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Zambia Fair Tax Monitor (FTM) Report

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Acronyms

BEPS	Base Erosion and Profit Shifting
CAADP	Comprehensive Africa Agriculture Development Programme
CIT	Corporate Income Tax
COMESA	Common Market for Eastern and Southern Africa
CPI	Corruption Perception Index
CSO	Central Statistics Office
CSOs	Civil Society Organisations
CTPD	The Centre for Trade Policy and Development
DRM	Domestic Resource Mobilisation
DSSI	Debt Service Suspension Initiative
DTS	Digital Tax Stamps
DTTs/DTAs	Double Tax Treaties/Double Tax Agreements
EFDs	Electronic Fiscal Devices
ESGP	Economic Stabilisation and Growth Programme
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FIC	Financial Intelligence Centre
FISP	Farmer Input Support Programme
FRA	Food Reserve Agency
FY	Financial Year
GAIs	Guaranteed Annual Incomes
GDP	Gross Domestic Product
GIC	Global Investment Competitiveness Survey
GII	Gender Inequality Index
GPI	Gender Parity Index
GRB	Gender Responsive Budgeting
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HNWI	High Net-worth Individuals
IFFs	Illicit Financial Flows
IGC	International Growth Centre
IMF	International Monetary Fund
LEAs	Law Enforcement Agencies
LuSE	Lusaka Securities Exchange
MCTI	Ministry of Commerce Trade and Industry
MFEZ	Multi-Facility Economic Zone
MoF	Ministry of Finance
MOU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
NAPSA	National Pension Scheme Authority
NDP	National Development Plan
NGOCC	Non-governmental Gender Coordinating Council
NGP	National Gender Policy
OAU	Organisation of African Unity
PAYE	Pay As You Earn
PIT	Personal Income Tax
PPG	Public and Publicly Guaranteed Debt
RDA	Road Development Agency
RTSA	Road Transport and Safety Agency
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SMEs	Small to Medium-Sized Enterprises

STRs	Suspicious Transaction Reports
TADAT	Tax Administration Diagnostic Assessment Tool
TIMS	Tax Invoice Management System
TPIN	Taxpayer Identification Number
TTR	Total Tax Revenue
UNDP	The United Nations Development Programme
USSD	Unstructured Supplementary Service Data
VAT	Value Added Tax
WEP	Women Empowerment Programme
WHO	World Health Organisation
ZAM	Zambia Association of Manufacturers
ZAMeT	Zambia Mobile Electronic Taxation
ZANAMACA	Zambia National Marketeers Credit Association
ZCCZ	Zambia-China Economic & Trade Cooperation Zone
ZDA	Zambia Development Agency
ZRA	Zambia Revenue Authority
ZRAIC	ZRA Integrity Committee

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Acknowledgements

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Executive Summary

Zambia's fiscal performance remains a challenge as debt levels were recorded at over 70 percent of GDP in 2019, increasing from 20.8 percent of GDP over the past 10 years while tax to GDP is only of 19% and has barely improved significantly over the same period. Zambia's limited domestic revenue sources is a critical problem. As the country's debt has continued to escalate, Domestic Resource Mobilisation (DRM) has become a top Government agenda to ensure that Zambia is better placed to fund its development.

In a Ministerial statement by Hon Bwalya Ngandu, Minister of Finance, on July 12, 2020, he indicated that prior to the onset of Covid-19, overall budget performance as measured at end December 2019, remained relatively fair despite the fiscal challenges. Total revenues and grants were above target by 5.7 percent. The current Covid-19 has however brought a new reality for the government when rethinking their DRM agenda. the current Covid-19 pandemic has put an extra pressure on government spending according to Hon Bwalya Ngandu, Government spending in 2020 is expected to increase by an estimated K9.7 billion. While the economic downturn, with a projected negative growth of around minus 4.2 percent, has affected the levels of resource mobilization by a revenue reduction of K12.8 billion. In addition to this, the debt levels have been increasingly worrying as the fluctuating Kwacha exacerbates the burden of external debt servicing for the Zambian government and shrinking their fiscal space. As seen all over the world the Covid-19 crises and related responses have mainly exacerbated already existing inequalities and therefore it is timely to look at how the Zambia tax and spending is organised and what can be done to increase the fairness and sufficiency of the revenues.

Zambia has faced this crisis with deep previous fiscal weaknesses and that will limit its capacity to recover in future. Domestic Revenue Mobilisation (DRM) in Zambia comes in different forms including various taxes, levies, and fees. Efficient and effective tax collection is important to a country like Zambia because it is the biggest source of long-term financing for sustainable development and the determinant of good governance in terms of high-quality service provision; holding the Government to account; and citizens participation in the management of public funds. Efficient and effective tax collection coupled with economic growth is the remedy to long term aid and debt dependency and increased policy space to implement strategies that reflect the country's development plans. In the current COVID19 context this is achievable by stimulating growth in priority sectors as identified by the 7th National Development Plan.

The report initially looks at previous fragilities and gives a brief description of the Zambian tax system. It further analyses the pre-Covid tax regime following the 6 clusters of topics: (i) Distribution of the tax burden and progressivity; (ii) Revenue sufficiency and illicit financial flows; (iii) Tax competition & corporate incentives; (iv) Effectiveness of the tax administration; (v) Government spending; and (vi) Transparency and accountability. While doing so, the study encompasses relevant data from the last 10 years and challenges tax policies and offers recommendations accordingly for a future that is bringing even more uncertainty. In Covid-19 context, Zambia's government can't build recovery without addressing fairer taxation and understanding the challenges of the past that will only be amplified now.

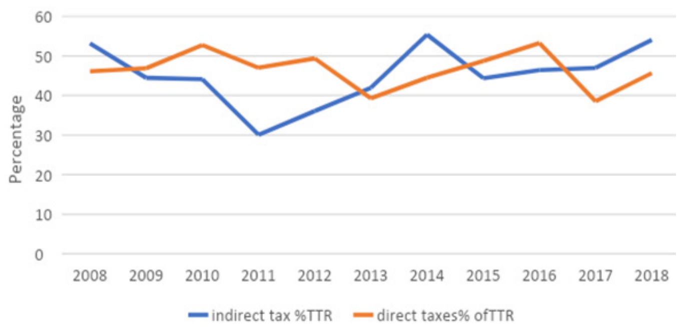
It must be noted however that this report was prepared on the backdrop of COVID-19 becoming a global pandemic which has caused various unprecedented economic strains. It is too soon to reflect all the implications of these developments and related policy priorities in Zambia in this document. However, the relevance of Zambia's first FTM report still stands as it provides the and analysis of the system and policies on which the current Covid measures build and is key in speaking to the importance of strengthening the tax base to be able to respond to economic shocks such as the one brought about by the COVID-19 pandemic. It is expected that the findings of this study will go a long way in influencing tax policy formulation and evaluation in Zambia to make the tax system more equitable and progressive.

Distribution of the Tax Burden and Progressivity

Zambia's main revenue sources can be divided into three categories, namely: (i) total domestic revenue; (ii) domestic financing; and (iii) total foreign financing and grants. Total domestic revenue represents the largest share of these sources and includes tax and non-tax revenue.

Prior to 2019, the Zambian economy has largely been dependent on revenue collected through direct taxes. Between 2008 and 2018, direct taxes as a percentage of total tax revenue ranged between 46 and 55 percent. However, as illustrated in Figure 1, the last two years have seen Zambia increase its reliance on indirect taxes largely due to improved Value Added Tax (VAT) collection which has risen as a result of the enhancement of information technology solutions, particularly the use of electronic fiscal devices amidst VAT refund accumulation. In the past two years, therefore, indirect taxes have exceeded direct taxes – this risks the tax system being less progressive because indirect taxes are non-discriminatory in nature (meaning the poor and the rich are taxed at the same rates) and the burden heavily falls on the poor when broken down into proportions of their income.

Figure 1: Direct and Indirect Taxes (2008-2018)



Source: Ministry of Finance

Personal income tax (PIT) has been the largest contributor to Zambia's direct taxes with a larger contribution than Corporate Income Tax. PIT has consistently contributed more to the government treasury than Corporate Income Tax (CIT) over the past ten years period due to challenges the Zambia Revenue Authority (ZRA) has faced in allowing too many exemptions as well as its inability to effectively curb corporate tax dodging. An assessment of financial transactions between January 01, 2018, and September 30, 2018 suggested that Zambia had lost ZMW 1 billion (equivalent of US$82mn) in tax evasions while the Financial Intelligence Centre (FIC) analysed multiple cases where many Small and Medium Enterprises (SMEs) were found not to be registered for tax and lacked compliance.

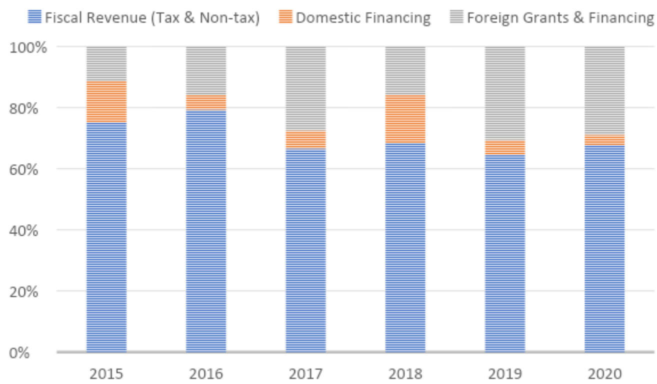
One major oversight that needs to be addressed and could contribute to a more equitable increase in revenue collection is the introduction of wealth taxes. To do so the ZRA could benefit from having a specific unit that deals with the High Net Worth Individuals (HNWIs).

Lastly, the lack of gender-responsive policies on taxation renders the regime regressive. This is exacerbated by the lack of gender dis-aggregated tax data. Extensive gender needs assessments, as well as incidence analysis of the impact of certain tax policies and related measures (including tax incentives) must be carried out by the Government to help target interventions.

Revenue Sufficiency

In terms of revenue sufficiency, the Zambian Government has seen an increase in its annual budget over the years. Zambia's national budget has grown from ZMW16.7 billion (US$3.3bn) in 2010 to ZMW106 billion (US$8.2bn) in 2020. The increases in domestic revenue have largely been attributed to the adoption of new technologies that have improved the efficiency and compliance of tax collection, however, although domestic revenue has been increasing in recent years and is expected to continue increasing, the proportion of domestic sources of revenue in comparison with foreign sources of revenue has been decreasing (from 81.3 percent in 2010 to 71.1 percent in 2020). We can expect to see this trend continue beyond the year of 2020 as the slow economic growth and subdued domestic resource mobilisation resulting from the COVID-19 pandemic will increase the need for financing.

Figure 2: Percentage Share of Domestic and Foreign Revenue



Source: Ministry of Finance

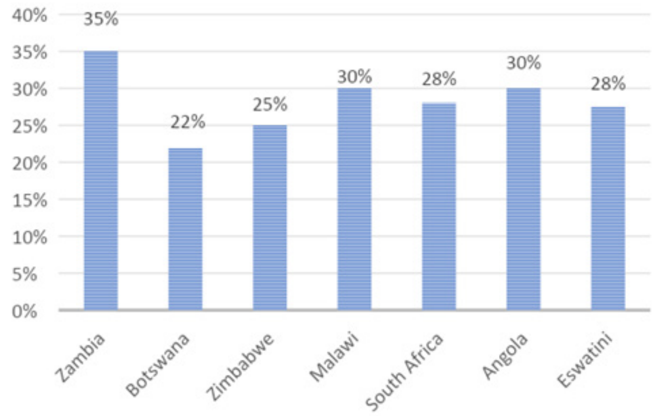
Over the past decade Zambia has seen a significant increase in infrastructure spending. Foreign financing and grants as a source of Government revenue have increased by 10 percent from 2010 and make up about 28.9 percent of the 2020 budget. The share of revenue sources for the national budgets has been illustrated above in Figure 2.

Despite the above-mentioned progress in revenue collection, Zambia suffers from a severe problem of Illicit Financial Flows (IFFs). IFFs are a major problem for many African countries particularly those heavily dependent on extractive industries. This is more so in Zambia as it accounts for 65 percent of the continent's IFFs in copper which indicates the vast scale of the problem. The establishment of the Financial Intelligence Centre (FIC) in 2013 was a domestic effort to investigate, follow up, and expose misconduct in financial transactions, hence identifying and combating tax leakages.

Tax Competition and Corporate Incentives

Zambia offers a wide range of incentives in the form of allowances, exemptions, and concessions for companies that can be a drain on the economy's resources in terms of revenue foregone. The Zambia Development Agency (ZDA) Act of 2006 provides for specific investment thresholds for companies to qualify for fiscal and non-fiscal incentives. This is despite the lack of evidence to show that tax incentives are not the most important factor in attracting investment. As such, due to Zambia's significant tax exemptions, large thresholds, and a multiplicity of tax rates there exists a large gap in Zambia's tax to GDP ratio and that of other Southern African Development Community (SADC) countries

Figure 3: Comparative CIT Rates (Southern Africa)



Source: IMF

The Figure 3 above shows that in the Southern African region, Zambia's CIT rate is among the highest standing at 35 percent. Despite the high rate, Zambia offers a system of multiple CIT rates (nineteen CIT rate possibilities ranging from 0 to 40 percent) rather than a consolidated tax rate. According to the International Growth Centre (IGC), a country should offer a consolidated tax rate as that offers investors simplicity, predictability, and certainty without having to apply for discretionary tax incentives

With regards to Zambia's Special Economic Zones (SEZs), the report shows that despite the high investment pledges that are made, actualising these investments have proven to be a challenge due to various reasons such as a limited number of staff and resources for monitoring and evaluation. Since the start of the Covid-19 pandemic the range/intensity of tax competition/incentives has increased. For instance, the suspension of import duties on the importation of concentrates in the mining sector to ease pressure on the sector

Effectiveness of the Tax Administration

The ZRA forecasts revenues taking into account various indicators including previous trends, macroeconomic variables and others, presenting its targets to Parliament. In recent years the ZRA has been exceeding its stated objectives. In 2018, this performance was overwhelming as a result of favourable outturn in the three revenue categories; direct taxes, local indirect taxes, and trade taxes.

A 2006 assessment of Zambia's tax system using the Tax Administration Diagnostic Assessment Tool (TADAT) found that Zambia has a sound tax administration structure, with several systems that encourage taxpayer compliance.

The study also listed several areas where reform should be targeted. The assessment cites very low rate of online filing, very high rates of tax arrears, and a backlog of VAT refund claims. They also found that the database of registered taxpayers contained inaccuracies, including a large number of inactive taxpayers.

Government Spending

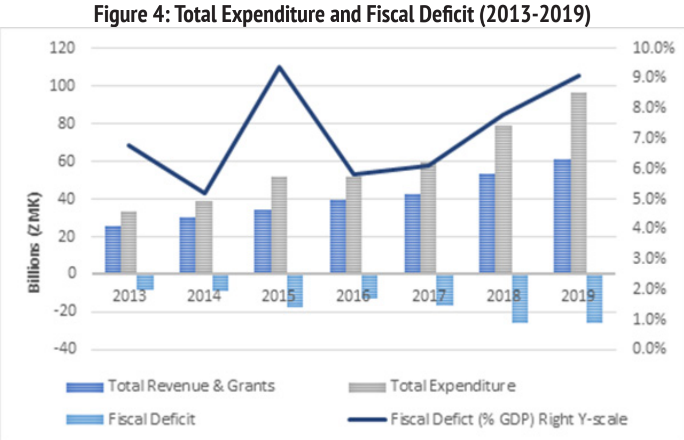
Governments are required to use the resources they have to provide public services, social protection, and infrastructure for its citizens. In previous years, however, Government expenditure has outpaced its resource mobilisation which has led to an increasing fiscal deficit which stood at 9.1 percent of GDP at the end of 2019 (Figure 4). This gap is likely to increase further as domestic resource mobilisation is expected to me much lower than anticipated in 2020 following the Covid-19 pandemic. To bridge the gap, the Government has turned to domestic and external financing.

Additionally, Zambia's increasing debt payments have reduced the Government's budgetary commitments towards key developmental sectors such as healthcare, education, agriculture, and social protection. Since the start of the Covid-19 pandemic the government has responded by additional spending on COVID19 related interventions through the Ministry of Health and the Disaster Management and Mitigation Unit (DMMU) to face the pandemic head-on. As highlighted under the Revenue Sufficiency findings, the impact increased debt repayments has had in light of the

COVID19 pandemic has left government in a tight fiscal space inadequate to respond to the economic shock seen in 2020.

According to Hon Ngandu, Government spending in 2020 is expected to increase by an estimated K9.7 billion. He explained that this is due to increased Government spending on Covid-19 related interventions and increased external debt payments and other foreign currency denominated expenditures affected by the depreciation of the kwacha. As highlighted under the Revenue Sufficiency findings, the impact increased debt repayments has had in light of the COVID19 pandemic has left government in a tight fiscal space inadequate to respond to the economic shock seen in 2020.

Figure 4: Total Expenditure and Fiscal Deficit (2013-2019)



Source: Ministry of Finance

Transparency and Accountability

In terms of transparency and accountability, a significant lacuna in Zambia's legislation is the lack of legislation guaranteeing access to information. The Companies Act of 2017 encourages companies to publish financial statements, but it is only mandatory for companies that are listed on the Lusaka Stock Exchange.

The revenue performance section of the Zambian budget provides detailed information regarding Zambia's revenue sources and the ZRA undergoes audits annually. In terms of the development of the budget, the Government allows for civil society to participate in shaping budget policies at both national and local levels, however there remains a need to enact the Planning and Budgeting Bill to strengthen the process.

Corruption remains a major impediment to Zambia's growth and development. In addressing it, the Government needs to embrace and act on reports generated by statutory bodies such as the Financial Intelligence Centre (FIC) and the Office of the Auditor-General, as well as interrogate tools such as the Corruption Perception Index (CPI) to strengthen and promote good governance. The table (Table 1) below indicates that Zambia's CPI score has been reducing over the years and lags behind other Sub-Saharan countries. Additionally, further enforcement of legislation such as the Public Finance Management Act of 2018 is imperative as efficient delivery of public services is key to poverty reduction and inequality.

Table 1: Zambia's Corruption Perception Index Score (2015-2019)

	Country	Score out of 100				
		2015	2016	2017	2018	2019
1	Denmark	91	90	88	88	87
2	Finland	90	89	85	85	86
3	Sweden	89	88	84	85	85
4	Botswana	63	60	61	61	61
5	Rwanda	54	54	55	56	53
6	Namibia	53	52	51	53	52
7	Ghana	47	43	40	41	41
8	Ethiopia	33	34	35	34	37
9	Zambia	38	38	37	35	34

Source: Transparency International

Key Recommendations

- *In the quest to make the tax rates more progressive, the Government needs to continue to strengthen tax administration as well as design and implement strong tax policies focused on corporate tax evasion, avoidance, and overall compliance with regards to corporations – especially those in the mining industry.*

- *New legislation such as the yet to be enacted National Planning and Budgeting Act must be gender-sensitive at all levels of planning.*

- *At 14 percent of GDP in 2015, Zambia's tax-to-GDP ratio is significantly lower than the unweighted average for SADC (23.7 percent of GDP) therefore Zambia needs to improve its collection by incentivizing tax compliance and the pressing on with the adoption of new technologies to improve efficiency. This would also reduce the country's increasing reliance on foreign debt.*

- *Zambia's tax incentives regime must be better targeted towards local businesses as an investment in the private sector would cushion the economy from external shocks and reduce the risks of IFF's. To realise this, there will be a need to review the CEEC Act and Companies Act to streamline characterisation and definitions* *of citizen-owned businesses (at present, the multiple categories in existence have created more loopholes than providing guidance that helps to targets incentive sand support to locally owned businesses.*

- *The recent Public Finance Management Act of 2018 had the objective to provide for oversight and accountability by detailing an institutional and regulatory framework for the management of public funds, including debt after its contraction. By ensuring the implementation of the progressive clauses of this Act, the Government can improve the usage of public resources in all sectors, enhance public debt management, and eliminate their fiscal deficit.*

- *There is a pressing need for the Government to provide a new strategy to curb corruption. The Government needs to begin to embrace reports by institutions such as the Financial Intelligence Centre or the Office of the Auditor-General, as well as interrogate tools such as the Corruption Perception Index to strengthen and promote good governance.*

1. Introduction

The Fair Tax Monitor (FTM) is an advocacy tool originally developed in 2014 by Oxfam and the Tax Justice Network Africa (TJN-A) in collaboration with partners and Oxfam Country Offices in the pilot countries which included, Bangladesh (SUPRO), Pakistan (Indus Consortium), Senegal (Forum Civil) and Uganda (SEATINI). It has later been implemented in Tunisia, Nigeria, Occupied Palestinian Territory (OPT), Vietnam, and Cambodia. FTM is based on the research of a national tax regime and the development of a research paper & scoring of the tax system based on a Common Research Framework (CRF). It provides reliable evidence for the advocacy and lobby work of local partners, which strengthens their position and increases their credibility & influencing power.

The tool further allows for regional comparisons (between 2 or more countries on challenges, successes, and learned experiences) and an examination of recent trends & general direction (policy & practice development in a country between 2 different reports). The three main objectives of the FTM are:

1. Development of capacity on technical fiscal issues for country offices, local partners, and hired researchers/consultants;

2. Production of a high-quality evidence-based research document on the national tax systems (tax policies & government practice), focusing on the main challenges and recommendations of possible solutions;

3. Strengthening of advocacy activities at local and global levels based on the research findings.

Zambia's fiscal performance remains a challenge as debt levels have been recorded as high as 70 percent of GDP. This is largely due to Zambia's limited domestic revenue sources. As the debt has continued to escalate, Domestic Resource Mobilisation (DRM) has become a top Government agenda to ensure that Zambia is better placed to fund its development.

Domestic Revenue Mobilisation (DRM) in Zambia comes in different forms including various taxes, levies, and fees. Efficient and effective tax collection is important to a country like Zambia because it is the biggest source of long-term financing for sustainable development and the determinant of good governance in terms of high-quality service provision; holding the Government to account; and citizens participation in the management of public funds. Efficient and effective tax collection coupled with economic growth is the remedy to long term aid and debt dependency and increased policy space to implement strategies that reflect the country's development plans.

Given the above context, a study that focuses on influencing tax policy reform in Zambia backed by evidence-based research like the FTM is highly necessary. The Consumer Unity and Trust Society (CUTS) International, Lusaka in collaboration with Oxfam carried out this FTM for Zambia, the pilot country in the Southern African region.

The report initially gives a brief description of the Zambian tax system. It further analyses the current tax regime following the 6 clusters of topics : (i) Distribution of the tax burden and progressivity; (ii) Revenue sufficiency and illicit financial flows; (iii) Tax competition & corporate incentives; (iv) Effectiveness of the tax administration; (v) Government spending; and (vi) Transparency and accountability. While doing so, the study encompasses relevant data from the last 10 years and challenges tax policies and offers recommendations accordingly. Besides the research study, the tax regime received a score based on the scoring methodology developed by Oxfam Novib and all research and findings were validated by relevant Government ministries and agencies including relevant organisations through a technical working group meeting.

This report was prepared on the backdrop of COVID-19 becoming a global pandemic which has caused various unprecedented economic strains. It therefore does not reflect the implications of these developments and related policy priorities in Zambia. The relevance of Zambia's first FTM report however, still stands and is key in speaking to the importance of strengthening the tax base to be able to respond to economic shocks such as the one brought about by the COVID-19 pandemic. It is expected that the findings of this study will go a long way in influencing tax policy formulation and evaluation in Zambia to make the tax system more equitable and progressive.

Secondly, the research will facilitate improvements and building the research capacities of the Zambia Tax Platform and the Civil Society Poverty Observatory Group, and finally, improving engagements with the Government based on empirical evidence and cutting-edge research pieces.

2. Brief Description of the Tax System

Following a noticeable deterioration in tax revenue collection in the early 1990s, Zambia began a process of tax reform in 1992 establishing a Tax Policy Task Force to review tax administration and policy. The output of this reform was the creation of the quasi-independent Zambia Revenue Authority (ZRA) in 1993. Before the establishment of the ZRA, revenue administration was under the Ministry of Finance in two departments, namely: The Department of Income Tax and the Department of Customs and Excise. Today, the ZRA is mandated to administer and collect tax revenue and the Ministry of Finance is responsible for tax policy formulation.

The tax policy review process of 1992 recommended several measures, including the following: elimination of import licenses; abolition of 'nuisance taxes' such as the education levy and stamp duties; the introduction of Value Added Tax (VAT) to replace sales tax; a simplified structure for Personal Income Tax (PIT) (i.e. reduced number of tax bands); and a simplification of customs procedures. As these measures were implemented over time, Zambia began to experience an increase in revenue collection.

Each year, the Government projects the amount of revenue that it intends to collect. The agreed targets are ratified by Parliament and are passed on to the Zambia Revenue Authority (ZRA) for implementation. Since 1994 when ZRA was created, the collection of tax revenues has been above target for most years. As the amount of taxes collected by the ZRA has improved there has been an increase in the share of indirect taxes and a reduction in the share of direct taxes. Further to this, income tax contribution is mainly driven by PIT. The prominence of Pay as You Earn (PAYE) within income tax has the potential to cause equity problems due to the over-concentration of taxation efforts on salaried employees.

Overall, the long-term fiscal objective of every country is to fund Government expenditure sufficiently, through taxation. In recent years, however, Zambia's fiscal deficit has been growing which has resulted in a growing debt burden. The main implications of this growing debt burden have been an increase in the allocations to the payment of debt and interest financed by redirecting resources from critical social and economic sectors of the economy. During the President's Official Opening of the Fourth Session of the twelfth National Assembly in September 2018, the President indicated that the non-discretionary expenditure, which comprises personnel emoluments and debt, stood at 50.1 percent and 40 percent respectively of Zambia's annual budget.[1] This left the discretionary expenditure amount to stand at 9.9 percent of Zambia's annual budget.

While steps to implement austerity measures were announced in the 2017 national budget address[2] by then Minister of Finance Hon Felix Mutati, there is still no clear roadmap with measurable and quantifiable interventions to address the situation. Until this is addressed Zambia's tax system will continue to collect revenue that will largely be used to finance its growing debt burden instead of investments that would directly benefit its citizens and address Zambia's high poverty and inequality levels.

3. Distribution of the Tax Burden and Progressivity

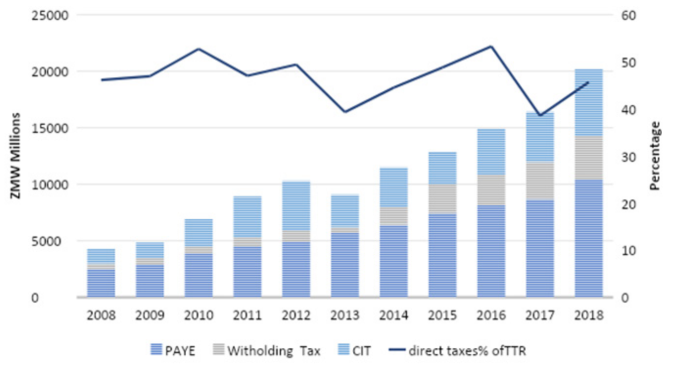
3.1. Cross-cutting progressivity

Zambia's main revenue sources can be divided into three categories, namely: (i) total domestic revenue; (ii) domestic financing; and (iii) total foreign financing and grants. Total domestic revenue represents the largest share of these sources and includes tax and non-tax revenue.

The major categories of tax revenue include Personal Income Tax (PIT) – mainly collected through Pay as You Earn (PAYE), Corporate Income Tax (CIT), Value Added Tax (VAT), Customs and Excise Duties and other minor taxes. Non-tax revenue consists of mineral royalties, tourism levy, road tolls (Road Development Agency – RDA), road user charges (Road Transport and Safety Agency – RTSA), total user fees, fines and charges, skills development levy, Food Reserve Agency (FRA)-proceeds from crop sales, interest from on-lending and motor vehicle fees, among others.[3]

Direct taxes in Zambia mainly consist of PIT collected through PAYE, CIT, and other income tax collected through Withholding Tax, mainly on dividends, rentals, interest, and royalties. The figure below shows the trends of direct tax from 2008-2018.

Figure 1: Trend in Direct Taxes (2008-2018) [4]



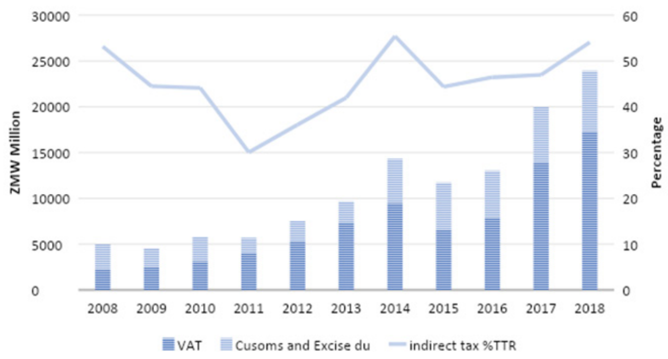
Source: Ministry of Finance

The share of direct taxes as a percentage of total tax revenue over the last ten years has been a relatively consistent trend. Between 2008 and 2018, direct tax as a percentage of total tax revenue has ranged between 46 percent and 55 percent. PIT has steadily increased as a share of direct taxes along the ten years exceeding CIT as a share of direct taxes at almost every point. It is important to note that mineral royalty was considered a part of corporate income tax until 2014 when it was moved to non-tax revenue.

Withholding tax revenue has increased along the trend. According to responses from ZRA officials, this important increase can be attributed to sensitization campaigns to educate taxpayers on the importance of paying taxes, the different and easier payment methods available for taxpayers to pay taxes, the increase in interest income by the Bank of Zambia from money market securities, more registrations of tenants and landlords for Withholding Tax and Income Tax and implementation of the Block Management System which aims to initiate appropriate taxpayer registrations, enforce tax compliance and conduct taxpayer education in identified business areas (blocks).[5]

On the other hand, Zambia's indirect taxes comprise mainly of VAT and Customs and Excise duties. The figure below shows the trends in indirect tax from 2008-2018.

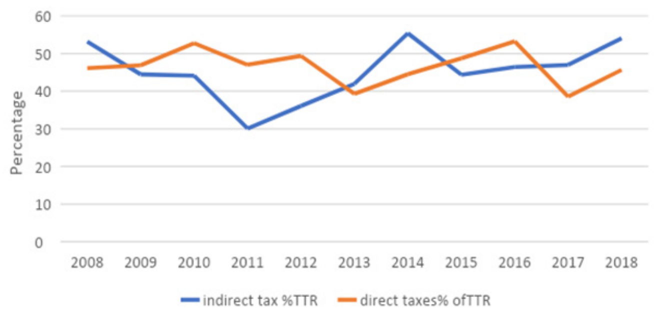
Figure 2:Trend in Indirect Taxes (2008-2018)[6]



Source: Ministry of Finance

Between 2008 and 2018, indirect tax as a percentage of total tax revenue has ranged between 42 percent and 55 percent, except for the period between 2011 and 2013 where it dropped to as low as 30 percent.

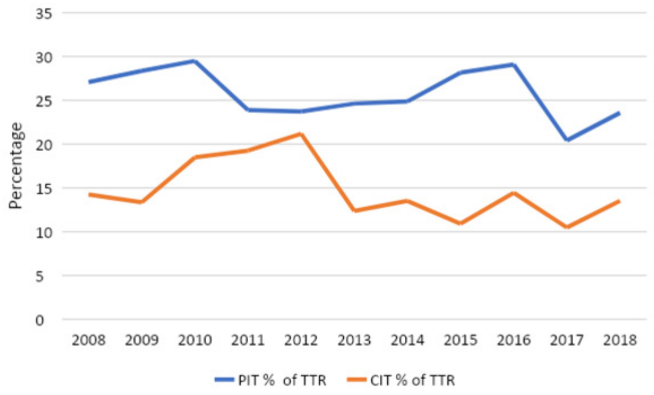
Figure 3:Direct and Indirect Taxes (% of TTR)[7]



Source: Ministry of Finance

The above graph compares direct and indirect taxes as a percentage of total tax revenue. Previously the Government used to rely more on direct taxes than indirect taxes however over the past two years it has become more dependent on indirect taxes. The share of Indirect taxes to total tax revenue stood at 54% in 2018, indicating that the tax system is moving away from progressivity, since indirect taxes are non-discriminatory in nature and the burden heavily falls on the poor.

Figure 4: Personal Income Tax and Corporate Income Tax (% of TTR)[8]



Source: Ministry of Finance

An assessment of financial transactions between January 01, 2018, and September 30, 2018 suggested that Zambia had lost ZMW 1 billion (equivalent of U$82mn[9]) in tax evasion.[10] The graph above compares the share of PIT and CIT as a percentage of total tax revenue. PIT has consistently contributed more to the Government treasury than companies.

In understanding why companies may be contributing less, in 2015, it was estimated that Zambia lost U$3bn annually in corporate tax dodging and mining companies were found to be at the centre of this.[11] Complementing this, in 2014, the FIC[12] Trends Report revealed that entities doing business with mining companies were also involved in the act.[13] Many of the cases analysed for tax evasion by the FIC involved Small and Medium Enterprises (SMEs) that were found not to be registered for tax and lacked compliance. These companies practiced false accounting where expenditures were overstated to reduce profits. There was a use of personal accounts to conduct business while other companies would externalise funds to their parent companies and received revenue in form of loans hence reducing their tax liability as interest on those loans were tax deductible.

In order to track and stop this, the institutional capacity of the revenue authority needs to be sufficiently strengthened to monitor the behaviour of corporations and implement legislation. Without doing so revenue losses in corporate tax avoidance and evasion will maintain their status and taxpayers in formal employment will continue to bear the bulk of the tax burden. ZRA has improved compliance with the introduction of the e-payment system,[14] but more needs to be done to ensure that unregistered small businesses register for taxation. The use of personal accounts to conduct business should be met by strict legislation.

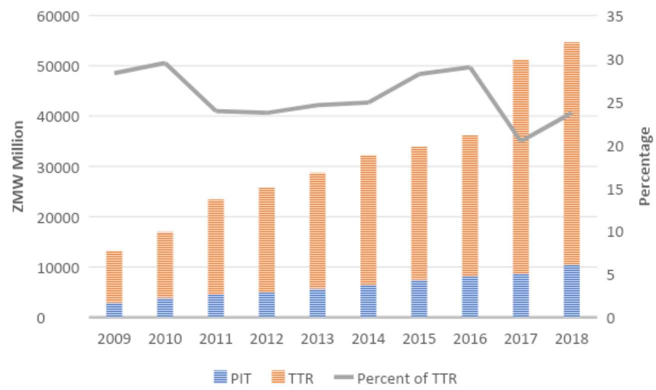
3.2. Personal Income Tax

PIT is collected by the ZRA through various forms. Firstly, as reported in the Ministry of Finance Annual National Economic reports, ZRA employs the Pay as You Earn (PAYE) method when collecting tax from formal employment. This is a method of deducting tax from employees' emoluments in proportion to what they earn. The term "emoluments" means the total earnings of an employee from employment, including wages, salaries, overtime, leave pay, commissions, fees, bonuses, gratuities, and any other payments from employment or office.[15]

Secondly, PIT is collected from sources other than formal employment through Withholding Tax (on rental income, consultancy fees etc.) and Corporate Income Tax systems (advance income tax), as well as other Income Taxes and presumptive taxes such as Turnover Tax, Presumptive Tax on Transport, Betting and Base Tax. There exists no minimum age for one to be liable to pay income tax, one is liable depending on what amount of their income is taxable. The table below shows the trends in personal income tax over the past 10 years.

Interviews with the ZRA highlighted that all personal income that is taxed, with the exception of PAYE, can be classified under self-declared income - this includes individuals who work for institutions such as embassies or make profits through forex trading. The ZRA has provisions where individuals with personal income, that falls outside the categories mentioned above, have a provision to fill out a return (income return) form and would be taxed accordingly. This is a statutory obligation and non-declaration is punishable by law. As a way of ensuring tax compliance, the ZRA have put in place online systems that make it easier to declare income and pay taxes.

Figure 5: Trend in Personal Income Tax (2009-2018)[16]



Source: Ministry of Finance

As a percentage of total tax revenue, PIT has ranged between 20.4 percent and 29.5 percent over the past ten years.

There are no tax exemptions for vulnerable people or special groups, but people with disabilities can get a tax deduction on their allowances amounting to ZMW 600,[17] and businesses that employ people with disabilities can obtain deductions. Further, there are no distinctions of rates or personal allowances based on gender, marital status, or size of the family. Professions that involve partnerships, such as lawyers and doctors have special income tax arrangements and pay according to how much profit their firms make. Listed below are some benefits that are not subject to personal income tax:

- Labour day awards
- Ex-gratia payments
- Medical expenses
- Funeral expenses
- Sitting allowances for councillors
- Benefits that cannot be converted into cash such as free residential housing provided by the employer, canteen expenses, and personal to holder cars.[18]
- Pension
- Gratuity

The table below shows the monthly personal income tax rate bands.

Table 1: Monthly PIT Tax Rate Bands[19]

1	PAYE band (ZMW)	U$ (1:15)	Rate (percent)
2	0 - 3300.00	0 – 225.7	0
3	3300.01 - 4100.00	225.7 - 280	25
4	4100.01 - 6200.00	280 - 424	30
5	> 6200.00	> 424	37.50

Source: 2017 Budget Address

The latest changes to the PAYE regime were made in 2017 where the exempt threshold was increased from ZMW 3000 to ZMW 3300 per month to adjust for inflation. Further, there was an increase in the top marginal tax rate from 35 percent to 37.5 percent to mitigate revenue losses from the increased exempt threshold.[20]

Table 2: Proportion of taxpayers in formal employment in each PIT band and the PIT rates (based on 2019 return data)[21]

1	PAYE band (ZMW)	Rate (percent)	Proportion of employees
2	First K39,600	0	66%
3	Above K39,600 up to K49,200	25	4%
4	Above K49,200 up to K74,400	30	7%
5	Above K74,400	37.5	23%
	Total		**100%**

Source: Responses from Mutemwa Mebelo. ZRA

However, according to the Jesuit Centre for Theological Reflection (JCTR), the Basic Needs and Nutrition Basket with basic goods for a family of five in Lusaka stood at ZMW 5,424.18 for December 2018.[22] This implies that a significant number of low-income people in the formal sector are still not able to afford the basic needs despite the income-tax-free threshold currently standing at ZMW 3,300.

Despite these findings, Zambia's PIT rates are relatively progressive compared to some of its neighbouring countries. In South Africa where per capita income stands at USD 63 740 [23], income between R1 and R189 880[24] (USD 0.068- USD 12,864) is taxable at 18 percent. This represents the lowest tax band. As shown in figure 7 above, 66 percent of the workers fall in the first income band with an annual income of less than ZMW 39, 600. Therefore, they do not contribute to PAYE given that the tax rate is zero for that income band. The proportion of employees who contribute to PAYE is 34 percent. The Government therefore needs to find means of raising citizen's disposable income so more people can graduate into the taxable brackets.

Further to this, there is a need for the Government to conduct timely impact assessments to identify the populations most negatively affected by taxes, such as women, and provide fixed tax deductions; as well as continue strengthening the tax administration to increase tax compliance from individuals and especially high-income individuals.

3.3. Corporate Income Tax

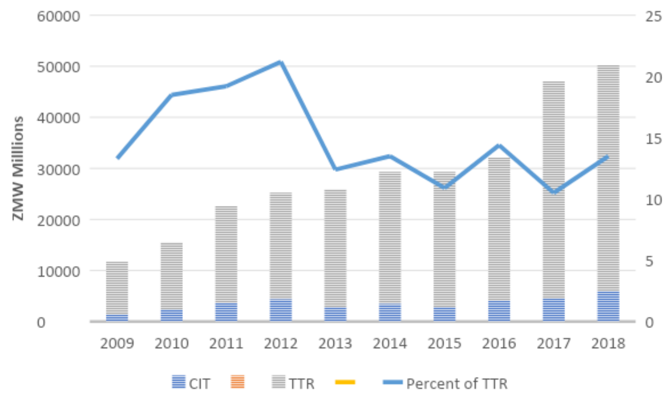
CIT is also collected by the ZRA. The ZRA levies a standard corporate tax rate of 35 percent on companies in Zambia. However, several exceptions and alternative rates are available to the following economic sectors:

- Companies that manufacture organic and chemical fertilizers and those engaging in non-traditional exports (except copper and cobalt) are levied at 15 percent;
- Companies listed on the Lusaka Stock Exchange are taxed at 33 percent;
- Telecommunication companies with an income exceeding ZMW 250, 000 are taxed at 40 percent;[25]
- Income from farming and agro-processing activities is levied at 10 percent;[26]
- Mining operations for both base metals and industrial minerals are levied at 30 percent while companies that add value to copper cathodes are charged 15 percent.[27]
- Income from mining processes is levied at 35 percent.

Zambia has Transfer Pricing rules in place which follow the Arm's Length Standard. The Income Tax Amendment Act 2018 established 10 years for the assessment of the intra-group transactions regulated by Transfer Pricing and increased the maximum penalty prescribed for non-compliance with the regulations.[28] The ZRA admitted that Zambian companies that used base erosion and profit shifting (BEPS) affected the country significantly and created an atmosphere of unfairness as some companies paid more taxes than others. The most common practices identified were tax treaty abuse especially through treaty shopping, profit shifting through high interest, royalty, management and consultancy fee deductions, and the avoidance of permanent establishment creation by tailoring activities and contracts in such a way that the activities could not be deemed a permanent establishment.

The table below shows the trends in corporate tax collection over the last ten years. Corporate tax revenue as a share of total revenue has been traditionally low, ranging between 10 percent and 14 percent - with the exceptions of 2011 and 2012 where it reached 19.2 percent and 21.2 respectively.

Figure 6: Trend in Corporate Income Tax (2009-2018)[30]



Source: Ministry of Finance

Interviews with the Zambia Association of Manufacturers and the Zambia Chamber of Commerce indicated that the private sector has often called for the Government to revise the CIT rates and lower the standard 35 percent rate to encourage both domestic and foreign direct investments in the country. This call is pushed mainly by non-priority sectors, as the Government charges lower income tax rates on the priority sectors previously described such as companies listed on the Lusaka Stock Exchange and agro-processors.

Comparatively, Zambia has a high statutory corporate tax rate which the business sector has argued increases the cost of production: South Africa has a corporate tax rate of 28 percent, Botswana has a corporate tax rate of 25 percent, Namibia has a corporate tax rate of 32 percent and Zimbabwe, 25 percent. Despite this, however, Zambia offers a significant number of incentives which negate the collections none of which are designed to specifically promote women empowerment and reduce gender inequality.[31] These tax incentives have contributed significantly to revenue loss.

As Zambia looks to improve its tax system, there is a pressing need for the Government to design and implement strong tax policies focused on addressing evasion, avoidance, and overall compliance with regards to corporations – especially those in the mining industry. As mentioned before, Zambia loses about 3 billion dollars a year from corporate tax dodging[32], a substantial revenue loss that could cater to essential public services.

Lastly, there is a need to review the corporate tax incentive regime in the country – which will be addressed further ahead of the report section that focuses on fiscal incentives.

3.4. Wealth Tax

One major flaw in the Zambian tax regime is the absence of wealth taxes. The implementation of wealth taxes would significantly reduce wealth inequality and generate additional revenue in a progressive manner. Apart from the property transfer tax that is collected through withholding tax, the regime's stance on taxing wealth is weak.

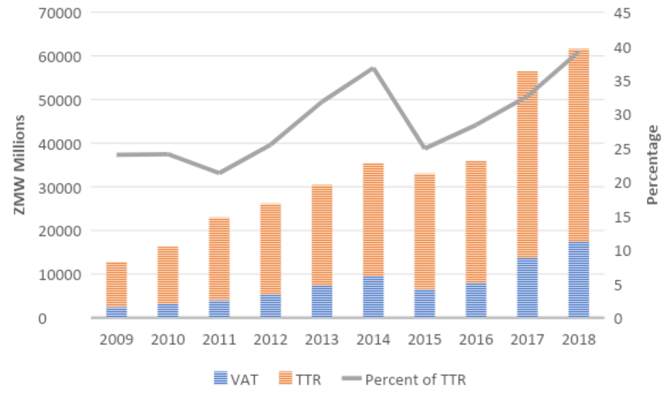
Very wealthy individuals do not usually obtain income from salaries, but through their assets. As non-employed individuals do not pay PIT through the PAYE method, this results in wealthy individuals being normally subjected to ineffective PIT collection methods – increasing the likelihood of tax leakage. Besides a proper revision of PIT collection methods, the implementation of effective wealth taxes would strongly increase the progressiveness of the national tax system.

The absence of wealth taxation underestimates the full tax liability of the wealthy. This makes the regime regressive as the wealthiest bear less of a tax burden than the middle class. There is, therefore, an urgent need for the Government to implement wealth taxes and enforce compliance as a source of progressive taxation in the quest to mitigate wealth inequality. Wealth taxes could be directed at distinct forms of wealth, such as Capital Gains Tax and Inheritance taxes. If implemented with proper thresholds that ensure the taxation applies only to the wealthiest in society, wealth taxes can gather significant political support and reduce overall regressiveness of the national tax system.

3.5. Value Added Tax

VAT as a percentage of total tax rate has had a considerable share and in 2018 constituted 39.2 percent, the highest percentage share over the last 10 years. Between 2009 and 2012, it ranged between 21 percent and 25.5 percent and increased to 36.8 percent in 2014. Over the years there has been a growing dependence on VAT. The table below shows the trends in VAT from 2009-2018.

Figure 7: Trend in Value Added Tax (2009-2018)[33]



Source: Ministry of Finance

Although at 16 percent Zambia's VAT rate is higher than Botswana (12 percent), Lesotho (14 percent), Seychelles (15 percent), and South Africa (15 percent), VAT as a percentage of GDP performed poorly in comparison to these countries in 2015. The IMF[34] estimated a low VAT C-efficiency rate[35] at 0.28 percent in 2015, compared to the average of 0.45 percent for SADC members. This means Zambia only collected 28 percent of VAT from a potential base. This poor performance was attributed to poor efficiency stemming from exemptions, evasion, and poor compliance.

It is Important to note that Zambia's annual VAT registration threshold stands at ZMW 800 000 (USD 65 627) per annum, Botswana at BWP 1 000 000[36] (USD 93, 196), Lesotho at M850 000[37] (USD 58 620), Seychelles at RS 5 000 000[38] (USD 392 157) and South Africa, ZAR 1000 000[39] (USD 67 843). Comparatively, Zambia has a relatively low threshold compared to the rest of the countries in mention except Lesotho.

However, over the years VAT collection has improved due to the enhancement of information technology solutions, particularly the use of electronic fiscal devices for VAT registered suppliers to monitor transactions in real-time and other strategies introduced by ZRA in 2017.[40]

Amidst increased VAT collections, however, it has been the issue of VAT refunds. VAT refunds accumulated to ZMW17.9 billion in January 2019 compared to the ZMW17.4 billion collected in VAT in 2018[41] which cumulatively results in a deficit in VAT revenue collection. This concern resulted in the Minister of Finance announcing a shift to Sales Tax in 2018 to address the issue of growing backlog of tax refunds(under sales tax, ZRA would not be required to issue tax refunds as they would with VAT), however, the decision was reversed in 2019 due to pushing back from stakeholders. There is, therefore, an urgent need to address ZRA's administration and compliance challenges that are resulting in an accumulation of VAT refunds.

ZRA levies a standard VAT rate of 16 percent on standard rated supplies, while zero-rated supplies attract VAT at zero percent and exempt supplies do not attract VAT at all.[42] Zero-rated supplies and imports include medical supplies and drugs, supplies to privileged people such as diplomats and the President, exports, foods, and agricultural products. Exempt supplies and imports include water supply services, health supplies, educational supplies, books and newspapers, transport services, funeral services, gaming and betting supplies, trade union subscriptions, goods under-investment certificates, and financial and insurance services.[43]

Table 3: Zero Rated Supplies and Imports (VAT)[44]

1	Medical supplies and drugs
2	Agricultural products-fresh edible vegetables, fruit and nuts; maize and mealie meal; soya bean, millet, cassava, sorghum and flours produced from them; wheat and other cereals; except when any of the mentioned products is: (i) canned; frozen or freeze dried; or (ii) supplied by a restaurant, cafeteria, canteen or like establishment.
3	Agricultural supplies- (i) bulbs, seeds and plants for producing agricultural products of sub item 1; (ii) fertilizers, insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant growth regulators and similar products for agricultural use; (iii) live cattle, swine, sheep, goats, and poultry; (iv) stockfeeds for cattle, swine, sheep, goats or poultry.
4	Infant cereals-When prepared and labelled as such
5	The supply of services which are physically rendered outside Zambia
6	Export of goods from Zambia by or on behalf of a taxable supplier, where such evidence of exportation is produced as the Commissioner-General may, by administrative rule, require.
7	The supply of services, including transport and ancillary services, which are directly linked to the export of goods mentioned in row 6

Source: National Assembly Website

Products traditionally purchased by women such as sanitary towels, do not benefit from a lower rate, exemption, or zero VAT rate. Certain exemptions could be put forward taking into consideration the needs of women.

To improve on the collection of VAT, there is a need to reconsider some VAT exemptions offered by the Government as well as strengthen overall VAT collection. It is also important for special rates to be introduced on supplies that are related to women businesses, such as hair salons. Generally, the VAT rate is competitive compared to those within the region. South Africa, for example, levies a VAT rate of 15 percent[45], Botswana levies 12 percent,[46] Malawi 16.5 percent,[47] and Namibia, 15 percent.[48]

3.6. Presumptive Tax

In Zambia, only individuals and partnerships are taxed under presumptive tax while limited companies remain excluded. There are several presumptive taxes for the informal sector, but notable ones are the turnover tax, base taxes, and levies on small scale passenger transport operators.

Turnover tax is charged on business with a turnover of ZMW 800 000 (USD 54,719) or less per annum at a flat rate of four percent. In South Africa, the turnover tax is charged in three bands: 1 percent of each R1 (USD 0.0678)above R335 000 (USD 22 696) and up to R500 000(USD 33 875), R1 650(USD 112) + 2% of the amount above 500 000 (USD 33 875 up to R 750 00 (USD50,813)and 6 650 (USD 451) + 3% of the amount above 750 000 (USD 50,813)[49]. In Seychelles, the presumptive tax rate is 1.5% of the business' annual turnover.[50] The Zambian rate is therefore relatively higher. Presumptive taxes are largely meant to nurture the tax paying culture amongst small businesses so that as they grow in turnover, they find it easy to meet tax obligations. A higher flat rate could deter this objective and can stifle business growth.

Through the ZRA'S agent, Zambia National Marketeers Association (ZANAMACA), marketers are required to pay a base tax of ZMW1 per day to ZRA. Marketeers welcomed the tax[51] as they believed it would empower them during a disaster like the Lusaka City Market inferno[52] where over 1900 stores were brunt. Zambia National Marketeers Credit Association (ZANAMACA) has further partnered with Zamtel in collecting this base tax. The partnership is aimed at significantly boosting tax compliance levels among marketeers and small-scale traders.[53] ZRA was of the expectation to capture millions of taxpayers with this partnership.[54]

For small scale passenger transport operators, ZRA stipulates that the levy is charged for vehicles that are on the road during that accounting period. The payment of these levies is straight forward as there is neither filing of returns nor elaborate business records required.[55] There are two methods of tax collection: firstly, an operator could register for the tax and pay directly to ZRA, or secondly, they can purchase tickets issued by ZRA from a registered presumptive tax agent.[56] The figure below shows the trends in the presumptive tax from 2009 to 2018.

Table 4: Trend in Presumptive Tax and Total Tax Revenue (2009-2018)[57]

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Tax	90.9	83	83.2	61	*	7.9	13.3	2.9	8.4	1.6
TTR	10 315.1	13 112.1	18 928	20 807	23 082.6	25 837.1	26 436.6	28 028.3	42 565.6	44 240

Source: Ministry of Finance

Note: The drop in revenue in 2016 is partly attributable to administrative measures that were being enacted following the upward revision of the Presumptive Tax payable by public service vehicles in 2015. For reporting purposes, the presumptive taxes are sometimes lumped in the category "Withholding taxes & others" in the annual reports, hence the missing figures.[58]

To ensure compliance, ZRA demands that all operators produce an up to date presumptive tax clearance certificate before the Road Transport and Safety Agency (RTSA) can allow licence renewal. In the case of non-compliance, five percent of the outstanding amount plus interest charged at two percent shall apply as penalty. To encourage operators to comply, ZRA allows levies to be broken down into smaller amounts to be paid more regularly. Additionally, operators can use e-services to register which are more convenient.

The presumptive tax system is based on a feasibility assessment. ZRA noted that operators were able to pay with ease some fees daily, such as loading fees and vehicle cleaning fees. ZRA further notes that these fees do not affect their financial position and based on this method of regular small payments, the presumptive tax approach was adopted.

In 2018 an increase of 50 percent to the taxes for individuals operating public service vehicles based on vehicle sitting capacity was proposed to adjust for inflation – it was the first adjustment since 2004 when the taxes were introduced.[59] The figure below shows the presumptive tax categories.

Table 5: Presumptive Tax Rates for Public Service Vehicles[60]

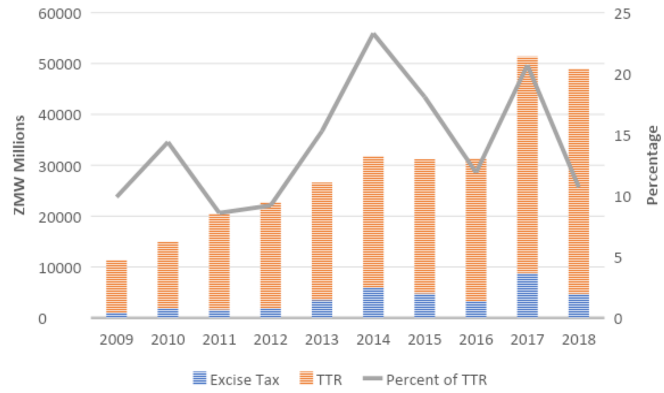
Vehicle sitting capacity	2019 Annual Tax rate (ZMW)
64 and above	10800
50-63	9000
36-49	7200
22-35	5400
18-21	3600
12-17	1800
Below 12	900

Source: Price Waterhouse Coopers

The rates do not differ in any unfavourable way for women or vulnerable groups. Everyone liable is subject to the above rates. As more women than men are employed in the informal sector, however, it is important to implement presumptive tax policies that are gender-responsive to this.

3.7. Excise taxes

Figure 8: Trend in Exercise Tax (2009-2018)



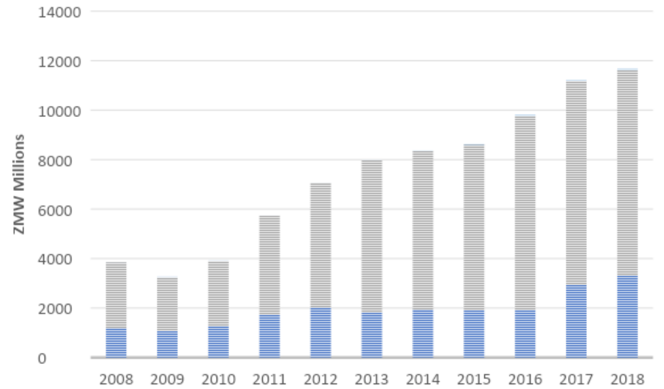
Source: Ministry of Finance

Excise duties are charged at various rates on luxury goods, tobacco, plastic bags, airtime, cosmetics, opaque beer, electrical energy, cosmetics, hydrocarbon oils, among others.[62] However, the main commodities reported to be taxed in the budget are electricity and fuel. This is regressive given the more severe impact they have on the poor. The main objective behind the implementation of excise duties is to raise revenue and stop vices. However, given the regressive nature of some of the excise duties,[63] the Government needs to conduct feasibility assessments particularly concerning the impact of excise taxes on women and the poor.

3.8. Trade Tax

Zambia Revenue Authority applies tariffs based on Cost Insurance and Freight (CIF). There are three categories for import duties: 25 percent for finished products, 15 percent for intermediate goods, and 0 to 5 percent for raw materials and capital goods. Import VAT is charged at a standard rate of 16 percent, zero, or exempt. As witnessed in other countries, the globalization effort around trade liberalization over the past decades led to a significant decline in revenue from import tax in Zambia. Government officials interviewed also attribute the reduction of import taxes to trade agreements. Import taxes as a percentage of total tax revenue stood at 26.2 percent in 2018.

Figure 9: Trend in Trade Taxes (2008-2018)



Source: Ministry of Finance

3.9. Gender Analysis

Zambia has a Gender Inequality Index[64] (GII) of 0.540, 18 percent of parliamentary seats are held by women and 39.2 percent of adult women have reached at least secondary level of education compared to 52.4 percent of adult men.[65] This shows how gender inequality remains one of the issues limiting Zambia's development. According to the 2015 Living Conditions Monitoring Survey[66], male headed households earned mean monthly income of ZMW 1, 928, while female headed households earned mean monthly income of ZMW 1 377.60.

Sectors traditionally employing women - for example, tourism and agriculture - benefit from reduced tax rates and certain concessions.[67] However, these are often on inputs such as equipment and machinery which do not directly benefit women as they are often represented in the sector as workers and smallholder farmers rather than proprietors. Incentives that benefit women as workers in these sectors would, therefore, be more appropriate. Also, small scale holder farmers should not be left out in the process. They should be assisted to overcome barriers to production, enabling them to have ease in access to markets and protection against unfair competition.

According to input from relevant stakeholders, unpaid care work used to be recognized by the Ministry of Labour, however, this practice was stopped in 2017. Upon further investigation there was no rational explanation found as to why the policy was removed. The lack of a clear explanation or policy discussion outlining why the Ministry of Labour no longer recognises the unpaid care work reflects negatively on the government.[68] This change in policy is a negative development that needs to be reversed as unpaid care work is an important contributor to the economy.

Further to this, there are currently no gender-responsive policies on taxation. Lack of gender-responsive policy is highly regressive and needs to be addressed. The Government needs to strengthen its gender-responsive budgeting and institutional implementation capacity. Increased public revenue must be channelled into programmes that challenge archaic gender norms and stereotypes and into projects and policies that respond to women's exigencies. There is a need to intensify the promotion of capacity building and skill development activities, increased ownership and control of resources such as land, capital, and credit and increased participation of women in the public service. This is vital in addressing implicit gender bias.

One of the long-term goals of Vision 2030 is to eliminate gender inequalities in social-economic development. This can be realised if gender inclusiveness is reinforced at every stage of national planning and budgeting. To allow for inclusive and sustainable economic policy implementation, the role of legislation cannot be overemphasised. Therefore, it is expedient that new legislation about National Planning and Budgeting, such as the yet to be enacted National Planning and Budgeting ACT, possess a robust gender lens. Extensive gender needs assessments, as well as incidence analysis of the impact of certain tax policies and related measures and incentives, must be carried out by the Government to help target interventions.

3.10. Public Perception of the Tax System

According to a 2018 survey by Afrobarometer, it was found that "more than eight in ten Zambians say it's "somewhat likely" or "very likely" that rich people could use bribery or personal connections to avoid paying taxes."[69] The survey further showed that two-thirds (66 percent) of Zambians said levels of corruption had increased in 2017, up from 55 percent in 2014. Additionally, according to Transparency International's Corruption Perception Index report of 2019, Zambia is the 113th corrupt world out of 180 countries with a Corruption Perception Index score of 34.[70]

As long as there remains a negative perception of Zambia's tax system, Zambian citizens lack the moral suasion to pay their taxes. It is therefore imperative that the ZRA undertake measures to address this perception.

Key Recommendations

- *In the quest to make the tax rates more progressive, the Government needs to continue to strengthen tax administration as well as design and implement strong tax policies focused on corporate tax evasion, avoidance, and overall compliance with regards to corporations – especially those in the mining industry.*

- *ZRA needs to consider revising the tax bands and increase options to lift the tax burden from lower-income individuals and increase the effective taxation of wealthier individuals.*

- *There is a need to review the corporate tax incentive regime in the country because while the statutory corporate tax rate is quite high, there are a significant number of tax incentives that offset the gains in CIT. Many tax evasion and avoidance practices limit the CIT collection capacity.*

- *There is an urgent need for the Government to implement wealth taxes and enforce compliance as a source of progressive taxation in the quest to address inequality.*

- *There is a need to address ZRA's administration and compliance challenges that are resulting in an accumulation of VAT refunds and to improve on the collection of VAT. Additionally, there is a need to reconsider some VAT exemptions offered by the Government as well as strengthen overall VAT collection.*

- *Products traditionally purchased by women such as sanitary towels, do not benefit from a lower rate, exemption, or zero VAT rate. Certain exemptions should be put forward taking into consideration the needs of women.*

- *About presumptive taxation, as more women than men are employed in the informal sector, it is important to implement tax policies that are responsive to this.*

- *Given the regressive nature of some excise duties, the Government needs to conduct feasibility assessments particularly concerning the impact of excise taxes on women and the poor.*

- *There is a need for the Ministry of Labour to recognise unpaid care work again.*

- *New legislation such as the yet to be enacted National Planning and Budgeting Act must be gender-sensitive at all levels of planning*

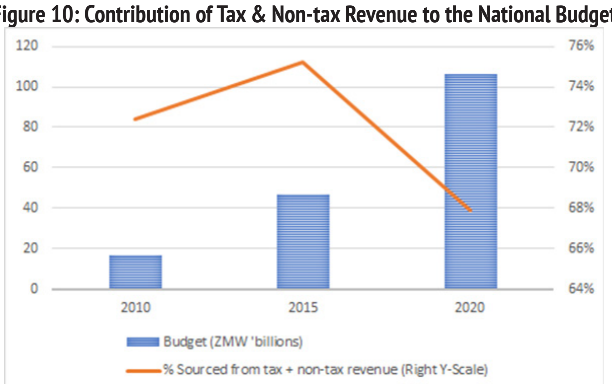
4. Sufficient Revenues and Illicit Financial Flows (IFFs)

4.1. Sufficiency

The Zambian Government has various sources of revenue, both domestic and foreign. Over the last decade, the amount of revenue raised and spent by the Zambian Government has increased significantly. The Ministry of Finance addresses the nation annually to outline the national budget – which indicates their revenue sources – as well as the various planned expenditures. The revenue sources in the annual budget speeches give us an indication of what would be considered sufficient revenue for each financial year. At the turn of the decade, the Government had a budgeted ZMW16.7 trillion (K'billion rebased)[71] - an estimated U$3.3bn - for the 2010 FY. The budget had both foreign revenue sources (18.7 percent of total budget) and domestic revenue sources (81.3 percent of total budget), the latter consisting of tax & non-tax revenues and domestic borrowing. For the 2010 FY revenues from the fiscal system,[72] inclusive of non-tax revenues, contributed significantly and accounted for 72.4 percent of the total revenue.[73]

In 2015 the Zambian Government's budget requirements increased in comparison to the 2010 FY. The proposed expenditure for the year was ZMW46.7 billion (U$7.6bn) of which 88.5 percent would be sourced domestically, and 11.5 percent sourced from foreign grants and financing. Further, the Zambian fiscal system would contribute about 75.2 percent of the total revenue and financing.[74] In the most recent budget address for the year 2020, the planned expenditure amounted to ZMW106 billion (U$8.2bn).[75] Following the trend of the last 10 years, the majority of revenue will be sourced domestically (71.1percent of total budget) while foreign sources will make up the minority (28.9 percent of total budget). Total revenue from the tax system accounted for 67.9 percent of the total budget. However, the reduced revenue mobilisation as a result of the Covid-19 pandemic has since driven the government to reprogramme the 2020 budget and reduce their expenditure.

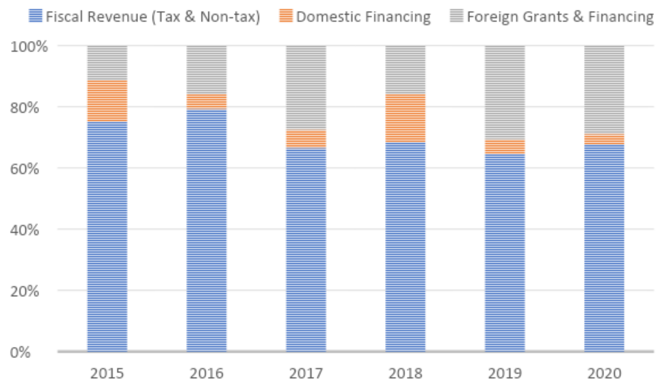
Figure 10: Contribution of Tax & Non-tax Revenue to the National Budget



Source: Ministry of Finance

Over the last ten years, the percentage share of tax revenue has fluctuated. As illustrated in the table above, the percentage share increased slightly by 2.8 percent between 2010 and 2015 before reducing from 75.22 percent in 2015 to 67.9 percent in the proposed 2020 budget. This 7.3 percent reduction shows the developments of other sources of revenue. It must be noted that the percentage share of domestic revenue sources has fallen from 81.3 percent in the 2010 budget to 71.1 percent in the 2020 budget. This 10.2 percent decrease in the share of domestic revenue sources indicates an increase in foreign sources through grants and financing. More notably, between 2015 and 2020 there has been a significant reduction of 17.4 percent (from 88.5percent to 71.1 percent) in domestic revenue. This is illustrated in the table below.

Figure 11: Percentage Share of Domestic and Foreign Revenue[76]

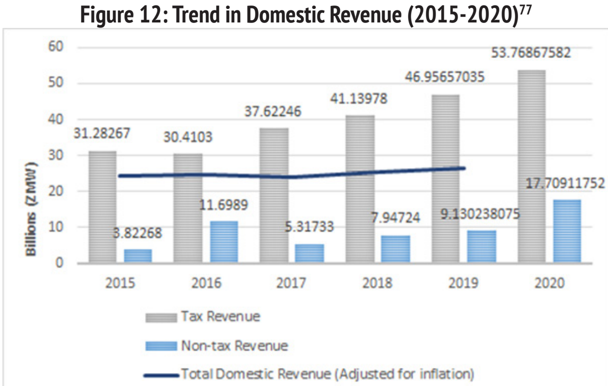


Source: Ministry of Finance

The table above indicates a fluctuating trend in domestic revenue sources and in foreign revenue sources through grants and external loans. However, about 88.5 percent of the planned revenue in the 2015 budget was domestic, while only 11.5 percent was from foreign sources. In comparison, the 2020 budget proposes that only 71.1 percent is derived from domestic streams while 28.9 percent would come from foreign sources. This is an indication that there is a decreasing portion of revenue coming from tax.

Although the share of tax revenues has reduced, the actual amounts in Kwacha have shown exponential growth in nominal terms as illustrated in the table below.

Figure 12: Trend in Domestic Revenue (2015-2020)[77]



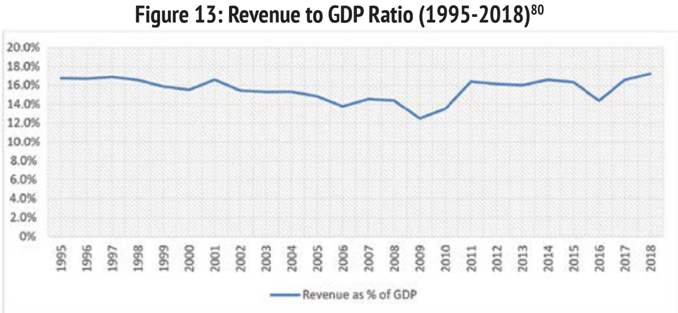
Source: Ministry of Finance

The table shows the growth of domestic revenue sources over the past five years. As illustrated above, the tax revenues show a steady increase from ZMW31.3 billion (U$3.6bn) in 2015 to ZMW53.8 billion (U$3.7bn) in 2020. As demonstrated by the conversion to US dollars of the collected amounts in 2015 and 2020, inflation was the main factor on the significant increase in the value of domestic revenue over the past 5 years.

There has also been substantial growth in non-tax revenues from ZMW3.8 billion (U$439.7mn) in 2015 to ZMW17.7 (U$1.2bn) billion in 2020.[78] The Seventh National Development plan stipulates that the plan period (2017-2021) will be directed towards enhancing domestic resource mobilisation to at least 18 percent of GDP. For the year 2018, the Economic Report[79] shows that domestic revenue as a percentage of GDP is upholding the target outlined in the national development plan.

4.2. Revenue Collection

Figure 13: Revenue to GDP Ratio (1995-2018)[80]



Source: Ministry of Finance

Revenue collection consists of tax revenue, non-tax revenue, and grants. The graph above shows the revenue to GDP ratio reported by the ZRA. The ratio of total tax revenue to GDP was recorded at 17.2 percent in 2018 – 0.6 percentage points above the 16.6 percent posted in 2017. The increase in the tax to GDP ratio was mainly due to the continued gains in revenue as a result of increased compliance enforcement activities by the ZRA. However, given the economic downturn resulting from the COVID-19 pandemic, total revenue collection for the first two quarters of 2020 was 5.1 percent lower than what was projected.[81]

The medium-term expenditure framework (MTEF) 2019-2021[82] which was produced by the Ministry of Finance, outlines the Zambian Government's plans in the medium term. Over this period the Government has been implementing various domestic resource mobilisation strategies, such as the rollout of electronic fiscal devices; and the appointment of tax agents to collect base tax, withholding tax on rental income, presumptive tax, and turnover tax. Through these strategies, the Government aims at increasing the contribution of domestic revenue (tax and non-tax revenue) to GDP from 18.6 percent in 2019 to 19.1 percent by 2021.

Although no long-term targets for revenue collection are outlined in the MTEF, the ZRA has, in recent years consistently managed to beat their annual collection targets.[83]
This positive trend the ZRA has set by consecutively beating their annual revenue collection targets is expected to end in the 2020 fiscal year as the negative effects of COVID-19 such as border closures, increased unemployment, and tax breaks have drastically reduced tax collection on imports, consumption, and incomes.

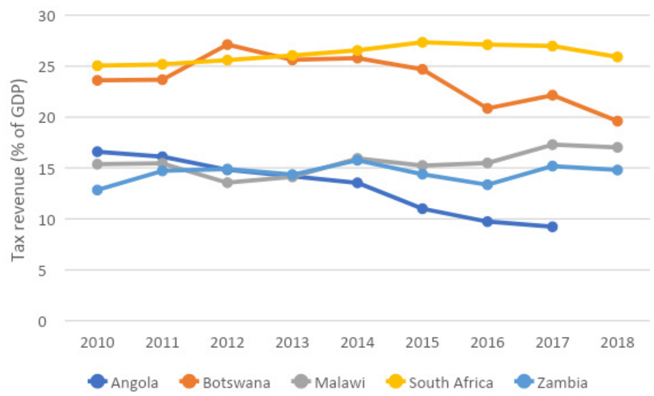
Table 6: Medium-Term Revenue Collection Projections (2019-2021)[84]

	2018 Budget		2019 Budget		2020 Budget		2021 Budget	
	Approved		Projection		Projection		Projection	
	K'000	% of GDP	K'000	% of GDP	K'000	% of GDP	K'000	% of GDP
GDP	276, 823, 700	100 %	300, 169, 200	100 %	330, 012, 700	100 %	365, 641, 200	100 %
Total Revenue	49, 087, 018	17.7 %	55, 844, 981	18.6 %	62, 960, 182	19.1 %	72, 556, 439	19.1 %
Tax Revenue	40, 874, 379	14.8 %	47, 472, 283	15.8 %	53, 327, 934	16.2 %	60, 992, 120	15.9 %
Non-Tax Revenue	8, 212, 639	3.0%	8, 372, 697	2.8%	9, 632, 247	2.9%	11, 564, 319	3.1%

Source: MTEF

As indicated in the table above, the Zambian Government plans to increase the share of both tax and non-tax revenue to GDP over the medium term. Tax revenue's contribution to GDP is projected to grow from 14.8 percent in 2019 to 15.9 percent in 2021. Similarly, non-tax revenue's contribution to GDP is projected to grow slightly from 2.8 percent in 2019 to 3.1 percent in 2021.

Figure 14: Tax Revenue to GDP Ratios (Southern Africa)[85]



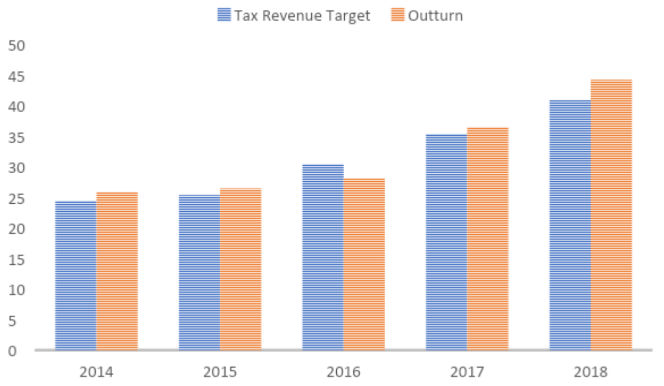
Source:World Bank

The graph above gives a broader perspective of Zambia's tax revenue to GDP ratio in comparison to other Southern African countries. The graph illustrates how Zambia's tax to GDP ratio has lagged behind Botswana and South Africa and is lower than the African average of 18.7[86] according to the World Bank. There is, therefore, a need for the ZRA to increase its tax generation to reduce its dependency on foreign funding. Doing so however should not be at the expense of low-income households and individuals, rather the ZRA should focus on taxing the wealthy and strengthening CIT systems.

4.3. Tax Revenue Collection

Through the annual budgets, the Ministry of Finance set targets for revenue collection to meet the revenue needs of the Government. Revenue and expenditure targets are included in the Economic Reports that are published annually by the Ministry of Finance. The tax revenue targets and outturns for the past five available years are illustrated in the graph below.

Figure 15: Tax Revenue Performance (2014-2018)[87]



Source:Ministry of Finance

As illustrated in the graph, tax revenue collection has been increasing over the years. According to the Economic Report, tax revenue collection in 2014 amounted to ZMW25.8 billion (U$4.2 billion), beating the target of 24.4 billion (U$3.9 billion) by 5.6 percent.[88] The increasing trend of both the revenue target and the eventual outturn is consistent from 2014 to 2018 with the outturn surpassing the initial targets in all years but one, 2016. Despite the revenue collected in 2016 is higher than that of 2015, it fell short of the target of ZMW30.4 billion (U$2.9 billion) by 7.8 percent (outturn for the year was ZMW28 billion).

The 2018 Economic Report displayed the best performance in the past five years regarding tax revenue collection. An outturn of ZMW44.2billion (U$4.2 billion) for the year was 8.2 percent higher than the targeted amount of ZMW40.9 billion (U$3.9 billion).). This percentage variance was driven by the good performance of tax revenues coupled with improved compliance in the collection of some revenue categories. Specifically speaking, the outstanding collection of tax revenue can be attributed to improved compliance on VAT, and higher collections than programmed on Pay As You Earn and Insurance Premium levy. Value Added Tax receipts at ZMW17.4 billion were above the target of ZMW12.4 billion by 40.3 percent supported by, among other factors, the appointment of tax agents.

Although the aggregated tax revenue collection was well above the target, it must be noted that Customs and Excise duties collection continued to decline in 2018 and were 18 percent below the target of ZMW8.0 billion. The lower than anticipated performance was attributed to customs and excise exemptions that apply to most of the imports coming through free trade zones.[89]

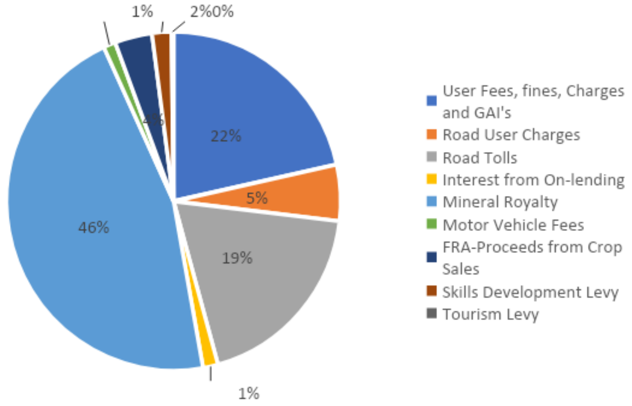
Looking at the most recent quarterly economic review published by the Ministry of Finance[90], the projected tax revenue collection amounted to ZMW12.7 billion for the second quarter of 2019. The tax revenue collection for the second quarter of 2019 amounted to ZMW13.8 billion, about ZMW1.1 billion above the projected target. This is indicative of a continued trend of increasing tax revenue collection.

As indicated earlier, however, despite this positive trend, Zambia's domestic revenue is low compared to peer countries in SADC. At 14 percent of GDP in 2015, Zambia's tax-to-GDP ratio is significantly lower than the unweighted average for SADC (23.7 percent of GDP).

4.4. Non-Tax Revenue Collection

Non-tax revenue consists of several different fees and levies that are collected by the Zambian Government and contribute to the annual budgets. The 2018 Economic Report stated that the Zambian Government raised a total of about ZMW8.6 billion, about ZMW0.4 billion more than the ZMW8.2 billion approved target.[91]

Figure 16: Percentage Shares of Non-Tax Revenue[92]



Source:Ministry of Finance

The chart above shows that a large share of non-tax revenues in 2018 came from mineral royalties accounting for 46 percent of the total nontax revenues. 'Road tolls' and 'user fees, fines charges and GAI's' made up 19 percent and 22 percent respectively. Motor vehicle fees, road charges, interest from on-lending, proceeds from FRA crops sales and tourism levies made up the remaining 13 percent of the total.

Mineral royalties are payments received by the government as consideration for the extraction of minerals. These payments are dependent on the type and value of mineral extracted. Minerals other than copper are charged a percentage of their gross value[93] or norm value.[94]

Table 7: Mineral Royalty Rates (Minerals other than Copper)[95]

Description	Mineral Royalty Rate
Base Metals (Other than Copper)	5% on norm value
Energy and Industrial Minerals	5% on the gross value
Gemstones	6% on the gross value
Precious Metals	6% on norm value

Source: ZRA

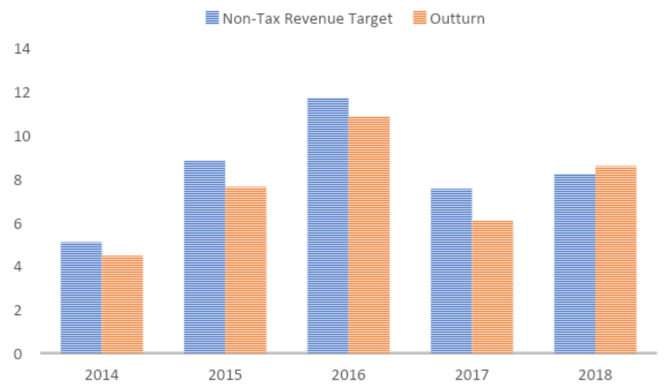
Royalty charged on copper is subject to a five-tier regime that charges progressive rates depending on the norm price range.

Table 8: Mineral Royalty Rates (for Copper)[96]

Norm Price Range	Mineral Royalty Rate
Less than U$4,500	5.5%
U$4,500 but less than U$6,000	6.5%
U$6,000 but less than U$7,500	7.5%
U$7,500 but less than U$9,000	8.5%
U$9,000 and above	10%

Source: ZRA

Figure 17: Non-Tax Revenue Performance (2014-2018)[97]



Source:Ministry of Finance

As illustrated in the graph above, the outturn of non-tax revenue has consistently been falling short of the targets in recent years. In 2014 non-tax revenue was short of the target of ZMW5.1 billion by 12.2 percent, only reporting ZMW4.4 billion. Similarly, in 2017 the non-tax revenue underperformed by 19.2 percent, falling short of the ZMW7.5 billion target and reporting an outturn of only ZMW6.1 billion. In the 2018 Economic Report, however, the trend was broken. Non-tax revenue collection was 4.3 percent above the target of ZMW8.2 billion, reporting a ZMW8.6 billion outturn. The Ministry of Finance attributed the outturn of non-tax revenues in 2018 to: implementation of the direct deposit system for fees, fines, and other Government services; use of online payment systems; extension of toll gates; and a rise in Mineral royalty collections.[98]

Looking at the performance of both tax and non-tax revenue, specifically in the most recent Economic Report of 2018, it is clear that revenue collection is improving in response to the aforementioned Government interventions. Despite what appears to be sufficient revenue collection, expenditure targets for numerous sectors of the economy are not met. This may be attributed to the constitutional and statutory commitments of debt servicing and the payment of salaries of government employees taking priority over expenditure to service delivery in the various sectors of the economy.

4.5. Healthcare, Education, and Agriculture

Healthcare, education, and agriculture are key sectors of the economy and are vital for progressive economic growth and development. The Zambian Government has various spending targets for these sectors and is an active participant in African policy-making, Zambia is subjected to the goals of international declarations and treaties.

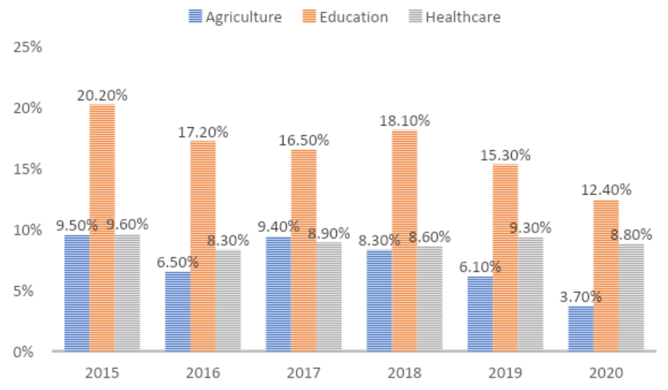
The Abuja Declaration of April 2001 had a focus on healthcare, specifically HIV/AIDS, tuberculosis, and other infectious diseases. According to the declaration, Zambia and all other members of the Organisation of African Unity (OAU) set an objective to take all necessary measures to ensure that the needed resources are made available from all sources and that they are efficiently and effectively utilised. Also, all signatories pledged to set a target of allocating a minimum of 15 percent of annual budgets to the improvement of the health sector.[99]

In 2011 the World Health Organisation (WHO) reported on the progress of the Abuja Declaration and the Millennium Declaration that was designed to improve social and economic conditions in the world's poorest countries. At the time, only Eritrea, Mauritius, and Seychelles were on track to achieve the objectives of the Abuja declaration. 27 countries, Zambia inclusive, had no or insufficient progress.[100]

The annual national budget speeches from the Ministry of Finance give a glimpse of what Government plans to spend on the various economic areas. With the Abuja Declaration giving us the long-term target for expenditure on health, we can deduce whether or not the Zambian Government is meeting this target, and if not, how far they are from achieving it. According to the most recent national budgets, we can see that the budget allocation for health has been reduced slightly from 9.6 percent in 2015 to 8.8 percent in 2020 (illustrated in the line graph below).

The 8.8 percent allocation in the 2020 budget speech indicates that Zambia still falls short of the objective of the Abuja Declaration by about 6.2 percent. In 2019 President Edgar Lungu called for robust and innovative financing mechanisms to drive the agenda for Universal Health Coverage in Africa. President Lungu has also called on Governments to increase domestic funding for the health sector, while at the same time cultivating healthcare partnerships with multilateral institutions and the private sector.[101]

Figure 18: Budget Allocations for Agriculture, Healthcare and Education (2015-2020)



Source:Ministry of Finance

In 2000 The Dakar Framework for action had a focus on the education sector. The implementation of the Framework for Action has been dependant on the mobilisation of additional resources and the rationalisation of budgetary allocations to education. Governments were to ensure that at least 7 percent of GDP is allocated to education within five years of implementation and 9 percent within ten years. International agencies aimed to double their financial support, especially for capacity building and management development.[102] The Incheon Declaration, that was adopted in 2015, also stipulates spending targets amongst other commitments towards education for all 184 member states. The declaration proposes that all nations commit between 15 percent and 20 percent of their annual budgets to education.

As shown in the line graph above, the allocation for education has been reduced significantly in the past five years. In 2015 the allocation for education was 20.2 percent, significantly higher than the allocation of 12.4 percent in 2020. Although the budgetary commitment towards education has been reducing over the years, the allocation between 2015 and 2019 has been following the Incheon Declaration and Framework for Action.[103]

The Maputo Declaration was launched in 2003 as a response to the stagnation of African agriculture. The signatories agreed that ten percent of public expenditure should be spent on agriculture to increase agricultural productivity. Following the Declaration, the Comprehensive Africa Agriculture Development Programme (CAADP) was launched which has been the main coordinating organisation in the implementation process of the Declaration.

Zambia was one of the signatories of the Maputo Declaration and agriculture has been recognised as a key driver of economic development. The Minister of Finance Margaret D. Mwanakatwe in the 2019 budget address stated that the agriculture sector is the largest source of livelihood for Zambian people. A diversified and export-oriented agriculture sector is critical to uplifting the living standards of our people. Despite the minister identifying agriculture as a key driver for poverty alleviation, the percentage budget allocation has decreased from 9.4 percent in 2017 to only 3.7 percent in 2020 which is well below the targets of the Maputo Declaration.[104]

4.6. Gender Equality

The Gender Equity and Equality Act enacted in 2015 had the function of, inter alia, promoting gender equity and equality in all spheres of life to stimulate productive resources, development opportunities and to empower women[105]. The Ministry of Gender also developed a National Gender Policy (NGP) in 2014 which was a revision of the first NGP of 2000. The goal of the revised policy is to create a Zambian society which has achieved the vision of "A nation where there is gender equity and equality for sustainable development."[106]

As a commitment to promoting gender equality, the Government has committed to maintain and accelerate efforts by facilitating organisational transformation to enhance responsiveness in all dimensions. The Seventh National Development Plan aims to achieve this by enhancing the Government's capacity for gender mainstreaming and engender policies, plans, programmes, projects, activities, and budgets through coordinating and monitoring the implementation of the NGP. About women's empowerment, the Government has committed to engendering the planning and budgeting processes, especially in the key sectors driving national development. This involves ensuring the equitable distribution of national resources between women and men, girls and boys, and have a meaningful impact on the medium and long-term on poverty reduction among women and girls.[107] According to the NDP, the focus will be on collaboration and the use of a holistic multi-sectoral approach in tackling the problem of the inequality gap by scaling-up women's economic empowerment programmes as well as affirmative action for women, gender mainstreaming and promotion of girlchild education.

Although the NDP and NGP are fundamental first steps in the fight against gender inequality, these documents need to be monitored and implemented for their objectives to be met. The Ministry of Gender has the responsibility of coordinating and monitoring the NGP which has had a history of poor implementation. The issue of gender equality is cross-cutting and therefore should not be limited to the Ministry of Gender to monitor. The Government must take deliberate steps to track and report expenditure on gender equality across all ministries and departments. In 2017 NGO Coordinating Council's (NGOCC) work on gender-responsive budgeting in Zambia recognised that there is much room for improvement in various Government programs. Vulnerabilities can be reduced through programmes such as the Keeping Girls in School initiative that was launched in 2016[108] to improve the attendance of girls in schools.

To further reduce vulnerabilities NGOCC also identified reproductive health and menstrual hygiene, (Zambia committed to distributing free sanitary towels to all vulnerable girls especially in rural areas) water and sanitation, and school feeding programs. Abilities can be strengthened through increasing accessibility to bursaries for less advantaged learners in tertiary education and advancing Government skills development programmes that respond to industry skills requirements[109]. The implementation of the Re-entry Policy[110] can also be enhanced. In 2018 it was reported that there was poor implementation of the Re-entry policy indicating that there is much room for improvement.[111] Some of the challenges included the limited implementation of the policy guidelines among some schools, socio-economic factors on the part of parents and the pupils affected, and intimidation and stigmatization of girls who return to school by teachers and fellow pupils.[112]

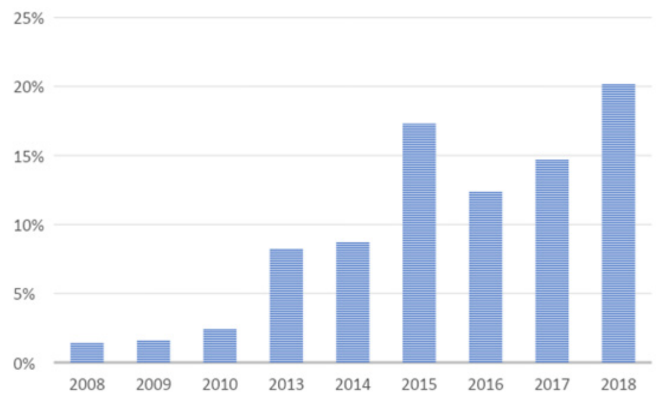
The 2014 development of SADC's Gender Responsive Budgeting (GRB) guidelines provided a common reference framework for the SADC Member States that can facilitate the development of good public financial management practices that ensures that national budgets are practically addressing gender equality priorities and commitments. These guidelines have led to the Zambian Government developing GRB guidelines that are tailored to the Zambian environment and some of these guidelines are already being implemented through the Ministry of Gender.[113]

4.7. Fiscal Debt Gap

A fiscal deficit is a shortfall in a Government's income compared with its spending. The Government that has a fiscal deficit is spending beyond its means. A fiscal deficit is calculated as a percentage of gross domestic product (GDP), or simply as the total amount spent more than income. In either case, the income figure includes only taxes and other revenues, excluding money borrowed to make up the shortfall. A fiscal deficit is different from fiscal debt, the latter being the total debt accumulated over years of deficit spending.[114]

The trend of Zambia's fiscal deficit is shown in the table below.

Figure 19: Percentage Budget Deficit (2008-2018)[115]



Source:Ministry of Finance

The trend illustrated above shows that the budget deficit has broadened exponentially over the past 10 available years and looking at the expenditure of the first two quarters of the 2019 financial year (ZMW4.3 billion for Q1, and ZMW0.5 billion for Q2), the budget deficit trend does not seem to be slowing down. The budget deficit in 2008 stood at ZMW1402.5 billion[116] (ZMW1.4 billion rebased currency) and 2.6 percent of GDP. In comparison, the 2018 Economic Report stated that the budget deficit for that year was ZMW20.2 billion, and 7.6 percent of GDP. This represents a monetary increase of about ZMW18.8 billion over 10 years.

The Kwacha has depreciated significantly over the years. Externally contracted debt, which is paid out in foreign currency, has, therefore, become more and more expensive to service for the Zambian Government and has resulted in a growing fiscal deficit. The fiscal year of 2020 that has seen the Kwacha depreciate by over 41%[117] against the US dollar will further increase the fiscal deficit as external debt servicing becomes more costly. Excessive spending above the planned expenditure has also contributed to the fiscal deficit with the Minister of Finance specifically identifying overspending on capital projects and the Farmer Input Support Programme.

Besides, the Zambian economy also faces high levels of debt. Zambia is part of a list of 25 low-income countries considered at high risk of debt distress in 2018.[118] The Government's efforts to reduce the country's infrastructure gap as well as bring down poverty and inequality have resulted in large spending overruns, a growing subsidy bill, and a substantial public sector wage bill over the last five years. Alas, domestic revenues remained low and stagnant. As a result, the Government resorted to massive external borrowing to finance arguably unsustainable expenditure. This approach to spending pushed borrowings to about 59 percent of GDP as at the end of 2017, which is in the territory of unsustainable debt levels. In October 2017, the IMF issued a red flag that Zambia was at high risk of debt distress, implying that the country was likely to breach the thresholds for debt and debt service indicators and, should it continue on the same trajectory, likely default on its debt service obligations.

In light of the escalating debt situation, the Medium-Term Expenditure framework stated that the Government is firmly resolved to respond to the current economic challenges that the country is facing. The Government has committed to diligently follow through with the implementation of austerity measures issued by the presidency. These are centred on achieving fiscal consolidation by limiting expenditure to priority sectors such as health and education; enhancing domestic revenue mobilisation, and scaling down debt contraction. Although austerity measures have been discussed, very little has been done to implement and monitor them over time. There are no reports on how much has been saved or allocated to priority sectors.

Further, in the medium-term (2019-2021), the Government has committed to focusing on gradually reducing the level of debt distress from high to moderate. Some of the measures to be undertaken during the medium-term include; postponement of the contraction of some pipeline debt, cancelation of some of the contracted loans that are yet to be disbursed, refinancing of selected bilateral loans and cessation of the issuance of guarantees and letters of credit.[119]

Recently the Paris Club Creditor Countries accepted to provide Zambia with a time-bound suspension of debt service due from 1 May to 31 December 2020. Although the Paris Club only accounts for about 1 percent of the external debt stock, the savings from this bilateral debt suspension would give the government some much needed fiscal space to provide essential public services at a time when domestic resource mobilisation has been subdued. The World Bank estimates that the G20 Debt Service Suspension Initiative (DSSI) would save the Zambian government about USD 139.2 million worth of debt servicing.[120] Although this savings would significantly reduce Zambia's bilateral debt stock which stood at USD 340 million at the end of 2019, it would not provide relief for the majority of the external debt from commercial debt, export and suppliers' credit, and multilateral debt that collectively account for 96 percent of the total external debt.[121]

4.8. Illicit Financial Flows

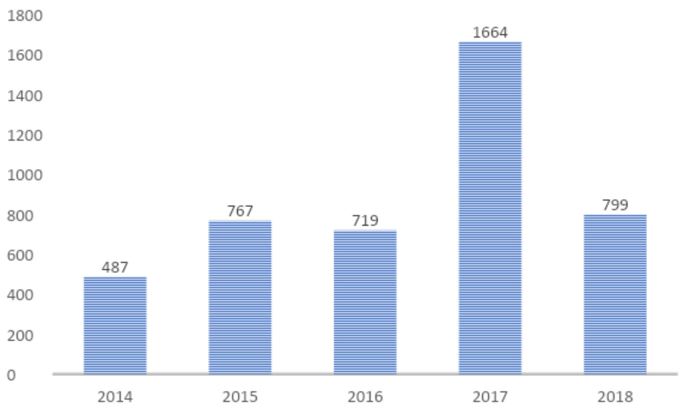
The term "Illicit Financial Flows" (IFFs) according to the World Bank refers to the cross-border movement of capital associated with illegal activity or more explicitly, money that is illegally earned, transferred, or used that crosses borders.[122] Although this is a general definition, IFFs differ from country to country depending on the economic activities that lead to these flows. The World Bank urges developing countries to work together towards a common goal to fight this global problem. Working towards a common goal would require collaborating on management and regulation of finances, governance and transparency, natural resources, trade, and proactive international cooperation on proceeds of crime and tax. UNDP stated that to control illicit financial flows (IFF) in Africa, there is a need for new continental mechanisms to regulate transfer pricing, public tax transparency and financial disclosure rules for multinationals and private individuals.[123]

The report on the High-Level Panel on IFFs from Africa discovered that IFFs from the continent are highest in the extractive industries, including mining. In precious metals and minerals, iron and steel, and ores, the greatest shares in total IFFs from Africa are from the Southern African Customs Union (SACU). The Zambian tax system, like any other, is subject to various forms of tax leakages and Illicit Financial Flows (IFFs). IFFs are closely linked to domestic resource mobilisation and as they involve practices such as tax evasion that deprive the tax system and the ultimately the Zambian population of limited resources. According to the High-Level Panel report, Zambia accounts for 65 percent of the continent's IFFs in copper.[124] A study conducted by the Natural Resource Governance Institute reported that Zambia may be losing up to U$500mn per year due to illicit transfers by mining companies. In the report the Former Vice-President of Zambia, Guy Scott, suggested that this figure might be as high as U$2bn per year.[125] For the Zambian economy to grow and thrive, more needs to be done to reduce these exploitive transactions.

In 2013 the Financial Intelligence Centre (FIC) became operational following the enactment of the Financial Intelligence Centre Act, NO. 46 of 2010. The core function of the FIC is to receive reports of financial transactions from reporting entities, analyse them, and disseminate analysed information to Law Enforcement Agencies (LEAs) and other foreign designated authorities.[126] The establishment of the FIC was an effort to investigate, follow up, and expose misconduct in financial transactions, hence identifying and combating tax leakages.

The FIC collects data on suspicious transactions within the country. The latest report from the centre provided information on the number of reported suspicious transactions (STR). The graph below shows the number of transactions reported since 2014.

Figure 20: Suspicious Transactions Reported (2014-2018)[127]



Source: FIC

Looking at the graph above there is a clear indication that the number of reported transitions has risen since the first report in 2014. Considering the spike in cases observed in 2017, the reduction in 2018 can be viewed as a step in the right direction. According to the FIC report, the majority of suspicious transaction reports (STRs) received came from commercial banks and this was attributed to a successful campaign by the FIC.

Causes of tax leakages

- **A small number of taxpayers (concentrated tax burden)**

Zambia's labour force in 2017 (the total of employed and unemployed economically active persons) stood at 3.4 million people.[128] The employed population was reported in 2017 at about 3 million people, about 18.3 percent of the total population at the time. The tax burden is concentrated on this small portion of people. This is a double-edged sword in the sense that the unemployed and those that are not formally employed do not pay income tax[129] while the small labour force that is formally employed tries to find ways to minimize the amount of tax they pay. Additionally, of the total formal taxpayers in Zambia, 60 percent of them fall under the tax-exempt bracket.

- **Large informal sector**

The employed population can be divided into formal and informal employment. The labour force survey from 2018 found that the formal sector accounted for only 16.4 percent of the employed population while the informal sector accounted for 88.6 percent. Paid employees accounted for 26.1 percent of the employed population while own account workers (self-employed and employers) accounted for 46.3 percent.[130] This demonstrates that the Zambian formal economy is very small. Although presumptive taxes are collected from the informal sector, the bulk of the employed population is excluded from personal income taxes. As a result, the tax burden, as alluded to above, is heavy on the formally employed. The informal economy is made up of several unregistered and undocumented businesses making tax avoidance and evasion much easier for them.

- **Tax incentives and exemptions**

As a developing nation, Zambia is constantly making efforts to attract large corporations and multinationals to invest in the national economy. To do this, different forms of incentives – including tax incentives – are usually proposed and granted to these large companies to encourage more investment. While some incentives can result in positive results if properly designed, most incentives and exemptions have an overall negative impact and result in large companies not paying taxes.

- **DTTs**

Double Tax Agreements can, depending on the terms agreed upon by the two countries, encourage tax avoidance, and enable tax evasion. A study by CTPD in 2019[131] found that in terms of revenue collection, it was observed that Zambia collects less revenue in percentage terms from trade between Switzerland and Zambia as compared to Zambia – China and Zambia – South Africa trade. It was established that Switzerland brings in more FDI into Zambia as compared to China and South Africa, but it was indicative that the loss in taxes due to unfavourable DTA clauses is greater than the benefits of increased FDI.

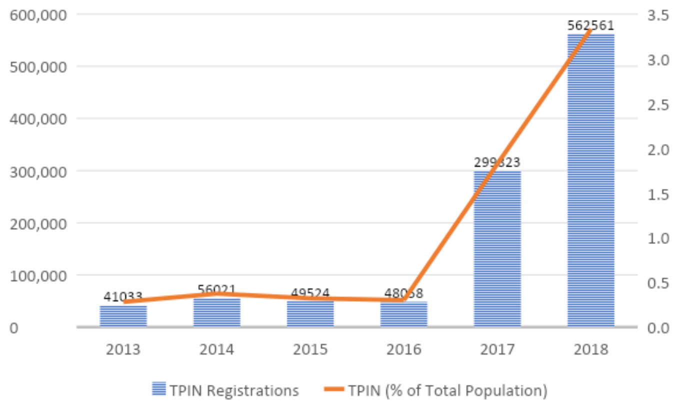
- **Transfer Pricing abuse**

Transfer pricing rules regulate transactions between companies that are part of the same multinational group. The Tax Justice Network estimates that about a third of all international transactions happen between and within multinationals[132]. The international nature and complexity of such transactions makes it difficult for a country like Zambia to track and correctly assign prices, leaving room for abusive practices such as transfer mispricing[133] and intra-group reinvoicing. In 2018 the Zambian Government, through parliament, made amendments to the regulations that govern transfer pricing to reduce exploitation and increase domestic revenue collection.[134] Additionally, a 2018 FIC report outlined practices such as profit shifting where some companies externalized funds to their parent companies to reduce their tax liability.[135] Base erosion has also been a major issue and has been attributed to the creation of new companies that benefit from special tax incentives that are given in selected sectors on new investments.[136]

4.9. Taxpayers

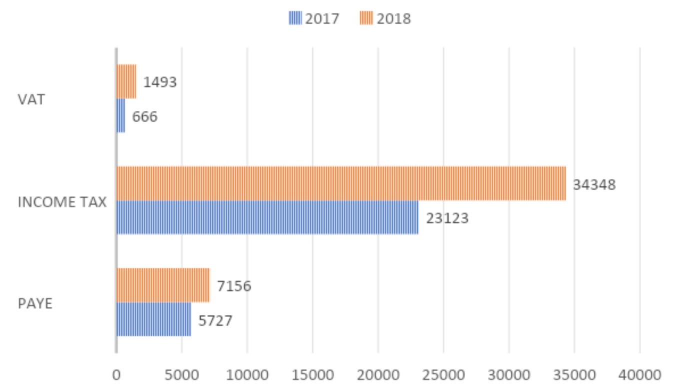
Zambia has a tax payer registration system called the 'Tax Payer Identification Number' (TPIN). The table below shows how the number of TPIN registrations increased exponentially from 41,033 in 2013 to 562,561 in 2018. As illustrated in the table, the ratio of TPIN registrations to the total population has also increased dramatically since 2016. The increased registrations in 2017 and 2018 were triggered by new ZRA regulations, which require a TPIN registration for an individual to have a bank accounts or access to various services, such as electricity.[137]

Figure 21: TPIN Registrations (2013-2018)[138]



Source: CSO

Figure 22: Registration by Tax Type[139]



Source: ZRA

The tables above illustrate the effort made by the tax authority ZRA to increase the number of taxpayers categorised by tax type. Between 2017 and 2018 the registration of VAT taxpayers more than doubled from 666 registrations to 1493 registrations. The number of registrations for Corporate Income tax[140] and PAYE also increased significantly which demonstrates the collective efforts to increase tax compliance across all tax types.

Holistically looking at Zambia's revenue sufficiency, resource mobilisation in recent years has been above expectations with tax revenue collection consistently above targets and non-tax revenue collection above the target in 2017 and 2018. As the Zambian Government continues to adopt modern technologies such as digital tax stamps (DTS) and the Tax Invoice Management System (TIMS) through the use of electronic fiscal devices (EFDs), we can expect domestic total revenue collection to continue to improve in the coming years and achieve the projected goal of 19 percent of GDP as stipulated in the MTEF. It must be noted, however, that although revenue collection is increasing, the fiscal deficit has also been increasing. Neighbouring countries like Angola are close to eliminating their fiscal deficit to reduce the need for domestic and external financing. Zambia also lags behind its southern African counterparts in tax to GDP ratio. There is a need for the Government to outline long-term targets for revenue collection and take into consideration progressive tax practices such as developing a department within the revenue authority that is dedicated to High Net Worth Individuals. Additionally, the impact of proposed austerity measures must be measured and reported to ensure that they are followed through effectively.

Key Recommendations

- *Over the past 10 years, the monetary value of the annual national budgets has increased significantly as the population and needs of the Zambian people grow. With this year on year increases, the percentage share of foreign financing and grants has also been increasing. The Zambian Government needs to reverse this trend to reduce the reliance on foreign debt.*

- *Despite Zambia's increasing tax collection levels, Zambia's domestic revenue is low compared to peer countries in SADC. At 14 percent of GDP in 2015, Zambia's tax-to-GDP ratio is significantly lower than the unweighted average for SADC (23.7 percent of GDP) therefore Zambia needs to improve its collection by incentivizing tax compliance and the pressing on with the adoption of new technologies to improve efficiency.*

- *Zambia's revenue (tax and non-tax) to GDP ratio has also been increasing in recent years. However, there is a need for the Zambian Government to set clear long-term targets for revenue using what its neighbours are collecting as a benchmark. The adoption of new technologies will be crucial in reaching long term objectives and must be continued.*

- *Zambia needs to ensure that spending on the education, health and agriculture sectors is in line with its commitments. This has become even more critical given the reduced fiscal space resulting from the Covid-19 pandemic.*

- *Although the NDP and NGP are fundamental first steps in the fight against gender inequality, these documents need to be monitored and* *implemented for their objectives to be met.*

- *The ZRA along with the Ministry of Finance has identified administrative and staffing challenges in regards to the collection of VAT. To increase domestic revenue collection, the Government must address these challenges while taking into consideration the effect any changes may have on producers of goods and services as well as on consumers.*

- *IFFs are also a major challenge for Zambia. The Zambian Government must, therefore, scale-up efforts to deal with issues like tax evasion and avoidance while engaging other African countries to formulate a collaborative front. In recent years ZRA has implemented various measures such as the establishment of the Inspectorate and Customs Enforcement Unit (ICE), the mandatory capturing of TPIN on tax invoices for Business-to-Business and Business-to-Government transactions, and the implementation of the Data Matching Project, which is meant to enhance compliance by identifying and investigating discrepancies in declarations made on both domestic and customs declarations. In addition to these measures the government must also strengthen transfer pricing legislation, renegotiate old treaties and scale down on tax holidays.*

5. Tax Competition and Corporate Incentives

5.1. Governance

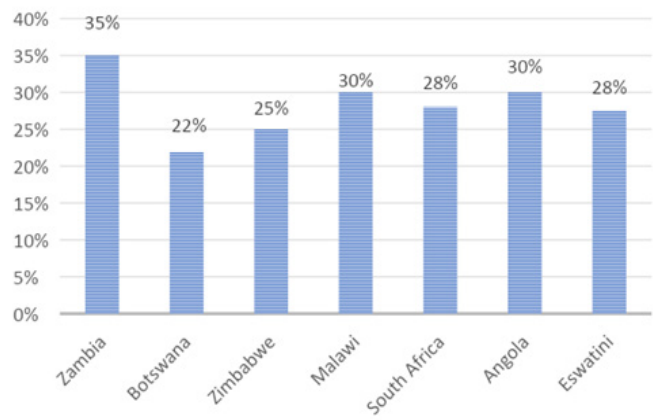
Tax incentives are designed to reduce the effective tax burden for businesses. They are a policy tool that aims to attract foreign investment, promote export-oriented growth, and create employment. In Zambia, the link between tax incentives and economic development has not been adequately backed by empirical evidence. Despite the notion among developing countries that tax incentives have a positive relationship with investment inflows, numerous studies have disproved this theory.

According to the IMF, tax incentives generally rank low in investment climate surveys in low-income countries, and there are many examples in which they are reported to be redundant—that is, the investment would have been undertaken even without them[141]. In a study carried out by the World Bank in East Africa, 93 percent of investors surveyed noted that the company would have invested in the country anyway without certain tax incentives[142].

Through the Zambia Development Agency Act (2006), Zambia offers a wide range of incentives in the form of allowances, exemptions, and concessions for companies. The Act provides for specific investment thresholds for companies to qualify for fiscal and non-fiscal incentives.

Comparative Southern Africa CIT rates

Figure 23: Comparative CIT Rates (Southern Africa)



Source: IMF

In the Southern African region, Zambia's CIT rate is among the highest standing at 35 percent. Despite the high rate, Zambia offers a system of multiple CIT rates rather than a consolidated tax rate. The following graph summarises the different applicable rates to different types of businesses:

Table 9: CIT Rates by Category[143]

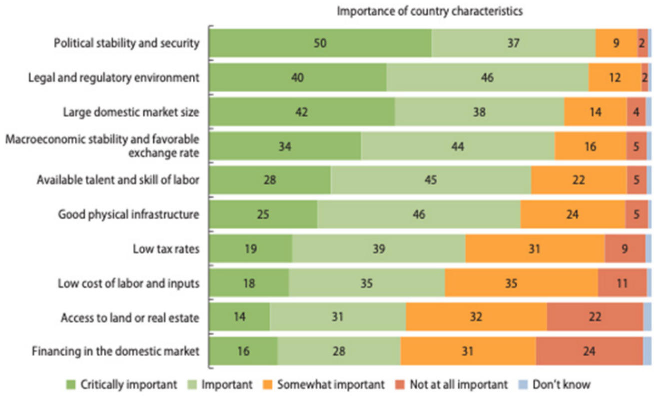
	Category of income stream accruing to a company or privileged sector taxed at:	CIT rate (in percent)
1.	Mineral Processing	35.0
2.	Mining	30.0
3.	Manufacturing of products using copper cathodes	15.0
4.	**Manufacturing & other companies**	35.0
5.	Approved Public Benefit Organisation (on income from the business)	15.0
6.	Agro-processing	10.0
7.	Farming	10.0
8.	Non-traditional exports – Agro-processing and Farming	10.0
9.	Non-traditional exports – Others	15.0
10.	Chemical manufacture of fertilizer	15.0
11.	Organic manufacture of fertilizer	15.0
12.	Trusts, deceased or bankrupt estates	35.0
13.	Rural enterprises	Tax chargeable reduced by 1/7 for 5 years
14.	Business enterprise operating in a priority sector declared under the Zambia Development Agency Act, 2006 (For ZDA licence holders obtained before 11 October 2013	0% for the first 5 years Rate reduced by 50% from 6-8 years Rate reduced by 25% from 9-10 years
15.	Business enterprise carrying on manufacturing or electricity generation located in a rural area, Multi-Facility Economic Zone or Industrial Park	0 % for the first 5 years from the commencement of operations.
16.	Electronic communication business First ZMW250,000 Second ZMW250,000	 35.0 40.0

Source: ZRA

As can be seen in the table above, Zambia has a system with nineteen CIT rate possibilities ranging from 0 to 40 percent. According to the International Growth Centre (IGC), a country should offer a consolidated tax rate as that offers investors simplicity, predictability, and certainty without having to apply for discretionary tax incentives.[144] The IMF notes that tax incentives risk compromising these principles to the extent that they complicate the tax system, create horizontal inequities, and distort production efficiency; and in most cases, they forgo revenue that could have been spent more productively or needs to be replaced in other and more damaging ways.[145]

According to a World Bank-supported study, tax incentives tend to be more effective when the underlying investment climate in a country is good[146]. This means that above tax incentives, there are other important factors that a country must have in place, including political stability and security, market availability, infrastructure, and others. Findings from the 2017-18 World Bank Global Investment Competitiveness (GIC) survey validate this as investors are primarily drawn to attractive business climates.

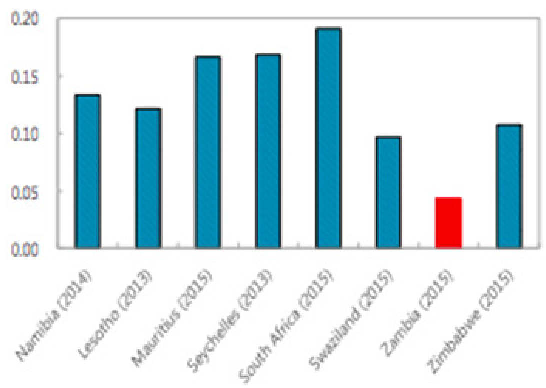
Figure 24: Factors that Influence Investors[147]



Source: World Bank

Based on this information, Zambian politicians and policymakers must prioritise the improvement of the investment climate through particular factors, such as: maintaining social and political stability, upholding the rule of law, stabilising the macro-economic fundamentals, and ensuring appropriate skills acquisition in the labour force. The tax incentives should, therefore, be seen as a complementary, rather than the sole or primary policy to attract investments in Zambia. Further to this, Zambia's exemptions have resulted in Zambia collecting far less than its neighbouring countries.

Figure 25: Corporate Income Tax Productivity (Southern Africa)



Source: IGC

In 2015 CIT in Zambia only yielded 1.5 percent of GDP compared to SADC's average of 3.5 percent of GDP. This relatively poor performance reflects the fact that many sectors in Zambia enjoy tax rates well below the 35 percent standard rate, and widespread tax incentives. Zambia, therefore, needs to reduce its corporate tax exemptions and offer a consolidated tax rate as that offers investors simplicity, predictability, and certainty without having to apply for discretionary tax incentives.

5.2. Multi-Facility Economic Zone (MFEZ) Programme

In 2005 Zambia introduced the Multi-Facility Economic Zone through the Zambia Development Agency by the Zambia Development Agency Act No. 11 of 2006. According to this act, business enterprises operating in a special economic zone, that is, in Multi-Facility Economic Zones, Industrial Parks, and in rural areas are eligible for incentives. The use of special economic zones has been on the rise in many developing countries – the rationale being that they are a key policy tool that can be useful as part of an overall economic growth strategy to enhance industry competitiveness and attract foreign direct investment. Under special economic zones, Governments aim to develop and diversify exports while maintaining protective barriers to create jobs for local nationals. The MFEZs that were established in Zambia were created to operate as platforms for industrial development and the creation of value chains in addition to much-needed jobs.

Companies approved under the Zambia Development Agency for Multi-Facility Economic Zone are eligible for zero percent tax on profits made by companies in the priority sector for 5 years – this is to create a platform for Zambia to achieve development by attracting investment both locally and internationally.

The concept of MFEZs in Zambia was welcomed by various stakeholders, however, there have been various challenges in the implementation of the programme such as the failure to actualise investment pledges to the zones, bringing about questions on the usefulness of the zones.

The Ministry of Commerce Trade and Industry (MCTI), which is responsible for the MFEZ programme, declared six areas as special economic zones: Lusaka East, Lusaka South, Chambishi, and Lumwana as MFEZs; and Ndola and Roma as industrial parks. All of the six zones are currently operational– although not at full capacity.

Table 10: Special Economic Zones (SEZs) in Zambia

Name	District	Province	Status	Ownership
Lusaka South MFEZ	Lusaka	Lusaka	Operational	Public
Lusaka East MFEZ	Lusaka	Lusaka	Operational	ZCCZ[148]
Chambishi MFEZ	Chambishi	Copperbelt	Operational	ZCCZ
Lumwana MFEZ	Solwezi	North Western	Operational	Private
Roma Industrial Park	Lusaka	Lusaka	Operational	Private
Sub Saharan gemstones Exchange	Ndola	Copperbelt	Operational	Private

Source: Adapted from CTPD MFEZ Report

5.3. Incentives Available Under MFEZs and Industrial Parks (IPs)

The main design characteristic of special economic zones that are intended to attract investment is the various fiscal and regulatory incentives on offer to would-be investors. The incentives offered under the MFEZ and IP investment scheme are available to both local and foreign investors as provided for under the Zambia Development Agency (ZDA) Act of 2006. Business enterprises operating in a priority sector approved under the ZDA are eligible to the following fiscal/tax incentives:

- 0 percent income tax rate for the first 5 years
- Income tax rate reduced by 50 percent from 6-8 years
- Income tax rate reduced by 25 percent from 9-10 years
- 0 percent tax on dividends of companies for the first 5 years from its first declaration of dividends;
- 0 percent import duty on raw materials, capital goods and machinery for the first 5 years; and
- Deferment of VAT on machinery and equipment.
- The non-fiscal incentives include:
- Fully serviced land

  -Security
  -Roads
  -Electricity
  -Water supply
  -Sanitation services etc.

For a would-be investor in Zambia's special economic zones to qualify for the incentives that have been listed above, the investor must invest a sum of not less than U$500,000. However, certain businesses are exempted from this threshold such as commercial banking, clearing and forwarding, catering and restaurant, staff recruitment and payroll services, postal and telecommunication bureau, transportation services (freight and passenger), installation, repair and maintenances, fitness club, sports club and gymnasium; medical and related services, laboratory testing and quality certification services, security services, business consultancy services, and insurance services.

5.4. Current Status of SEZs

An important question to explore is how much investment has been attracted since the establishment of these MFEZs. In the Lusaka South MFEZ, ZDA had approved 33 investment licences with a total investment pledge of $1,355,978,000. About $245,000,000 of the pledges had been actualised to date. In terms of jobs, out of a total of 6,629 pledges, only 714 had been created both directly and indirectly[149].

In the Lusaka East MFEZ and the Chambishi MFEZ, that are both run by Zambia-China Economic & Trade Cooperation Zone (ZCCZ), U$190,000,000 has been invested in infrastructure development (including road construction, warehouses, offices, water reticulation system, power generation, etc.). The zones have attracted combined investments pledges of U$1.8bn and a combined job creation pledge of 7,600 for the local community.

Discussions with the Zambia Development Agency highlighted that there are challenges in the implementation of the programme such as a limited number of staff and resources for monitoring and evaluation. The ZDA has the mandate to monitor investor activities annually to ensure that they meet the pledged amount of money and jobs when they applied as beneficiaries of incentives. However, because of the challenges highlighted, this is currently not being fully implemented. Companies that benefit from incentives are publicly available through an annual report of the Ministry of Finance.

5.5. Regional Perspectives on Tax Incentives

In the southern African region, Zambia is a party to two regional economic communities: Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA). Under SADC, the aim under cooperation in taxation is to avert any disparities in national tax systems that come about as the Member States become more regionally integrated. SADC, therefore, passed its Memorandum of Understanding (MOU) on Cooperation in Taxation and Related Matters on 8th August 2002[150]. This MOU highlights the importance of SADC Member States harmonising their tax regimes and cooperating on tax matters to improve regional economic performance. Member States agree to establish a tax database with detailed tax information for the region, to develop the expertise of the region's tax officials, and to harmonise policies on tax incentives, tax treaties, and indirect taxes to spur the growth of the region as a whole.

Under Article 4 of the SADC MOU on taxation cooperation, member states are to endeavour to achieve a common approach to the treatment and application of tax incentives and are to, amongst other things, ensure that tax incentives are provided for only in tax legislation. The MOU also, as a way of ensuring competition policy in SADC, developed a fiscal framework for tax incentives that focuses, amongst other things, on:

- The effectiveness of proposed tax incentives in achieving their stated policy goals;

- The revenue costs likely to be suffered by the fiscus of Member States as a result of the application of proposed tax incentives;

- The extent to which the absence of tax sparing arrangements in treaties of Member States for the avoidance of double taxation reduces the effectiveness of tax incentives, specifically those aimed at attracting foreign direct investments;

- The impact that proposed tax incentives will have on the costs of or burden on tax administration in the Community; and the effects that tax incentives have on the overall distribution of the tax burden within a Member State.

Despite the fiscal framework for tax incentives developed under SADC, implementation of this framework in member states has been weak. This can be attributed to the different dynamics in the prevailing tax systems in member countries. For instance, as outlined above, member states are to assess the impact that proposed tax incentives will have on the tax administration, however in Zambia because of challenges including a limited number of staff and resources for monitoring and evaluation, this is neglected.

5.6. Double Taxation Agreements

In Zambia, Double Taxation Agreements (DTAs) are provided for in the Income Tax Act and subsequent amendments to this same principal law. Currently, the Zambian Government has 22 DTAs in effect, the oldest being with South Africa (1956) and most recently with Botswana (2015).

DTAs are bilateral agreements where countries prescribe rules on how to avoid taxing the same incomes twice and assist each other in tax collection based on the income tax laws of a cooperating country. However, despite the overall narrative of economic development and increased foreign investment of DTAs', unfortunately such agreements often result in significant revenue losses and are regularly abused by corporate entities to avoid tax.

DTAs' role in attracting foreign direct investment (FDI) in low-income countries is quite questionable. If we look back at data shown previously in this paper, tax treaties signed between countries or tax incentives are not among the top five factors that motivate investment in a particular country as depicted by the World Bank Global Investment Competitiveness (GIC) survey. The direction of the relationship between FDI and DTAs cannot easily be determined, and currently there is no data to show that connection.[151]

The following are Zambia's DTAs and their negotiated provisions:

Table 11: Zambia's DTAs and Provisions[152]

	ZAMBIA'S DOUBLE TAXATION AGREEMENTS						
				APPLICABLE TAX RATES			
	COUNTRY	STATUS	ENTRY INTO FORCE DATE	DIVIDENDS	INTEREST	ROYALTIES	TECHNICAL FEES
1	BOTSWANA	In force	14/08/2015	5% OR 7%	10%	10%	10%
2	CANADA	In force	28/12/1989	15%	15%	15%	0%
3	CHINA	In force	30/06/2011	5%	10%	5%	0%
4	DENMARK	In force	18/10/1974	15%	10%	15%	0%
5	FINLAND	In force	17/05/1985	5% OR 15%	15%	5% OR 15%	0%
6	FRANCE	In force	30/07/1951	20%	20%	0%	0%
7	GERMANY	In force	08/11/1975	5% OR 15%	10%	10%	0%
8	INDIA	In force	18/01/1984	5% OR 15%	10%	10%	10%
9	IRELAND	In force	23/12/2015	7.5%	10%	10%	0%
	IRELAND	Old agreement	22/07/1973	0%	0%	0%	0%
10	ITALY	In force	30/03/1990	5% OR 15%	10%	10%	0%
11	JAPAN	In force	23/01/1971	0%	10%	10%	0%
12	KENYA	In force	27/08/1968	20%	20%	20%	0%
13	MAURITIUS	In force	15/06/2012	5% OR 15%	10%	5%	0%
14	NETHERLANDS	In force	31/03/2018	5% OR 15%	10%	7.5%	0%
15	NORWAY	In force	22/03/1973	15%	10%	15%	0%
16	SEYCHELLES	In force	04/01/2013	5% OR 10%	5%	10%	0%
17	SOUTH AFRICA	In force	31/08/1956	20%	20%	20%	20%
18	SWEDEN	In force	18/03/1974	5% OR 15%	10%	10%	0%
19	SWITZERLAND	In force	04/01/1959	0%	0%	0%	0%
20	TANZANIA	In force	02/03/1968	20%	20%	20%	0%
21	UGANDA	In force	24/08/1968	20%	20%	20%	0%
22	UNITED KINGDOM	In force	20/07/2015	5% OR 15%	10%	5%	0%
	UNITED KINGDOM	Old agreement	29/03/1973	5% OR 15%	10%	10%	0%
	NON-TREATY COUNTRIES	NO D.T.A		20%	20%	20%	20%
	NOTE: Where management and consultancy services (fees for technical services) are not expressly provided for in a DTA, the WHT rate may be 0% because this will be subject to the Business Profits Article and hence it might be taxable as a Permament Establishment.						

Source: Zambia Revenue Authority

As can be seen from the table above, many of the treaties that have been signed are between Zambia and more developed countries. In much of the literature around double taxation agreements, one of the main concerns is that the more developed countries stand to be the sole beneficiaries of these treaties, therefore, there is a need to relook at some of Zambia's existing DTAs. The development by the government of a concrete DTA policy and guidelines for the negotiation of such agreements would be a positive step towards a rethink of the provisions and their overall impact in the country.

Key Recommendations

- *Zambia needs to reduce its corporate tax incentives and offer a consolidated tax rate that offers investors* *simplicity, predictability, and certainty without having to apply for discretionary tax incentives.*

- *Zambia's tax incentives regime must be better targeted towards local businesses as an investment in the private sector would cushion the economy from external shocks and reduce the risks of IFF's. To realise this, there will be a need to review the CEEC Act and Companies Act to streamline characterisation and definitions of citizen-owned businesses (at present, the multiple categories in existence have created more loopholes than providing guidance that helps to targets incentive sand support to locally owned businesses.*

- *The overall Government investment promotion strategy must be broad-based, focussing on improving the overall investment climate by improving the social and political stability, expanding physical infrastructures such as roads and railways, and maintain stability in the macroeconomic environment.*

- *The role that ZDA plays in promoting investment must be better harmonised with other investment promotion agencies such as PACRA, ZEMA, and MoA. This should be done with a view to:*

a) Strengthen monitoring of investments on the ground to ensure performance and reduced human rights and other violations

b) Automatic exchange of information among agencies

c) Enhanced coordination and reduced competition among Government agencies.

- *Better implementation of monitoring and evaluation mechanisms for tax investment programmes that will ensure better implementation in special economic zones.*

- *A cost-benefit analysis of existing DTA in Zambia must be carried out to analyse how the country benefits from these treaties and seal loopholes that allow for tax avoidance. Additionally, the government should develop with technical input from the ZRA and the Ministry of Finance a clear policy and guidelines for the negotiation of DTAs.*

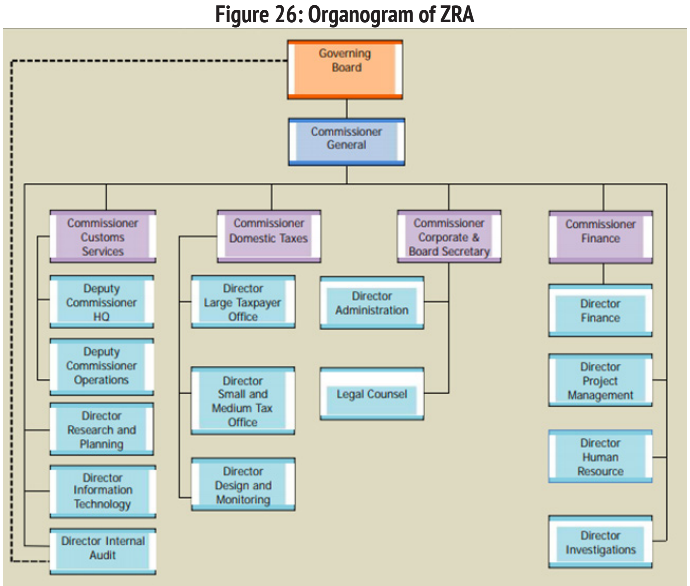
6. Effectiveness of the Tax Administration

6.1. Organisation

The Zambia Revenue Authority (ZRA) is the country's central revenue authority, established in 1994 under the Zambia Revenue Authority Act. The ZRA is charged with collecting revenue at the national level under the supervision of the Minister of Finance. Local Governments are responsible for collecting revenue at the local level and once collected, the collected revenues are transferred to the local authorities.

The ZRA operations are overseen by the Governing Board which, as provided for in the Act, comprises: The Secretary to the Treasury, The Governor of the Bank of Zambia, a representative from the Zambia Chambers of Commerce and Industry, a representative from the Zambia Institute of Chartered Accountants, the Permanent Secretary of the Ministry of Justice, a representative from the Law Association of Zambia, a representative of the Bankers Association of Zambia and two other members appointed by the Ministry of Finance.

Figure 26: Organogram of ZRA



Source: ZRA

In 2018 the ZRA senior management comprised of 23 staff members of which two were women. The ZRA has a unit dedicated to large corporate taxpayers - the Large Taxpayer Office – which is divided into mining and non-mining units. It also has a Transfer Pricing Unit and in 2018 the US Treasury provided technical assistance to ZRA-staff in this area. According to the ZRA, the Large Tax Payers Office also deals with High Net Worth Individuals, as the ZRA does not have a separate unit for them.

The Authority's staff complement stood at 1,813 employees as at close of 2018 compared to 1,688 at the end of 2017, thereby representing a 7.4 percent increase. In 2017 the share of female staff increased from 33.9 percent to 35.0 percent. In 2018, 77 employees separated from ZRA representing an overall attrition rate of 4 percent for the year compared to 91 separations in 2017 which was a 5 percent attrition rate. The separations were on account of dismissals, resignations, early retirement, expiry of fixed-term contracts, medical discharges, and death.

Table 12: ZRA-Employee Separations[153]

	2018	2017
Dismissal	13	12
Termination of Contract	2	2
Contract Expiry	12	27
Resignation	11	11
Early Retirement	34	27
Medical Discharge	1	5
Death	4	7
Total	77	91

Source: Zambia Revenue Authority

The Zambia Revenue Authority engages the public through various mechanisms. It undertakes taxpayer education and advisory services in line with ZRA Taxpayer Education Strategy. The ZRA undertakes workshops, hosts open days, tax clinics, lectures and school chats, television and radio programmes, trade shows, and taxpayer training.

6.2. Resources for the tax administration

The below table shows both the approved and actual allocation of resources to the ZRA. While the allocation to the ZRA over the years has seen an increase there has been a decrease in the allocation to ZRA as a percentage of GDP.

Table 13: Resource Allocation to ZRA (2013-2018)[154]

	Approved in ZMW	Outturn in ZMW	GDP in ZMW	Allocation to ZRA as a percentage of GDP
2013	405 682	457 244	151,330,803,522	0,000302
2014	428 801	397 700	167,052,548,385	0,000238
2015	378 801	344 207	183,381,064,533	0,000188
2016	427 355	435 159	216,098,076,168	0,000201
2017	768 664	774 864		
2018	768 664	918 206		

Source: Ministry of Finance

Since 2013, the tax officer to (projected) population ratio has been improving. In 2018 it stood at one tax officer to 9 571 people.

Table 14: Tax Officer to Population Ratio (2013-2018)[155]

	Tax Officers	Population	Population to. Tax Officer Ratio
2013	1450	14,925,544	10 293
2014	1439	15,399,768	10 702
2015	1557	15,879,361	10 199
2016	1536	16,453,868	10 712
2017	1688	16.853,599	9 984
2018	1813	17,351,708	9 571

Source: Zambia Revenue Authority

While no department or function of the ZRA has been privatised, the ZRA has partnerships with private entities. In 2018, the ZRA appointed the Zambia National Marketeers Credit Association (ZANAMACA) as agents for the collection of base tax (a form of Presumptive Tax) while Sherwood Greene Properties Limited was appointed for the collection of withholding tax on rental income. The appointment of these tax agents is aimed at increasing compliance among informal taxpayers.

The ZRA provides training for its staff. In 2018 a total of ZMW8.4 million was budgeted for capacity building out of which ZMW6.1 million was utilised to implement training programmes attended by 2,976 participants. Further to this, in 2018 the US Treasury provided technical assistance to ZRA-staff in the area of Transfer Pricing. This was done through three technical assistance missions that delivered in-house training to auditors in the Transfer Pricing unit. The Norwegian Government also supported the procurement, supply, installation, and training for the Laboratory Information Management System[156] which has since been fully rolled out as well as support to the Mineral Value Chain Monitoring Project – which came to an end in 2018.

The ZRA has been modernising its tax system over the years. In 2018 the key highlight was the commencement of work on the TaxOnPhone project, which aims to create a platform for registration, filing, and other taxpayer services on mobile phones using Unstructured Supplementary Service Data (USSD) technology. This will enable taxpayers with limited or no internet access to make the use of electronic services from ZRA and supplements the development of an application for smartphones.

Further, to ease the compliance burden on taxpayers, the Authority made progress on the development of its mobile-based platform for e-services called the Zambia Mobile Electronic Taxation (ZAMeT) Project. The registration module was fully developed and is currently ready for piloting. Once fully implemented, ZAMeT will enable taxpayers to access services such as registration, filing, and payment of taxes on a mobile phone or other similar devices without using the internet.

During the year, the Authority introduced the Tax Invoice Management System (TIMS) which makes it mandatory for every taxpayer registered for insurance premium levy, tourism levy, and VAT to install and use Electronic Fiscal Devices (EFDs). The EFDs are meant to replace the use of manual cash registers for business transactions for registered taxpayers.

While there is a move towards digitalisation, manual tax filing is still available as well as phone payments. Analog methods are still available to cater for any negative impact digitalisation could have on the illiterate or digitally excluded.

6.3. Revenue Shortfall

The ZRA forecasts revenues taking into account various indicators including previous trends, macroeconomic variables and others, presenting its targets to Parliament. In recent years the ZRA has been exceeding its stated objectives. In 2018, this performance was overwhelming as a result of favourable outturn in the three revenue categories; direct taxes, local indirect taxes, and trade taxes.

Table 15: ZRA Revenue Collection in ZMW millions (2013-2018)[157]

	Projected	Total Revenue Collections	Variance
2013	23 565.5	23 190.8	-1.6%
2014	26 675.9	27 631.3	3.6%
2015	31 313.0	29 954.2	4.6%
2016	33 299.40	31,243.19	-6.2%
2017	45, 868.2	39 149.7	4.1%
2018	44667.5	48 459.4	8.5%

Source: Zambia Revenue Authority

An assessment of Zambia's tax administration system was undertaken in May 2016 using the Tax Administration Diagnostic Assessment Tool (TADAT) to help determine reform priorities and highlight reform achievements.[158]

The assessment found that Zambia has a sound tax administration structure, with several systems that encourage taxpayer compliance. The TaxOnline system, introduced in October 2013, is viewed positively and is a benefit to both the ZRA and taxpayers. The ZRA is deemed to be sufficiently transparent and focused on encouraging voluntary compliance by providing a wide range of support and seeks taxpayer feedback regularly.

The study also listed several areas where reform should be targeted. The assessment cites very low rate of online filing, very high rates of tax arrears, and a backlog of VAT refund claims. They also found that the database of registered taxpayers contained inaccuracies, including a large number of inactive taxpayers. These issues point towards generally low taxpayer compliance. Furthermore, the systems used to manage and analyse the compliance risks are fragmented. Additionally, there remains an opportunity to strengthen the analysis of internal and external data, and the outcome of audits, to improve decision making and inform steps to improve compliance.

6.4. Conventions

As of November 2019, Zambia was not a signatory to the OECD Convention on Mutual Administrative Assistance in Tax Matters. Information around profits is, however, shared with selected countries as Zambia has information-sharing arrangements with certain countries, such as Tanzania. Zambia is, however, a member of the Inclusive Framework for Implementation of BEPS Measures, having joined in 2017. Zambia has also adopted the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS Multilateral Instrument).

Zambia is also a member of the Africa Forum for Tax Administration (ATAF). The African Tax Administration Forum is an international organisation which provides a platform for cooperation among African tax authorities.

Zambia is also a signatory to the Convention on the Elimination of all Forms of Discrimination Against Women, however, there have been no changes in how the Government sets criteria for gender equality in fiscal policy and practice.

6.5. Oversight

In 2018, the Internal Audit Department planned to undertake 25 audits, out of which 15 were finalised while the rest were at various stages of completion at the publication of the 2018 Annual Report. The Department also finalised 11 audits carried forward from 2017. The total number of reports tabled before the Audit Committee in 2018 was 29.

In 2018, the Internal Affairs Unit recorded a total of 64 cases of allegations of fraud, malpractice, and misconduct against ZRA staff compared to 38 in 2017. The increase in the number of cases recorded may be attributed to enhanced intelligence gathering techniques.

The ZRA has a ZRA Integrity Committee (ZRAIC) Secretariat and in 2018 held several sensitisation activities for members of staff throughout the country. The Authority also launched the ZRA Whistle Blower Policy which is intended to reward and protect informants.

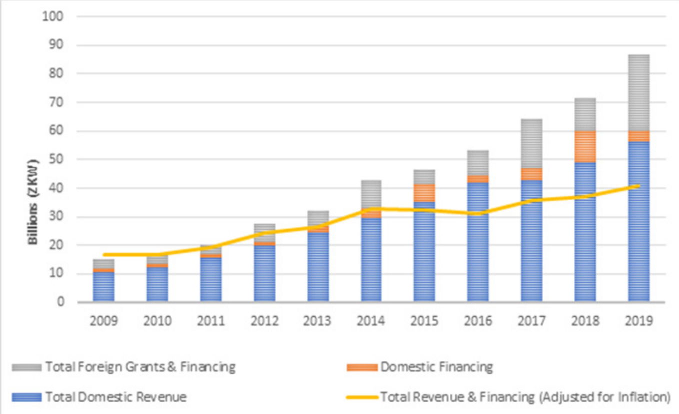
Key Recommendations

- *The ZRA needs to establish a separate unit for High Net Worth Individuals.*
- *The ZTA needs to improve its online filing system TaxOnline to increase the number of users of the platform.*
- *The ZRA needs to work on decreasing its very high rates of tax arrears as well as its backlog of VAT refund claims.*
- *There is a need for ZRA to improve its database of registered taxpayers as it currently contains inaccuracies as well as a large number of inactive taxpayers.*

7. Government Spending

As indicated earlier, over the past few years, the Zambian Government through its Ministry of Finance has managed to increase its total revenue from ZMW12.18 billion (U$2.5 billion)[159] in 2009 to ZMW61.3 billion (U$4.8 billion)[160] in 2019. The majority of the government revenue mobilisation comes from tax revenues followed by non-tax revenue. Grants have generally made up a very small portion of government revenue. The table below illustrates the different sources of revenue that are budgeted by the Ministry of Finance.

Figure 27: Government Revenue (2009-2019)[161]

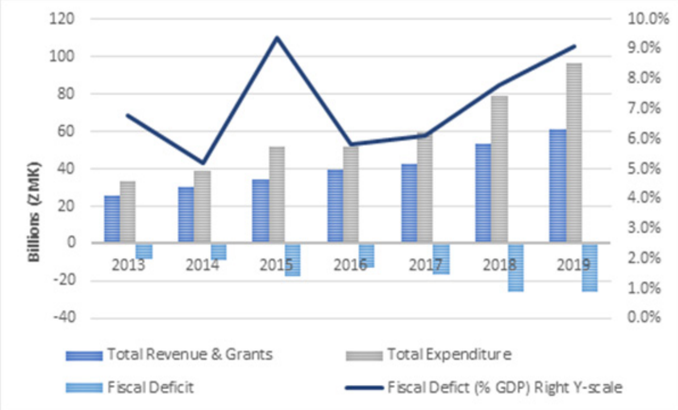


Source: Ministry of Finance

Looking at the trend of the last few years, Government expenditure has also been increasing. Despite the yearly increase in the amount of revenue being raised, government expenditure continuously outstrips the revenue raised. The annual economic reports give governments targeted expenditure for the upcoming period and also outline by how much government expenditure is above or below the target set for previous years. Since the start of the Covid-19 pandemic the government has responded by additional spending on COVID19 related interventions through the Ministry of Health and the Disaster Management and Mitigation Unit (DMMU) to face the pandemic head-on. As highlighted under the Revenue Sufficiency findings, the impact increased debt repayments has had in light of the COVID19 pandemic has left government in a tight fiscal space inadequate to respond to the economic shock seen in 2020.

According to Hon Ngandu, Government spending in 2020 is expected to increase by an estimated K9.7 billion. He explained that this is due to increased Government spending on Covid-19 related interventions and increased external debt payments and other foreign currency denominated expenditures affected by the depreciation of the kwacha. As highlighted under the Revenue Sufficiency findings, the impact increased debt repayments has had in light of the COVID19 pandemic has left government in a tight fiscal space inadequate to respond to the economic shock seen in 2020. The table below shows the targeted expenditure over the past few years as well as the actual government expenditure.

Figure 28: Total Expenditure and Fiscal Deficit (2013-2019)[162]



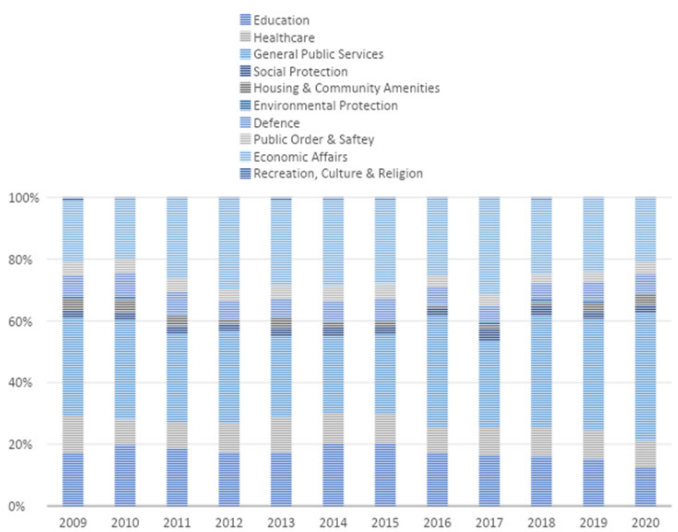
Source: Ministry of Finance

The table above indicates increasing government expenditure coupled with a growing fiscal deficit. Total expenditure has increased from ZMW33.8 billion in 2013 to ZMW96.66 billion in the 2019 economic report[163]. The fiscal deficit has also been growing and has more than tripled in monetary terms from ZMW8.2 billion in 2013 to ZMW25.5 billion in 2019. The Covid-19 pandemic is likely to increase the fiscal deficit further in 2020 as the government has increased expenditure to combat the health side of the outbreak, while domestic revenue mobilisation is expected to reduce significantly. It must also be noted that for the government to bridge this recurring fiscal deficit both domestic and external borrowing is required.

7.1. Budget Allocations

The Ministry of Finance gives an annual budget address to outline the planned expenditure for the upcoming year. The table below shows the percentage share of government allocation to different sectors of the economy each year.

Figure 29: Percentage Share of Annual Budgets (2009-2020)[164]

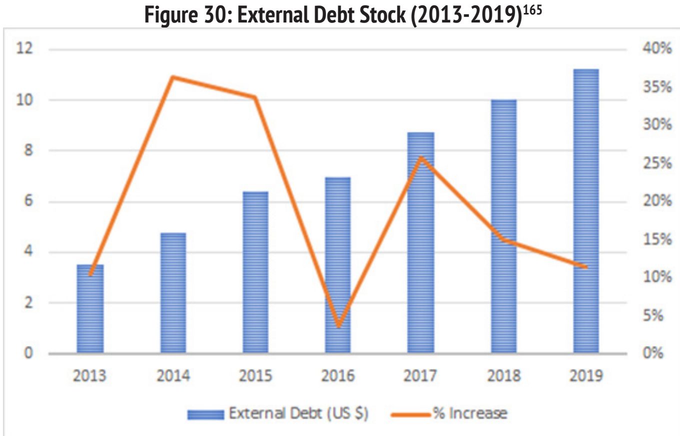


Source: Ministry of Finance

7.2. Debt

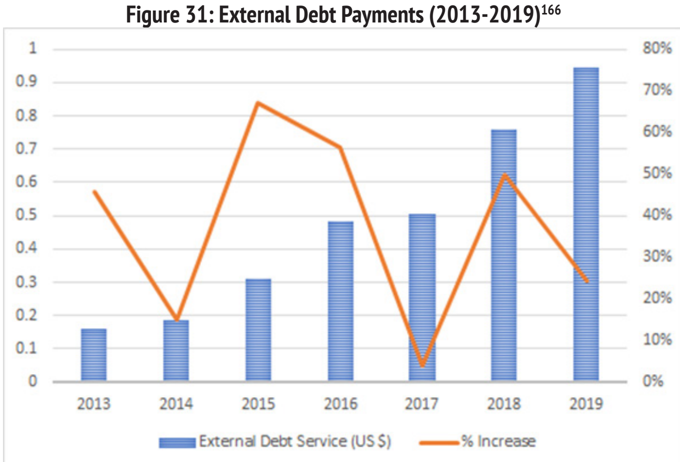
From the figure above, the allocation to General Public Services, which includes debt payments, has been increasing annually. In the 2015 budget, debt interest payments (both external and internal) were allocated about ZMW5.3 billion, and external debt stock amounted to U$4.7bn. In comparison, the 2020 budget allocated a staggering ZMW33.7 billion with external debt stock standing at U$10.05bn. Eurobonds, which make up the majority of Zambia's commercial external debt portfolio, take high priority in the Government's debt repayment strategy due to a fast approaching maturity date of the most immediate bonds (due in 2022). As payment obligations approach, there is an indication that there is increasing pressure on the government to meet its debt obligations. The significant depreciation of the Kwacha against the US dollar by over 40 percent in 2020 further exasperates the burden of external debt servicing for the Zambian government and shrinking their fiscal space. Zambia's debt has been growing over recent years. As such Zambia has seen the expenditure on debt servicing surpassing the original targets at the expense of other sectors of the economy. The tables below illustrate the trend of external debt and external debt payments over the last six years.

Figure 30: External Debt Stock (2013-2019)[165]



Source: Ministry of Finance

Figure 31: External Debt Payments (2013-2019)[166]



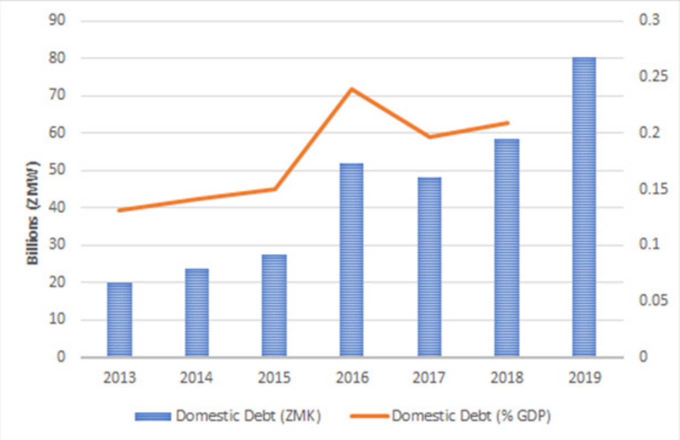
Source: Ministry of Finance

In 2013 Zambia's external debt was U$3.51bn. This amount increased significantly in the following years, most notably in

2014 when it increased by 36.3 percent. At the end of 2019, it was reported by the Ministry of Finance that the stock of external debt stood at about U$11.22 billion (218 percent increase from 2013). External debt servicing has increased from about U$160mn in 2013 to U$944mn in 2019. External debt has more than doubled over this 6 year period.

Domestic Debt has shown a similar pattern in recent years, increasing from ZMW19.7 billion in 2013 to ZMW80ZMW80.2 billion in the 20192019 economic report. Domestic debt to GDP ratio has also been increasing as illustrated in the graph below.

Figure 32: Domestic Debt (2013-2019)[167]

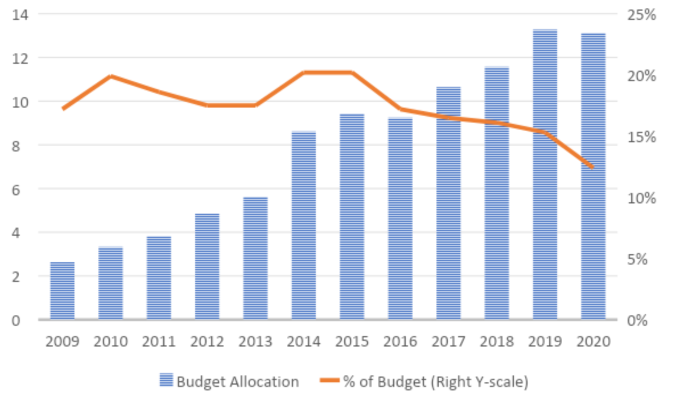


Source: Ministry of Finance

Also, the World Bank states that public and publicly guaranteed (PPG) debt has nearly quadrupled from 20.5 percent of GDP in 2011 to 78.1 percent of GDP in 2018, driven by the accumulation of both external and domestic debt. The debt composition has also significantly shifted towards commercial and Non-Paris Club bilateral creditors, exacerbating the country's exposure to exchange rate and market risks. Overall PPG debt is expected to increase to 98 percent of GDP by 2020, while external public and publicly guaranteed debt service obligations over 2019-21 are estimated at U$4.6bn. The 2019 WB/IMF Debt Sustainability Analysis[168] concludes that Zambia's risk of overall and external debt distress remains very high and that public debt under the current policies is on an unsustainable path.[169]

7.3. Education

Figure 33: Budget Allocation to Education (2009-2020)[170]



Source: Ministry of Finance

Looking at the figure above the percentage share of the national budgets on education (which includes the planned expenditure on school infrastructure, student loans and scholarships, university and college infrastructure and skills development fund) has been falling over the past six budgets presented by the Ministry of Finance. In 2015 the allocation on education had a share of 20.2 percent, making up a fifth of the entire national budget. The budgets that follow illustrate a decreasing allocation for the education sector. Further, the Dakar Declaration[171] of which Zambia is a signatory, states that expenditure on education must be between 15-20 percent of the national budget. In the 2020 budget address, education only accounts for 12.4 percent of the budget, almost 8 percent lower than in 2015 and significantly lower than the target stipulated in the Dakar declaration.

The National Gender Policy of 2014 states that there is a challenge of retaining girls in higher education and this is attributed to social-economic issues which include high poverty levels, early marriages (16 years and below), and teenage pregnancies, especially in rural areas. Other factors affecting girls' progression include inadequate capacity and infrastructure; lack of appropriate boarding and sanitary facilities for girls; insufficient resources to implement the free education policy and gender stereotyping of subjects/courses at secondary school and tertiary levels.[172]

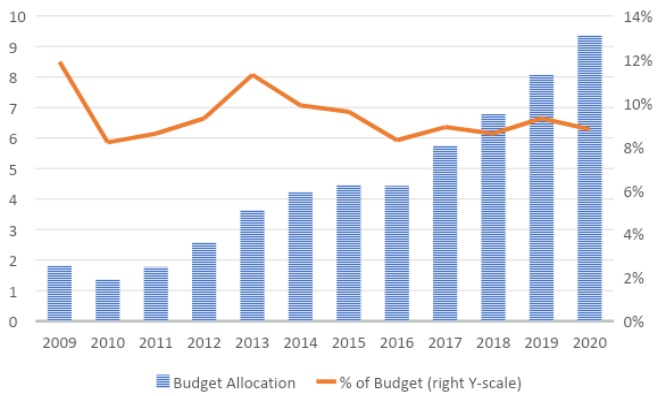
According to the 2018 economic report, there has been a steady increase in the number of female candidates entering as well as sitting for the examinations at grade nine level in recent years. The increase was attributed to the interventions the Government and other stakeholders have put in place to retain girls in school. Consequently, the Gender Parity Index (GPI) at primary school was 1.[173] Although the gender parity index has been improving, male learners continue to dominate at the secondary school level.

Male dominance was also reported at the tertiary (University) level for the 2018 period. The total student enrolment for both public and private tertiary education institutions increased from 75,515 students to 94, 092 students in 2018. Of the total number, 44,454 were female students.

The Re-entry policy[174] formulated by the Ministry of General Education was a gender-responsive government intervention that mandated schools to allow girls back into the school system who previously left school due to pregnancy.

7.4. Healthcare

Figure 34: Budget Allocation to Healthcare (2009-2020)[175]



Source: Ministry of Finance

The share of expenditure on healthcare (which includes health infrastructure, drugs and medical supplies, and medical equipment) is comparatively lower than the share on education but has remained relatively constant over the past six years. Despite this stability of commitment to healthcare by the government, there has been a 0.8 percent reduction in the share from 9.6 percent in 2015, to 8.8 percent in 2020. This reduction puts the Zambian government further away from the target of 15 percent outlined in the Abuja Declaration of 2001. [176]

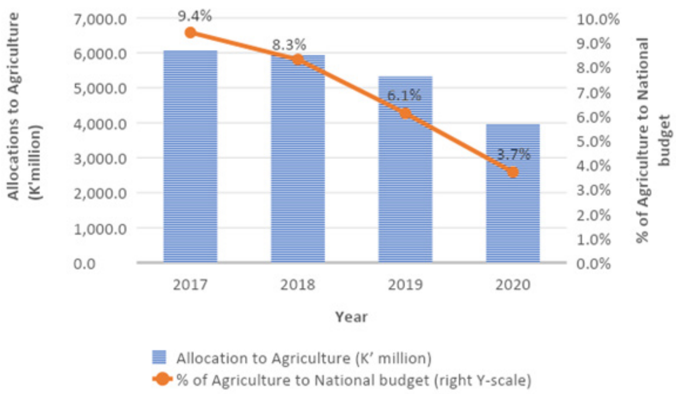
Over the years there has been a growing awareness of gender equality and gender-based issues. The enactment of the Anti-Gender Based Violence Act No. of 2011 was driven by the rising incidences of gender-based violence. According to the National Gender Policy (NGP), one in five women reported having experienced sexual violence at some point in her life, and 46.8 percent of women have experienced physical violence at some point after the age of 15.[177]

The National Health Insurance Scheme founded by the National Health Insurance Act number 2 of 2018 is an effort by the Zambian government to improve financing to the healthcare sector. The scheme, which is currently being implemented, will require all eligible citizens, based on their ability to pay, to contribute a monthly premium. The scheme has been phased to start with the formally employed in both the private and public sectors, later expanding to include informal sectors and vulnerable groups. Deductions of 1 percent of the earnings of formal employees will be matched by a 1 percent employer contribution. Employers will be responsible for remitting these contributions to the National Health Insurance Fund while the Government will continue to subsidize for the poor and vulnerable.[178]

The details of contribution rates for the informal sector will be informed by further analytical work from the first phase to ensure the sustainability of the fund.[179] The ultimate objective is to provide universal health care services to all Zambians.[180] The scheme is also designed to reduce out-of-pocket payments for medical services. In the past, public medical services, although reported as free, tended to require payments for access to services.

7.5. Agriculture

Figure 35: Budget Allocation to Agriculture (2017-2020)[181]



Source: Ministry of Finance

The budgetary allocation to the Ministry of Agriculture and the Ministry of Livestock and Fisheries has been declining over the years. Despite this reduction, the monetary value of expenditure on the Farmer Input Support Programme has increased from about ZMW1.08 billion in 2015 to about ZMW1.11 billion in 2020. The expenditure on strategic food reserves, however, has fallen by about ZMW332 million for the same period. The Maputo Declaration on agriculture had an objective of all signatories designating 10 percent of their national budget to agriculture. Zambia is a long way from achieving this objective as the agriculture budget currently only constitutes 3.7 percent of the national budget.

The medium-term expenditure framework discusses an export-oriented agriculture sector with the government aiming to promote diversification of the agriculture sector to high-value crops and the development of the fisheries and livestock sectors. The framework aims to promote crops that have a comparative advantage in the different agro-ecological regions that would increase exports. The development of farm blocks in five provinces are the priority of the medium-term period. Under the farm block development programme, the land would be availed for large-scale agribusiness investment to the private sector, with a target to develop one in each of the provinces[182]. Public-private partnerships (PPPs) will be used to facilitate private investment in these farming blocks. The aquaculture sector, as well as mechanisation in agriculture, would also continue to be promoted in the medium term.[183]

The National Gender Policy[184] recognises the critical role women play in sustaining a productive agricultural sector but identifies that they experience unequal access to and control of important productive resources such as land and other inputs. Despite this recognition, the 2019 Labour Force Survey[185] revealed that of the employed population in agriculture, only about 33 percent were female while 67 percent were male indicating that a lot more needs to be done by the government to implement gender-responsive policies to increase the presence of women in agriculture. In 2010 the Food and Agriculture Organisation (FAO) analysed the agricultural value chains in developing regions and found that although large multinational firms and supermarkets are increasingly integrating with local agri-food systems, these integrations include channels to transfer costs and risks to smaller players in the value chain, particularly women. In Zambia, women are key drivers of agricultural value chains in local markets for fresh foods such as vegetables, fruits, grains, tubers, dairy products, and fish. However, they often need support to increase productivity and incomes as they lack access to inputs, extensions, and markets.[186]

7.6. Social Protection

The National Social Protection Policy[187] was formulated when the Zambian government recognised that poverty reduction efforts cannot side-line Social Protection. Traditionally, the Government had included Social Protection programs as part of the broader social policy. However, Social Protection implementation continued to be fragmented, uncoordinated, poorly resourced, and ineffectively evaluated. The formulation of this National Social Protection Policy is one of the Government's dedicated efforts to ensure that the role of social protection in pro-poor growth remains central and increases in systemic efficiency.

The social protection sector aims to empower low capacity households, provide social assistance to incapacitated households, and support vulnerable people to live decent lives, with a focus on promoting human development and dignity. The Zambian Government has implemented several social protection interventions such as the social cash transfer, school feeding, and the food security pack, targeting the extremely poor and vulnerable households, to improve their welfare and livelihoods.[188] The Seventh National Development Plan indicates that the Economic Stabilisation and Growth Programme (ESGP) will aim at scaling-up social protection programmes to shield the most vulnerable in our society.

Social protection in the national budgets has been made up of the Public Service Pension Fund, the Social Cash Transfer, and the Food Security Pack. The combination of these three components has comprised a very small share of the national budgets in recent years. As illustrated above, the share stood at 2.7 percent in 2015 and this increased to about 4.2 percent in the 2017 budget. There has been a steady decrease in this share in the three national budgets that follow with the 2020 budget only dedicating 2.4 percent to social protection. Besides, the most recent economic report for the year 2018, provided by the Ministry of Finance, shows that the expenditure (outturn) on the food security pack, social cash transfer, and social benefits were 64.29 percent, 37.03 percent, and 45.81 percent lower than what was planned (approved) for respectively. In contrast, the interest payments on debt for the same year were 24.46 percent higher than what was approved.[189]

An addition to the social protection programmes outlined in the national budgets, the Women Empowerment Program (WEP) encourages women to form clubs and cooperatives through which the support is provided to start and manage economically rewarding businesses. [190]

Further to this, the National Pension Scheme Authority (NAPSA), a state-owned enterprise founded by an act of parliament, as well as ZRA, has also been making efforts to include informal economy participants such as bus drivers, domestic workers, and marketers to ensure they receive social protection. Recently in 2019, the Kitwe Magistrate court fined and sentenced two proprietors of nightclubs to community service after finding them with the offence of failure to register as employers with the National Pension Scheme Authority (NAPSA) contrary to the National Pension Scheme (NPS) Act No. 40 of 1996.[191]

7.7. Unpaid Care Work

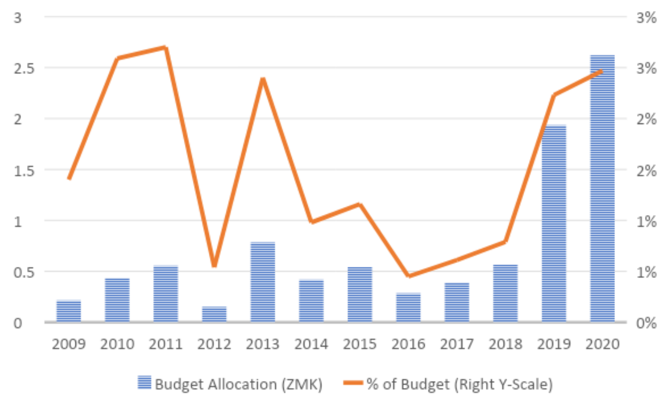
Unpaid care work used to be recognised by the Government however this practice was stopped in 2017. It is unclear why this practice was stopped however there is a need for the Ministry of Labour to reintroduce this. The National Gender Policy[192] states that women continue to be viewed far more as carrying out reproductive roles (unpaid care work) than productive roles. This status often results in less attention being paid to women about accessing and having control over productive resources such as credits, agricultural extension services, and implements as compared to men. In an effort to create awareness around the issue of unpaid care work among women and children, organisations such as ActionAid Zambia have been advocating for it to be fairly recognised, reduced and redistributed. They found that women dedicate an average of 3.2 more hours than men to unpaid care work, which coincides with the United Nations observation that there is an unequal division of unpaid care and domestic work.[193]

Additionally, a 2009 country report from UCW (Understanding Children's Work) – a joint initiative from ILO, UNICEF and World Bank –[194] found that almost all economically-active children in Zambia work for their families as unpaid labour, with little variation by age, place of residence or sex. The study also revealed that, in all these categories, 96 percent of children in economic activity worked within the family.

Despite the findings from the UCW report and overall disparities between men and women, Zambia still lacks deliberate policies to address Unpaid Care Work, such as those that ensure day-care facilities are available.

7.8. Water and Sanitation

Figure 36: Budget Allocation to Water and Sanitation (2009-2020)[195]



Source: Ministry of Finance

The Seventh National Development Plan[196] states that the Government undertook national water reforms and created commercial water and sewerage utility companies in urban and peri-urban areas. The Government also embarked on a robust rural water supply programme. The development of the commercial water and sewerage utility companies resulted in an improved quality of service.

The Government also faces challenges in the distribution of safe water and sanitation. The national development plan explains that due to rapid urbanisation in major cities and other urban areas, the majority of residents live in squatter and unplanned settlements. As a result, most urban residents lack, amongst other services, adequate access to housing, energy, and clean, safe drinking water. Also, the development plan explains that the age structure of the country's population has created a high level of child dependency, resulting in a heavy burden on the working population. Zambia's overall dependency ratio stands at 92.5 while the child dependency ratio is 87.4.[197] This has increased pressure on the Government to provide public goods and services, such as water and sanitation. The aforementioned ESGP, which was planned as a foundation for the objectives of the Seventh National Development Plan,[198] also aims at strengthening the delivery of health, education, water, and sanitation.

The graph above shows the budget allocation and the percentage share towards water supply and sanitation. The expenditure for water and sanitation has risen significantly since 2015 from about ZMW0.54 billion to about ZMW2.62 in the 2020 budget. Although the percentage share of 2.47 percent in the 2020 budget was not as high as the 2011 share of 2.7 percent, the recent upward trend shows greater commitment from the Zambian Government. The bulk of the 2020 budget allocation has been directed to the Nkana, Kafulafuta, and Kafue Bulk water and sanitation projects.

Key Recommendations

- *The fiscal deficit has been increasing over the past five years with the deficit to GDP ratio increasing from 5.2 percent in 2014 to 7.8 percent in 2018. There is a need for the Government to practice more prudent spending, particularly in light of the Covid-19 pandemic, to reduce this deficit. This would also eliminate the growing need for financing (domestic and foreign).*

- *Government expenditure on debt servicing and amortisation has been increasing in recent years while expenditure on key sectors such as agriculture, education, healthcare, and social protection has been reducing. The Government must, therefore, restructure existing debt while reducing further debt contraction to maintain debt sustainability in the long term.*

- *The seventh NDP aims at enhancing the Government's capacity for gender mainstreaming and engendering policies, plans, programmes, projects, activities, and budgets. Although there here have been policies such as the NGP and the WEP, they have been poorly monitored and implemented. More must be done to ensure that there is gender-responsive budgeting beyond the Ministry of Gender.*

- *Care work, specifically unpaid care work, is important to the Zambian economy. Oxfam identified the importance of women and girls in providing millions of hours of unpaid care and domestic work – a provision that props up the economy and underpin society, yet remains under-*

recognised, undervalued, and under-invested in[199]. Before 2017, unpaid care work was recognised by the Ministry of Labour. There is a need for the Government to reintroduce this.

- *The recent Public Finance Management Act of 2018 had the objective to provide for oversight and accountability by detailing an institutional and regulatory framework for the management of public funds, including debt after its contraction. By ensuring the implementation of the progressive clauses of this Act, the Government can improve the usage of public resources in all sectors, enhance public debt management, and eliminate their fiscal deficit.*

8. Transparency and Accountability

8.1. Information availability

Since attaining independence, Zambia has not had access to information legislation.[200] This is expected to change, however, as the cabinet has approved the 'access to information' bill in 2019.[201] The Companies Act encourages companies to publish financial statements, but it is not mandatory. Only companies that are listed on the Lusaka Stock Exchange are mandated to publish their financial statements. The companies that are listed on the stock market publish their financial information in newspapers. They also prepare annual reports where shareholder information and other public beneficial information to the public can be found. These reports can be found online.

Regarding the management of non-tax revenue, most revenues are managed as part of the national budget and housed in the Consolidated Fund (commonly known as Control 99). Some revenues, however, are not sent to the Consolidated Fund due to legislation such as the Judicature Act.

8.2. Audit

The Zambia Revenue Authority undergoes audits annually. These are undertaken by the Office of The Auditor General every financial year. A report of the Auditor General on the Accounts of the Republic is produced, and the findings presented to the speaker of the national assembly for debate within a reasonable time and are publicly available.

8.3. OBI questions (Open Budget Index)

The revenue performance section of the Zambian budget proposal provides detailed information regarding Zambia's revenue sources. It shows details of tax revenue such as income tax, value-added tax, and customs and excise duties. It also shows details of non-tax revenue such as Total User fees, Fines and Charges, Interest from On-lending, Mineral Royalties, Farmer Input Recovery, and Tourism Levy. Extra budgetary fund information is presented in the middle of the year in the form of a supplementary budget. The annual national economic reports prepared by the Ministry of Finance do not report details of tax expenditure including corporate tax incentives. As an alternative tool to direct fiscal expenditure in attaining public policy objectives, Tax expenditure is important. It is crucial that the ministry adds publication of annual tax expenditure reports to the annual economic reports.

8.4. Impact assessment

The Government does not yet conduct assessments by gender, income and other groups to identify the direct and indirect effects of taxes. However, the Government does attempt to promote Gender Responsive Budgeting (GRB). There already exist established procedures for Gender Responsive Budgeting, but they are yet to be implemented. The Ministry of Community Development and Social Services implements a Social Cash Transfer programme which benefits women as it has a focus on female-headed households. Further to this, a larger share of Government university bursaries is reserved for female students.

8.5. Citizens' engagement

The Government allows for civil society to participate in shaping budget policies at both national and local levels. It invites civil societies to participate in Town Hall meetings and also welcomes submissions. Further to this, the Ministry of Finance goes around the country eliciting the views of various actors on the budget, however no act supports this. There is, however, at present a Planning and Budgeting policy in place and it is expected that the National Planning and Budgeting Bill will be enacted in 2020. There are no specific policies or practices that specifically promote or support the participation of women and women's organisations in the development of revenue policies and this is something the Government should further promote. However, organisations such as the Non-governmental Gender Organisations Coordinating Committee participate in the process through the normal consultation mechanisms. The Government is somewhat responsive to civil society advocacy. The most recent example was the Government's decision to abandon its plans to replace the value-added tax with the sales tax.

Corruption

Corruption remains one of the direct barriers to Zambia's growth and development. Transparency International's 2019 Corruption Perception Index (CPI)[203] report gave Zambia a score of 34 out of 100 and a ranking of 113 out of 180. Zambia has dropped 4 points in its score in four years and deteriorated in ranking from 105 out of 180 to 113 out of 180. This is Zambia's worst performance yet.

Table 16: Zambia's Corruption Perception Index Score (2015-2019)[204]

	Country	Score out of 100				
		2015	2016	2017	2018	2019
1	Denmark	91	90	88	88	87
2	Finland	90	89	85	85	86
3	Sweden	89	88	84	85	85
4	Botswana	63	60	61	61	61
5	Rwanda	54	54	55	56	53
6	Namibia	53	52	51	53	52
7	Ghana	47	43	40	41	41
8	Ethiopia	33	34	35	34	37
9	Zambia	38	38	37	35	34

Source: Transparency International.

Transparency International Zambia noted that "the corruption situation was getting worse" and no sector was spared, including the extractive industry.[205] The absence of laws to regulate political party funding and election campaign finance was cited as a serious limitation for the nation. It is discouraging to note that in response to such a valid report, the Government spokesperson was reportedly 'advising' Zambians to "get statistics of corruption from the Anti-Corruption Commission instead of trusting those from foreigners."[206]

There have been news reports concerning corruption in the tax administration.[207] In February 2019 a report surfaced revealing that over ZMW 1 000 000 from toll fees had gone missing.[208] In addition to this, there have been allegations regarding large scale corruption in the tax administration. In 2017 the leader of an opposition party, United Progressive People (UPP) insisted that he had enough evidence to prove corruption practices at ZRA regarding ZMW 140 million from projects involving Chinese contractors.[209] The Financial Intelligence Centre Trends report of 2018 disclosed that between 1st January 2018 to 30th September 2018, Zambia had losses in corruption valued at ZMW 4.9 billion.[210] This situation will continue and also deteriorate if the nation remains devoid of stern response measures.

There is a pressing need for the Government to start afresh and provide a new strategy to curb corruption. Adopting slogans, round table meetings and workshops centred around corruption and sponsored adverts to advocate for a corrupt-free nation or tax administration is never enough. There is a need for steadfast political will that will encompass transparency and accountability in the public service and procurement system, merit-based selection processes and ensuring integrity from the local up until the national level. The Anti-Corruption Act needs more meaningful and impactful implementation to realise its effectiveness and the fight against corruption should begin in the public service.

The Government needs to embrace reports that expose corruption such as the Corruption Perception Index as tools to strengthen and promote decent governance, as opposed to dismissing and viewing them as threats or politicised content[211]. It needs to ensure sufficient autonomy of the Anti-Corruption Commission and Financial Intelligence Centre in a way to promote a robust environment to fend off the vice.

There should be an introduction of mandatory declaration of assets by all public servants and politicians and putting in place a system to effectively process the information and monitor changes in wealth and lifestyle patterns. Presently, the Anti-Corruption Act[212] under Part 2 Section 14 only requires the Director-General, Deputy Director-General, officer, and secretaries to declare their assets and liabilities before taking office and after every five years. The measure should be complemented by the introduction of lifestyle audits for persons in strategic positions of Government, with the Republican President and Cabinet Ministers leading by example, if the legal requirement was put in place.

There should be a review of the effectiveness of key legislation such as the Protection of Whistle-Blowers Act of 2010[213] to make the necessary improvements. Further, enforcement of this legislation should be reinforced especially in relation to protection against reprisal. Reinforcement should also extend to the Public Finance Management Act of 2018 as efficient delivery of public services is key to poverty reduction and inequality.

While the tax authority has done commendable work in getting corrupt Chinese nationals jailed in a recent eminent case,[214] there is a need to intensify and extend this kind of action to every level of operation. There is a cause to thoroughly investigate irregularities and bring to book with impartiality all parties found wanting. This will increase morale in taxpayers and consequently encourage voluntary compliance and additionally limit tax revenue losses. There is also a need to address tax evasion which continues to be a serious issue in Zambia. It is estimated that Zambia loses about U$4.5bn annually through tax evasion and tax avoidance.[215]

Key Recommendations

- *The Access to Information Act needs to be passed as soon as possible.*

- *It is crucial that the ministry adds publication of annual tax expenditure reports to the annual economic reports.*

- *The Government needs to conduct assessments by gender, income and other groups to identify the direct and indirect effects of taxes. Policies that specifically promote and support the participation of women and women's organisations in the development of revenue policies are crucial.*

1. *There is a pressing need for the Government to provide a new strategy to curb corruption. The Government needs to begin to embrace reports by institutions such as the Financial Intelligence Centre or the Office of the Auditor-General, as well as interrogate tools such as the Corruption Perception Index to strengthen and promote good governance.*

- *There should be a review of the effectiveness of* *key legislation such as the Whistle-Blowers Act of 2010 and Finance Management Act of 2018 .Introduce mandatory declaration of assets by all public servants and politicians and putting in place a system to effectively process the information and monitor changes in wealth and lifestyle patterns.*

- *There is an urgent need for regulation around political party funding and election campaign financing in a quest to prevent possible state capture or compromise in the governance system.*
- *The Government should ensure expeditious prosecution of corruption cases, especially of a high-profile nature, involving public servants and politicians, while Government officials on corruption charges should be suspended from their duties indefinitely until such a time that they are clear of those charges.*

9. Conclusion

The importance of public revenue for accelerated economic development cannot be exaggerated. Zambia's fiscal strain further shows the importance of influencing tax policy reform in Zambia backed by evidence-based research such as the FTM work.

Zambia's FTM work has brought out the following key points:

- ***The Government previously relied more on direct taxes as compared to indirect taxes, however, in recent years, data shows an increase in dependence on indirect taxes. Personal income tax has consistently contributed more to the Government treasury than companies over the 10 years. Due to tax evasion and dodging practices, companies contribute significantly less than individuals. Due to the increased dependence on indirect taxes, the bulk of the tax burden is borne by the working class. According to the IMF, about two-thirds of Zambian citizens fall within the tax-exempt threshold for personal income tax.***
- ***Unpaid care work is no longer recognised by the Ministry of Labour and there are currently no gender-responsive policies in relation to taxation. Sectors traditionally employing women - for example, tourism and agriculture - benefit from reduced tax rates and certain concessions. However, these are often on inputs such as equipment and machinery which do not directly benefit women as they are often represented in the sector as workers and smallholder farmers rather than proprietors.***
- ***Under Zambia's revenue sufficiency performance, tax and non-tax revenue remain the major source of Government revenue and have had a consistent performance for decades (Revenue to GDP ratio only fell during the 2008 financial crisis). Despite this consistency, Zambia's performance lags behind other southern African countries showing that there is still room for improvement. The country's growing budget deficit has drastically increased over the past decade (from 1.4% in 2008 to 20.2 percent in 2018) leading to the current debt situation.***
- ***In Africa, IFFs are highest in extractive industries including mining – the same has proven true for Zambia. Zambia relies heavily on copper for its export earnings and accounts for about 65% of***

the continents IFFs in copper. This has deprived the tax system and ultimately the Zambian population of much-needed resources.

- *In Zambia, the link between tax incentives and economic development has not been adequately backed by empirical evidence. Zambia through ZDA offers a wide range of incentives in the form of allowances, exemptions, and concessions for companies. According to the World Bank, tax incentives tend to be more effective when the underlying investment climate in a country is good. This means that above tax incentives, there are other important factors that Zambia must make sure are in place including political stability and security, market availability, infrastructure, and others.*

- *Zambia's growing fiscal deficit has led to a growing debt problem that has ultimately changed the way the Government is allocating its resources. The paper highlighted that since 2014 the percentage shares of agriculture, education, social protection, and healthcare have reduced in the annual budgets while the percentage allocation towards debt servicing and amortisation has increased. There's is also a lack of gender-responsive Budgeting across most sectors of the economy as initiatives such as the National gender policy have been poorly implemented. Women make up the majority of social protection package recipients, while there is still male dominance in agriculture (of the population employed in Agric, only 33 percent are women), and education (at secondary and tertiary level).*

- *In terms of Zambia's performance under transparency and accountability, the country does not have 'access to information' legislation. However, this is expected to change as the cabinet approved the 'access to information' bill in 2019. The Companies Act encourages companies to publish financial statements, but it only mandatory for companies listed on the Lusaka Stock Exchange. In terms of audits, ZRA undergoes audits annually. These are undertaken by the Office of The Auditor General every financial year. The revenue performance section of the Zambian budget proposal provides detailed information regarding Zambia's revenue sources. The Government does not yet conduct assessments by gender, income and other groups to identify the direct and indirect effects of taxes.*

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Consumer Unity & Trust Society
CUTS Lusaka

We're Here

CUTS International, Lusaka
Plot No 406 Kudu Rd, Kabulonga, Lusaka

@CUTS_Lusaka www.cuts-lusaka.org @CUTSLusaka