract any external non-concessional loans except in

instances of refinancing. With regard to domestic debt, the Government will ensure that the issuance of government securities will be primarily through auctions and that private issuances of bonds will be limited.

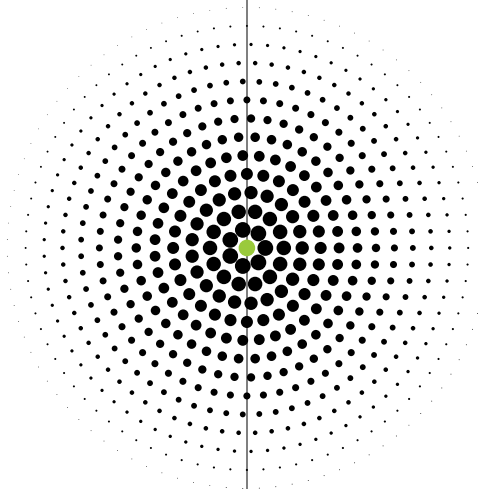
Government plans to introduce the Loans, Grants and Guarantees (Authorisation) Bill which will repeal and replace the Loans and Guarantees (Authorisation) Act Cap 366 of 1969. The Bill will, among others, enhance transparency in public debt management, including loan contraction, and provide a framework for evaluation, issuance, and monitoring of public guarantees.

In order to curtail the accumulation of arrears and dismantle the stock, the Government has developed the following measures:

- Increased budgetary provisions;
- Debt and/or cheque swaps; and
- Debt refinancing and restructuring.
- The Government plans to liquidate a substantial amount of domestic arrears over a period of five years.

### Fiscal Policy

The agenda of the government is to progressively reduce the fiscal



deficits to sustainable levels while supporting growth that generates jobs and reduces poverty.

The government has outlined three measures in which this will be achieved. These are as follows:

**Revenue mobilisation** - In the medium term it is aimed at targeting an increase in domestic revenue to at least 21% of GDP, by streamlining the tax system whilst placing priority on fair and equitable taxation; as well as establishing a predictable tax policy environment and rationalising the mining tax system to attract investment. These measures are expected to address base erosion and profit shifting to boost domestic revenues.

**Administrative reforms** - ICT has been identified as instrumental to revenue collection. Government plans to connect an additional 100 public services to the Government Service Bus and Payment Gateway, to bring the total number of services to 330 by the end of 2022. Furthermore, the Zambia Revenue Authority will be interfaced with the Government Service Bus and other systems to improve regulatory compliance and seal revenue leakages.

### Expenditure rationalisation:

- By migration of beneficiaries under the Farmers Input Support Programme which

has been characterised by serious challenges in delivery and is unsustainable to the treasury as expenditures have continued to increase significantly over the years with limited change in the number of beneficiaries. The government plans to implement a cheaper new comprehensive agriculture support programme commencing in the 2022/2023 season.

- By strictly enforcing the Public Procurement Act No 8 of 2020 to ensure the public procurement of goods and services are done at the right price in accordance with the quarterly market index published by the Zambia Public Procurement Authority.

### Strategies on Dismantling of Domestic Arrears

To curtail the accumulation of arrears and dismantle the stock, government has developed an arrears dismantling strategy. The key measures in the strategy include the following:

- Increased budgetary provisions;
- Debt and/or cheque swaps; and
- Debt refinancing and

restructuring.

- The government plans to liquidate a substantial amount of domestic arrears over a period of five years.

### Monetary Sector

The New Dawn Government has committed to continue with the drive to lower the cost of living for the Zambian people by reducing the current high level of inflation. The Bank of Zambia is to take the necessary action to reduce inflation significantly to the target band of 6%-8% by mid-2023 at the latest

The implementation of monetary policy will continue to rely on the forward-looking framework anchored on the Monetary Policy Rate, taking into account, the subdued economic activity and existing vulnerabilities in the financial system.

### Financial Inclusion

Despite the increase in the level of financial inclusion amongst adults from 4.8 million in 2015 to 6.6 million in 2020 which was largely driven by a surge in the use of digital financial services i.e., mobile money, 2.9 million or 30.6 percent of adults remain financially excluded with women, the rural based population, as well as Small and Medium Scale Enterprises being the most challenged.

Government plans to upscale the

implementation of the National Financial Inclusion Strategy 2017-2022 aimed at enhancing financial inclusion in collaboration with various stakeholders.

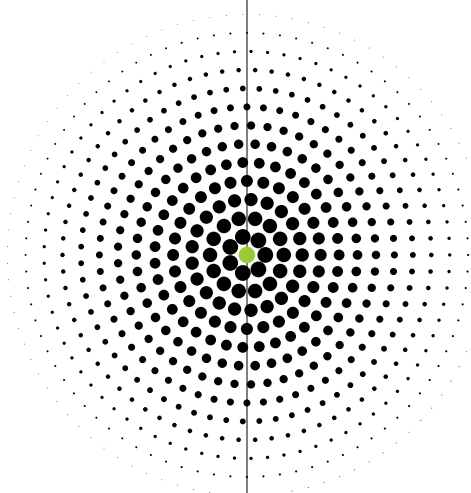
To encourage a culture of saving and promote financial inclusion, Government proposes to extend the tax exemption relating to payments of interest to all interest earning bank accounts held by individuals.

### Decentralisation

In line with the theme of the 2022 Budget, "Growth, Jobs and Taking Development Closer to the People", the anchor for the new Government is taking resources closer to the people by significantly increasing the Constituency Development Fund (CDF) from K1.6 million to K25.7 million per constituency.

The communities will, with the increased CDF, identify their priorities, make budgets and undertake development projects under the guidance of sector ministries which will provide policy and expert advice in the implementation of CDF financed projects.

Following the increased CDF allocation and scope for utilisation, certain tasks that were previously under the Central Government through district offices will in future be undertaken by the Local Authorities in conjunction with the



local communities through CDF. Examples of tasks that will fall within the scope of CDF budget are:

- Primary school classrooms, teachers' houses, desks, rural clinics, staff houses, local courts, small bridges, clearance of canals, community boreholes, dip tanks and small dams;
- Empowerment schemes previously funded through relevant ministries such as youth and gender; and
- Bursaries for secondary schools and skills development which under the previous system favoured urban areas.

In order to ensure prudent utilisation of CDF and other resources that will be provided to Local Authorities the Government is developing guidelines, standards for utilisation, management, monitoring and capacity building programmes.

### External Sector Policies

Government will maintain a flexible exchange rate regime by promoting measures that support stability of the exchange rate. The measures include:

- Stepping up accumulation of international reserves to create a buffer to cushion the economy against external shocks ;

- Fast tracking the diversification of exports through export led industrialisation; and
- Promotion of viable foreign direct investment.

### Public Private Partnership

The Government is committed to leveraging on Public Private Partnership investments to deliver balanced and integrated infrastructure development. The Private Partner Partnership is expected not only to supplement Government efforts in infrastructure development but also free up additional resources to support social sectors such as health and education.

The Government intends to repeal and replace the Public Private Partnership Act No. 14 of 2009. The new Act will address short comings in the current law by ensuring mutual benefits to the public and private sectors and enhance the enabling environment for local and foreign investors.

### Media reforms

The Government's plan in the short to medium term, is to reform the media landscape, including public media in order to provide universal access to media by all citizens, especially those in far flung areas. In this regard the plan is to facilitate the installation of towers as well as FM radio services in all districts.



The Government has further reinforced its commitment to ensure that both the public and private media will be allowed to operate freely without interference and restrictions. On their part, the Government expects the media houses to self-regulate and discharge their responsibility with professionalism.

### Census of Population and Housing

Government has committed to undertaking the sixth Census of Population in 2022, with the expectation that the private sector, cooperating and development partners as well as other stakeholders will partner with Government for a successful census of population and housing. A statutory order is expected to be issued in due course.

### Keeping The Campaign Promises

In relation to two of the New Dawn Government's campaign promises namely, access to education and youth employment, the Government has undertaken the following interventions:

#### Education:

- Removal of tuition fees at public secondary schools.
- Provision of bursaries for disadvantaged children, who are unable to afford payments for

upkeep.

- Prospectively address issues relating to meal allowances and recovery modalities for student loans going forward.

#### Youth employment:

- Creation of 44,000 jobs in 2022, through the recruitment of teachers, healthcare personnel and others.
- Enhancement to the CDF to promote job creation.
- Additionally, the CDF is intended to achieve the following:
  - Building of classrooms, teachers' houses, clinics etc.
  - Repairing and maintenance of public infrastructure and financing the procurement of desks.
  - Empowerment of local contractors; and
  - Provide training opportunities in each constituency for the youth to partake in these jobs.

Further, Government anticipates that job creation will emanate from initiatives within the private sector such as expansion of existing mines, pronouncements on MFEZs and farm blocks and various other measures.



# Conclusion

The Minister of Finance under the newly elected Government, labelled as “The New Dawn Administration” based on election campaign promises of economic recovery, debt sustainability, improved governance and social reforms, delivered his 2022 Budget Speech targeted at economic and social improvements.

The Minister made a number of bold statements in his speech indicating that the Government aims to address the country's ongoing challenges through a transformative, well-paced process across all key sectors. The specific Budget objectives are as follows:

- Attain a real GDP growth rate of at least 3.5 percent;
- Reduce inflation to single digits by end-2022 and within the target band of 6-8 percent by mid-2023;
- Limit international reserves to at least 3 months of import cover;
- Increase domestic revenue to not less than 21.0 percent of GDP;
- Reduce the fiscal deficit to no more than 6.7 percent of GDP; and
- Limit domestic borrowing to no more than 5.2 percent of GDP.

The 2022 Budget is themed around four main pillars including driving Economic Transformation and Job Creation; Human and Social Development; Environmental Sustainability; and creating a Good Governance Environment, hence the theme “Growth, Jobs and Taking Development Closer to the People.”

## NOTE:

The amendments to legislation proposed in the Budget Address must be approved by Parliament. Changes may occur to the Budget proposals before they are enacted.

**Therefore, until legislation has been enacted, these proposals should be read only as an indication of the government's intentions.**

Similarly, the tax card accompanying this Budget Brief is provisional in nature. This brief is prepared based on the **Minister of Finance's 2021 Budget Address** to the National Assembly made on 29 October 2021 and the Zambia Revenue Authority publication, **2022 Budget highlights: Overview of Tax Changes.**

While all reasonable care has been taken in the preparation of this Brief, Deloitte & Touche accepts no responsibility for any errors it may contain, whether caused by negligence or otherwise, or for any loss, however caused, sustained by any person that relies on it.

# Appendices

## Appendix 1: Statistics

	2021	2020	2019	2018	2017
<b>Economic Indicator</b>					
Nominal GDP (US\$ bn)	22.9	20.6	23.9	26.7	26.5
Nominal GDP (K bn)	375	359	311	283	233
Real GDP Growth (% p.a)	3.3	-2.8	2.0	3.7	4.0
Inflation, Period End (% p.a)	22.1	15.7	10.5	7.5	7.0
Central bank policy rate (% end of period)	8.0	8.0	10.25	8.75	11.5
<b>External Debt(US\$ m)</b>					
Debt Stock	12,990	11,970	10,230	10,050	7,560
Debt Service Due	1800	n/a	n/a	n/a	N/a
<b>Monthly Average 91 Day Treasury (%)</b>					
January	18.5	15.8	14.5	9.5	10.5
July	18.9	13.5	15.8	13.5	12.0
December	n/a	18.5	15.8	14.5	9.5
<b>Commodity Exports</b>					
Copper Production (Metric Tonnes)	n/a	587	567	1035	770
Average Copper Price (US\$/MT)	9,194	5,847	5,707	6,723	5,827
<b>Exchange Rate</b>					
Average (K / US\$)	16.37	17.45	12.61	10.47	9.45
Average (K / ZAR)	1.43	1.04	0.88	0.79	0.71
<b>Population</b>					
Population (millions)	18.9	18.4	17.9	17.4	17.1

NA - Not Available

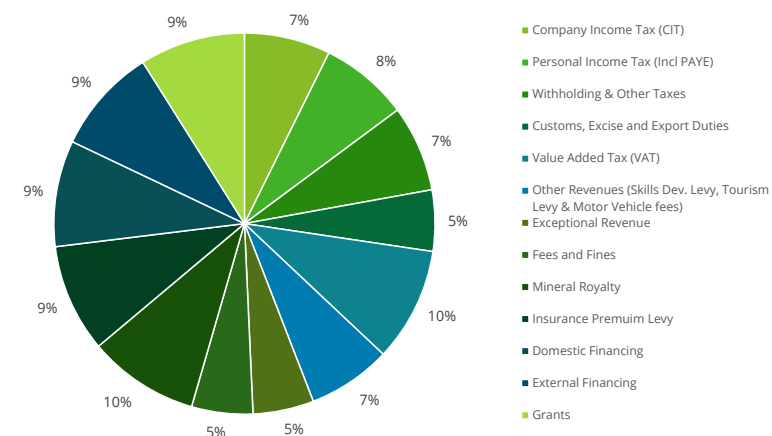
Source: 2017 to 2022 Budget Address, BMI, EIU, and World Bank

## Appendix 2: 2022 Budget summary

	2022 Budget K' million	2021 Budget K' million	2020 Budget K' million
<b>Revenue</b>			
External financial and grants	49,669	36,203	30,624
Domestic Financing	24,459	17,430	3,457
Value Added Tax	22,904	16,938	18,943
Pay As You Earn	17,259	12,867	12,331
Company Income Tax	16,394	9,115	7,904
Mineral royalty	12,389	5,686	4,820
Customs, Excise & Export Duties	12,673	9,271	9,213
Other Income Taxes	8,623	5,083	5,377
Fees and fines	7,824	6,613	6,140
Other revenues	295	293	343
Insurance Premium Levy	49	117	106
Exceptional Revenue	-	-	6,750
<b>Total Revenue</b>	<b>172,987</b>	<b>119,616</b>	<b>106,008</b>
<b>Expenditure</b>			
General Public Services	86,370	57,819	44,081
Economic Affairs	33,706	21,500	21,833
Education	18,073	13,772	13,122
Health	13,912	9,653	9,367
Defense	7,634	5,643	6,526
Social Protection	6,294	4,821	2,581
Public Order & Safety	3,493	4,821	2,581
Housing & Community Amenities	2,376	2,222	3,460
Environment Protection	972	956	612
Recreation & Culture	156	151	383
<b>Total Expenditure</b>	<b>172,987</b>	<b>119,616</b>	<b>106,008</b>

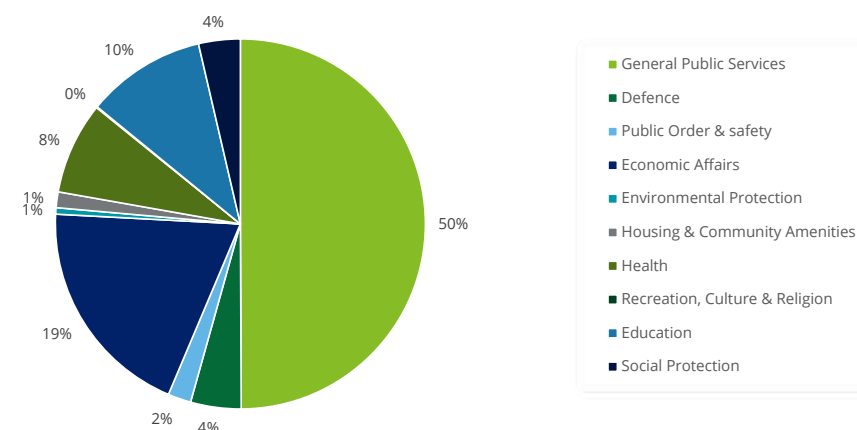
Source: 2020 to 2022 Budget Address

2022 Budget Contribution to revenue (%)



Source: 2022 Budget Address

2022 Budget Contribution to Expenditure (%)



Source: 2022 Budget Address

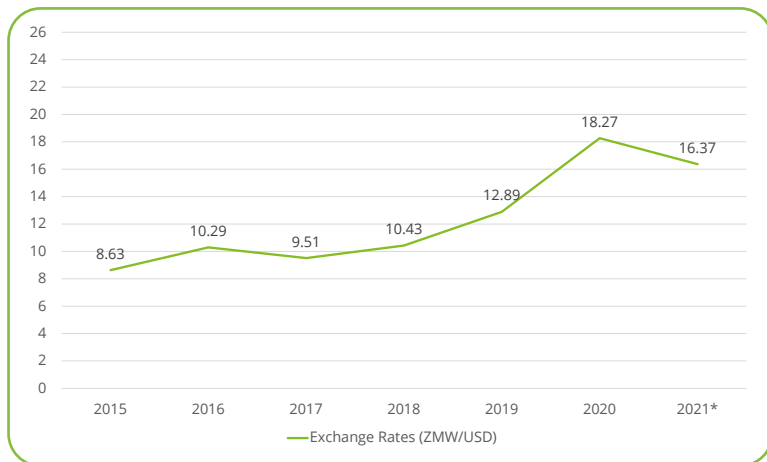
## Appendix 3: Graphical economic trends

Inflation and Real GDP Growth Rate (%)

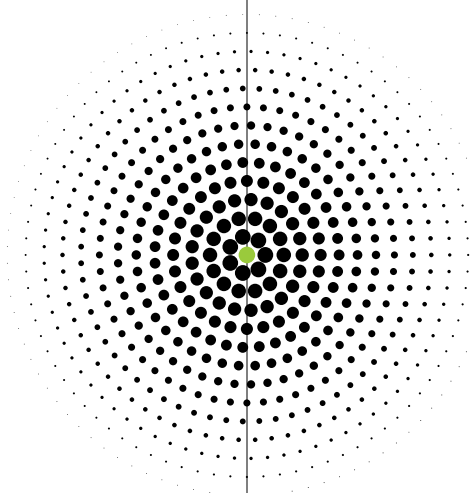


Source: BMI, CSO

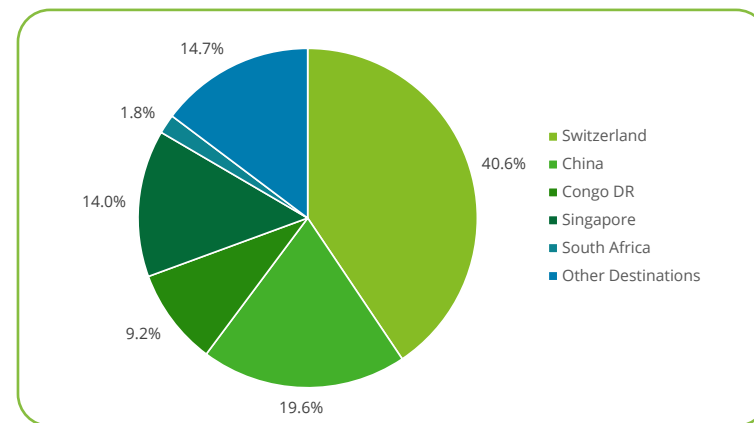
Average Exchange Rate (K / 1 US\$)



Source: BMI

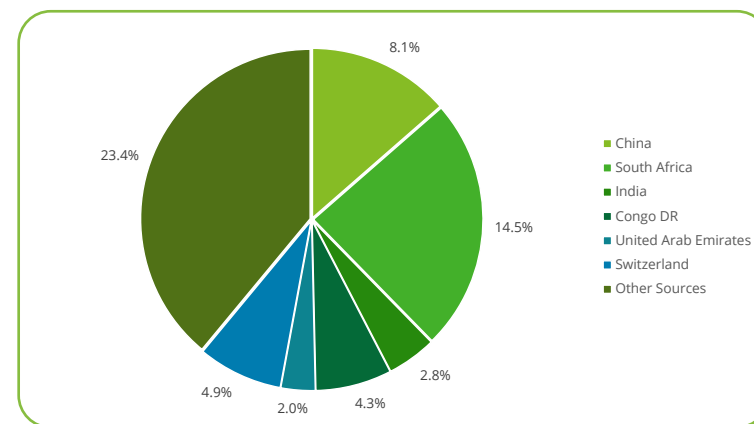


2021 Export Destination (%)



Source: Central Statistics Office

2021 Origin of Imports (%)



Source: Central Statistics Office

## Appendix 4: 2021 vs. 2022 expenditure budget by function

Comparison of Budget Expenditure by Function 2020 and 2021				
	2021 Budget	2022 Budget	Absolute change	
	K'million	K'million	y/y % change	K'million
General Public Services	57,819	86,370	↑ 49	28,551
External Debt (Interest and Principal)	27,745	51,315	↑ 85	23,570
Domestic Debt	18,338	27,365	↑ 49	9,027
Dismantling of Arrears	2,762	3,106	↑ 12	344
Local Government Equalisation Fund	1,165	1,339	↑ 15	174
Public Affairs and Summit Meetings	200	120	↓ -40	-80
Elections & Voter Registration	598	-	→ 0	-598
Contingency	125	-	→ 0	-125
Compensation and Awards	100	300	↑ 200	200
MPs Gratuity	202	-	→ 0	-202
<b>Defence</b>	<b>5,643</b>	<b>7,634</b>	<b>↑ 35</b>	<b>1,991</b>
<b>Public Order and Safety</b>	<b>3,079</b>	<b>3,493</b>	<b>↑ 13</b>	<b>414</b>
<b>Economic Affairs</b>	<b>21,500</b>	<b>33,706</b>	<b>↑ 57</b>	<b>12,206</b>
Energy Power Infrastructure	6,214	-	→ 0	-6,214
<b>Roads Infrastructure</b>	<b>-</b>	<b>4,929</b>	<b>→ 0</b>	<b>4,929</b>
Airport Infrastructure	567	1,037	↑ 83	470
o/w Kenneth Kaunda International Airport	-	887	→ 0	887
Kasaba Bay	-	150	→ 0	150
Nansanga Farm Block	-	110	→ 0	110
Empowerment Funds	266	350	↑ 32	84
Farmer Input Support Programme	5,701	5,373	↓ -6	-328
Strategic Food Reserve	518	960	↑ 85	442
<b>Constituency Development Fund</b>	<b>250</b>	<b>3,223</b>	<b>↑ 1189</b>	<b>2,973</b>

### Comparison of Budget Expenditure by Function 2021 and 2022

	2021 Budget	2022 Budget	Absolute change	
	K'million	K'million	y/y % change	K'million
o/w Community based Projects	-	2,420	→ 0	2,420
Youth and Women Empowerment Funds	-	803	→ 0	803
Rural Electrification Fund	307	362	↑ 18	55
Environmental Protection	956	972	↑ 2	16
Housing and Community Amenities	2,222	2,376	↑ 7	154
Water Supply and Sanitation	2,172	2,352	↑ 8	180
o/w Millenium Challenge Account	-	145	→ 0	145
Health	9,653	13,912	↑ 44	4,259
Health Infrastructure Projects	1,732	1,616	↓ -7	-116
Drugs and Medical Supplies	1,392	3,379	↑ 143	1,987
o/w COVID-19 Vaccines	-	704	→ 0	704
Hospital operations	627	883	↑ 41	256
Recreation, Culture and Religion	151	156	↑ 4	5
Education	13,773	18,073	↑ 31	4,300
Operations for Schools	-	2,189	→ 0	2,189
Secondary Schools & Skills development Bursaries (CDF)	-	792	→ 0	792
School Infrastructure	-	694	→ 0	694
Skills Development Fund	179	200	↑ 11	21
Social Protection	4,821	6,294	↑ 31	1,473
Social Cash Transfer	2,344	3,107	↑ 33	763
Public Service Pension Fund	1,068	2,076	↑ 94	1,008
Food Security Pack	1,100	1,100	→ 0	-
<b>Grand Total</b>	<b>119,616</b>	<b>172,987</b>	<b>↑ 45</b>	<b>53,371</b>









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