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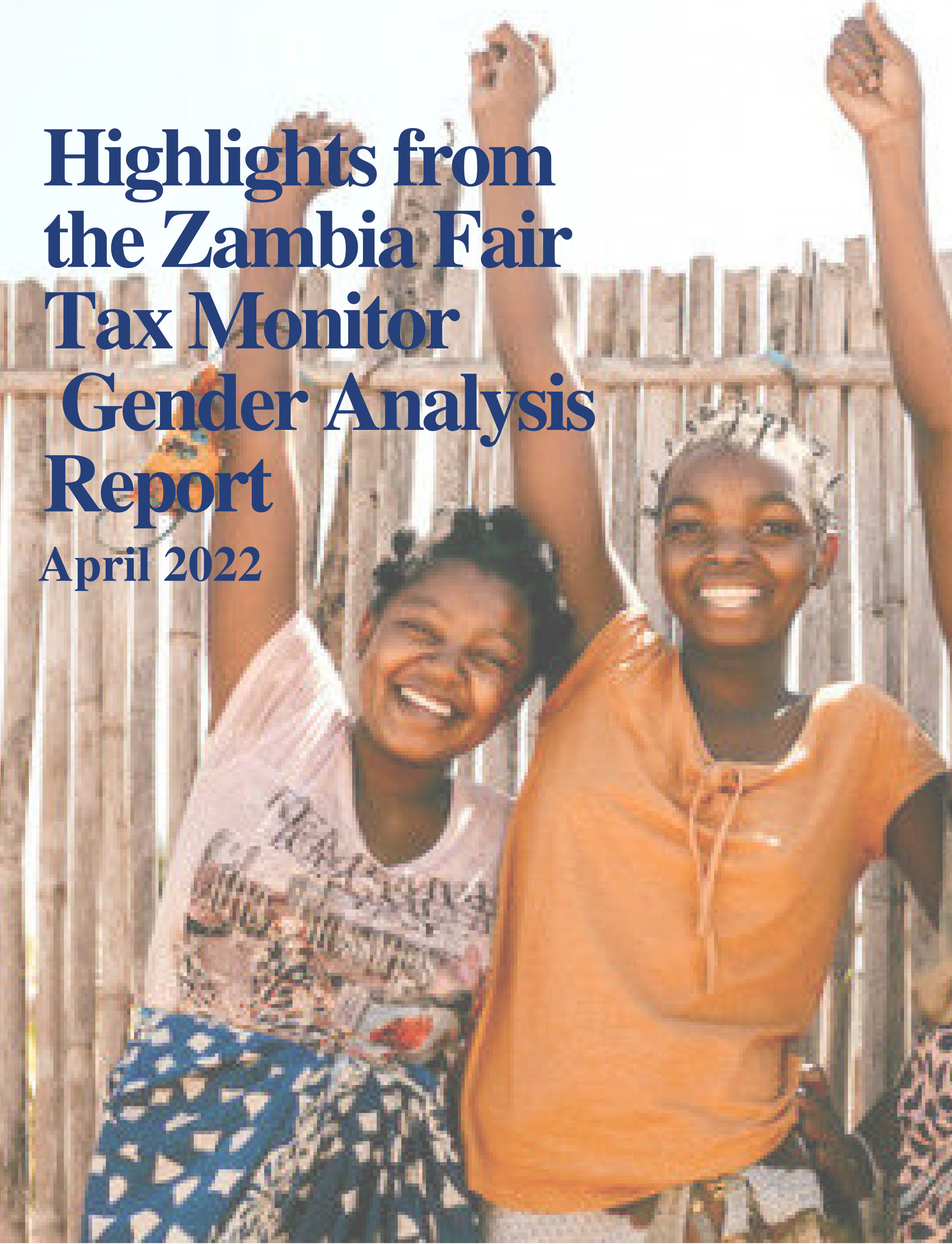

Highlights from the Zambia Fair Tax Monitor Gender Analysis Report

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CUTS International, Lusaka
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Email: lusaka@cuts.org
Web: www.cuts-lusaka.org

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This report was authored by Aquila Ng'onga and Ucizi Ngulube of CUTS International, Lusaka
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1.Introduction

1.1. Economic Fundamentals

Zambia can be found in the UN category of least developed countries (LDCs) and had in 2021 a nominal GDP per capita of USD 974, and had in 2020 a poverty rate of 60.4 percent. Zambia's GDP has been characterised by steadily declining growth rate since 2010 and growth prospects for the future medium term uncertain.

Tax revenue as a percentage of GDP is close to the African average and has fluctuated around 16 percent for many years. This is far from sufficient for the government to fund basic public service requirements and ensure human rights. On top of this, Zambia's external debt has increased to 170.7 percent of GDP in 2020, resulting in debt servicing now taking up close to a third of Zambia's state budget and, therefore, severely limits revenue for health, education and other public services critical to meet human rights, needs especially of women and girls.

1.2. Covid-19 and the compounding crisis of 2022

Like elsewhere, the Covid-pandemic has hampered growth in Zambia, with the Education, Transport, Catering and Accommodation Sectors being the most impacted. As a result, GDP declined by 4.2 percent in 2020, exacerbating existing inequalities for women and girls in access to health, security and social protection. Studies also indicated that, during the pandemic, women were 19 percent more likely than men to have no earnings in a week compared to a typical week prior to the pandemic.

With 2022 showing sharp spikes in food and energy prices, rise in interest rates and a general global economic slowdown, the situation for Zambia is increasingly looking bleak. Rising interest rates risks exacerbate the debt crisis already faced by Zambia, while rising food and energy prices are likely to push many more into poverty and widen gender inequality. To withstand these new compounding crises on top of the Covid-pandemic, public policies that can fight poverty and inequality amidst multiple crises are severely needed. And such policies require funding. Therefore, it is critical for the government of Zambia to rapidly increase domestic revenue in ways that do not increase poverty or gender inequality.

1.3.Tax and Gender

According to the United Nations Development Programme (UNDP), Zambia had in 2019 a Gender Inequality Index (GII) value of 0.539, ranking it 137 out of 162 countries. This is indicative of widespread inequality and calls for deliberate reforms and policies to effectively address disparities for long-term human development.

The report also finds that there is lack of tax-related gender-responsive policies as well as impact assessments to understand the gender impacts of the tax system - especially indirect taxes such as excise duty and VAT on women. These assessments are important in designing policies and regulations to increase gender equality.

The agricultural sector, where the majority of players are women, benefits from some VAT Zero rating of agricultural equipment and accessories such as tractors and hammer mills. However, it may be difficult to measure the gains because most women are small-scale farmers who only have minimal or no benefits from these VAT zero ratings.

Lastly, one other major noteworthy factor is unpaid care work which is not recognised in Zambia. Unpaid care work is extremely important as it contributes to the welfare of people and the nation at large and, therefore, should be recognised. According to the OECD, women in Sub-Saharan Africa spend over 5 hours a day on unpaid care work. This time spent by women is the foundation that the society, including the formal economy, relies on, also including education, mining, health and agriculture which are valued in the calculation of GDP, while unpaid care work remains ignored. In Zambia, unpaid care work used to be recognized by the Ministry of Labour, however, this practice was stopped in 2017.

2.Key Findings

2.1.Distribution of Tax Revenue Sources and Progressivity

In 2021, the share of indirect taxes (such as VAT) as a portion of total tax revenue stood at 49.2 percent. Basic consumption products such as food items, soap and menstrual hygiene management products receive no VAT exemptions. This points to a significant regressivity of the overall tax system and this has negative impacts on low-income persons of which a majority (56.7 percent) are women.

With regards to presumptive taxes, marketeers pay a base tax charged at ZMW 1 (USD 0.05) daily. The regressive flat rates and other associated necessary expenses in the marketplace such as toilet fees may disproportionately impede the ability of smaller and low-income marketeers to make a living.

Progressivity can be enhanced by reducing and terminating unjustified tax, corporate exemptions and incentives (see section 4.1 and 4.2) and making the brackets of the personal income tax (PIT) more progressive and adding additional brackets with higher tax rates for higher incomes.

One noteworthy factor about the Zambian tax regime is the absence of wealth and property taxes. The African continent is expected to see the second-highest regional five-year growth-rate in Ultra High Net-worth Individuals (UHNWI) – 33 percent – led by Zambia and South Africa. As wealth and property ownership in Zambia are dominated by men, taxing assets and property present a powerful mechanism to redistribute wealth from the rich to the poor as well as from men to women.

2.2.Revenue Sufficiency and Illicit Financial Flows

Zambia's tax revenue fluctuated around 16 percent of GDP and has seen no significant increase since 2011. Foreign financing (grants and loans) exceeded 30 percent of public finances in 2019 and is now the largest single source of finance. The reliance on debt financing (both domestic and foreign) constitutes an alarming burden on Zambia's public finances, and is clearly not sustainable. Zambia endured Africa's first COVID-era sovereign default in November 2020, with a debt burden above 120 percent of GDP.

More revenue can be raised by expanding the tax base through formalising the most profitable parts of the informal economy as many people and companies in the informal sector enjoy high incomes without paying any income tax. As the informal sector is also the largest employer of women, helping more women to graduate into the formal sector can also serve to improve their workers' rights, salaries and conditions.

This FTM report follows UNCTAD's definition of Illicit Financial Flows (IFFs) and defines tax-motivated IFFs as happening "when the international structuring of transactions or asset portfolios has little or no economic substance, and their expressed purpose is to reduce tax liabilities".

Because of limited institutional capacity, Zambia is very vulnerable to IFFs and thus loses urgently-needed revenue, which increases the dependence on indirect taxes which, by nature, disproportionately fall on women and poor people, who, at the same time, are those hardest hit by budget constraints and inadequate public services. It is not possible to know the exact scope of IFFs but several findings in Zambia give reasons to be worried. For instance, in 2019, ZRA assessed ZMW 27.7 million (USD 2.1 million) in suspected tax evasion cases and Zambia's Financial Intelligence Centre (FIC) 2020 Annual Report saw an increase in the number of suspicious transactions (STRs) to ZMW 6.1 billion (USD 288 million) in 2020.

Zambia's extractive industry poses great risks and challenges. In 2015 for example, Zambia accounted for 65 percent of the African continent's IFFs in copper mining, and in 2020 the Zambia Revenue Authority (ZRA) won a case against Mopani Copper mines that had under-priced copper sold to Glencore International AG. According to research released by Oxfam in 2021, an additional USD 102 million per year in income taxes should have been collected from just one copper mine - Mopani - an amount equivalent to more than half of Zambia's national water supply and sanitation budget for 2020.

2.3.Tax Competition and Corporate Incentives

Zambia's Corporate Income Tax (CIT) was reduced in 2022 from 35 percent to 30 percent. This has an estimated tax expenditure of ZMW 599 million (USD 28 million). Further, the Minister did propose the deductibility of mineral royalty for CIT with a projected tax expenditure of ZMW 3.2 billion (USD 151 million). These two policy choices alone imply a loss of revenue which could have funded the construction of more than 1000 schools providing hundreds of thousands of young girls and women access to education.

Zambia's statutory CIT rate is 30 percent higher than the regional average. However, large parts of the economy have considerably lower CIT rates as Zambia provides about 25 different CIT rates (between 0 percent and 40 percent) to different industries. While sectors such as agriculture which traditionally employ women benefit from lower CIT rates, the tax incentive policy isn't gender-deliberate. Therefore, women may not actually be able to benefit from these incentives.

Moreover, Zambia offers multiple incentives to companies such as tax allowances, exemptions, and concessions. The government is deliberate about attracting investment. However, there is limited empirical evidence as to the effect of tax incentives' importance on investors' decisions. And from a gender-perspective, tax incentives given to corporations increase gender inequality as men are disproportionately represented in both boardrooms and as shareholders and business owners.

There is a need, therefore, to assess the efficacy of the differentiated CIT rates and reductions as well as tax incentives. Most government financial reports do not disclose tax expenditure information, and no information on companies benefiting from tax incentives. The public has the right to know the bilateral deals made between the government and corporations, including what tax incentives are offered and at what revenue cost.

Zambia holds 22 double taxation agreements (DTAs) signed with the intention of motivating foreign direct investments (FDI). However, empirical studies point to Zambia's DTAs not fulfilling this intention and moreover having negative effects on domestic revenue mobilisation (DRM). Data also shows that Zambia is signing worse and worse DTAs which is particularly worrying as Zambia since 2010 signed DTAs with five tax havens; Switzerland, UK, Netherlands, Ireland and the Seychelles. Lastly, it is problematic that Zambia does not require parliamentary approval to ratify a DTA and thereby leave out inputs from the crucial representatives of the citizens who could better ensure adequate scrutiny of DTAs.

2.4.Effectiveness of the Tax Administration

Zambia's tax administration presents an interesting dynamic. On the one hand, the country's tax revenue, as a percentage of GDP, is only around 16 percent and has not increased in the last 10 years – therefore, it would seem that ZRA suffers from limited capacity and/or ineffectiveness. On the other hand, since 2017, ZRA has successfully met its collection target – and only in 2020 (influenced by Covid) falling short of the target by a mere 2.3 percent. Thus, it calls for the Zambian government to be more ambitious in relation to domestic revenue raising (DRM) and reflect this in the revenue collection target for the ZRA and provide more clear policy choices in how to meet such ambitious targets.

Production and access to gender-disaggregated tax-revenue data remains inadequate and thus challenges the possibilities for making informed policy reforms aiming at mitigating the explicit and implicit gender biases that may exist in the tax regime.

2.5.Government Spending

The report finds that debt-service allocations have increased dramatically, including external debt service, which rose 300 percent from 6.8 percent of public expenditures in 2016 to 19.9 percent in 2020. Non-social sector spending (Public Order & Safety and Defence) has also increased. All this comes at the expense of reductions in social sectors – education, for example, has dropped from 17.2 percent in 2016 to 12.4 percent in 2022 (see section 6.3). Reductions in social-sector spending pose adverse impacts on women and girls, e.g., the Zambian education sector has seen a reduction in the number of female candidates entering examinations at Grade Nine level.

During the 2010s, the Zambian health sector has seen a growing awareness of gender equality and progress has been recorded in key areas of health service delivery and health support systems, e.g., infant mortality has fallen from 2013 to 2018. However, since 2018, public expenditures to health have been reduced and thus one may fear this earlier-stated positive trend may not continue.

Gender analysis finds that unpaid care work is a labour category that has had irregular recognition from the Zambian government. Despite the overall disparities between women and men, policy documents have consistently omitted unpaid care work. Zambia still lacks deliberate policies to address this.

2.6.Transparency and Accountability

Zambia's latest National Development Plan (NDP7) states the need to improve transparency and accountability. But, Zambia lacks legislation that regulates public information access and other salient information of public interest, and the actualization of the Access to Information Act (ATI) has been a challenge since 2011, despite several demands by various stakeholders to expedite the process. This limits public access to important information such as extractive-industries contracts and the negotiation of double tax agreements (DTAs). Zambia's low scores on both the Corruption Perception Index (CPI) and the Open Budget Score (OBS) reflect this.

Tax revenue information is accessible in the National Budget Speech, the Annual Economic Report and the Yellow Book but these do not offer specific information on government expenditure on women's programmes, for example, in terms of how budget posts are actually dispersed. Moreover, gender-disaggregated data availability remains a challenge - for instance, the Living Conditions Monitoring Survey (LCMS) (last released in 2015) monitors living condition variables such as poverty, income levels, employment and school attendance rates, but with no gender disaggregation of data.

Further, Zambia's female representation and participation in decision-making processes remains a challenge, and the government's decision to discontinue The *Gender Ministry* signals a step in the wrong direction, both practically and symbolically.

3.Recommendations

3.1.Wealth and Property Taxes

Wealth taxes are absent from Zambia's tax regime - it has no taxes neither on inheritance, estate, gift, capital gains, property nor on net wealth. Thus, the government must work to develop and implement wealth and property taxes. This will be important in reducing income and wealth inequality as well as raising revenue in a progressive and gender-sensitive way.

3.2.The Informal Sector

Despite staying in the informal economy, many business owners have high incomes. Therefore, ZRA should progressively incentivise formalisation of the informal businesses and work with other government agencies such as PACRA and NAPSA and use digitalisation to scale-up registration of the most profitable parts of the informal economy. ZRA should combine this with efforts to create business support spaces where women, youth and others can seek tax advice and information on their workers´ rights as well as on business growth and how to formalise businesses, as helping women to graduate into the formal sector can serve to improve their workers ´ rights, salaries and conditions. To encourage formalisation, the ZRA should focus on traditional compliance efforts (e.g. audit, control, fines, etc.) on the parts of the informal sector with relatively high-income earners in order to ensure that high-income earners pay their fair share of tax. With regard to informal low-income persons and businesses, ZRA should target these with more mild incentives to formalise as these may need a longer process to formalise and should not be penalised.

3.3.Tackling Illicit Financial Flows

Stakeholders such as FIC, ACC, and ZRA should strengthen the exchange of information, investigations, prosecutions and forfeiture of proceeds of crime, strengthen their focus and the ability to assess extractive-mining production volumes and strengthen the capacity to assess taxes and accounting procedures in the extractives sector. Lastly, Zambia should secure more royalties from extractive industries and consider introducing a progressive royalty regime (especially important with regard to future mining agreements).

3.4.Tax Incentives

While tax revenues are urgently needed for public health, education services and VAT exemption on basic food commodities, the Zambian government loses massive amounts of tax revenue through tax incentives. This must stop.

Empirical research points to tax incentives as not central to investors' decisions about investment destinations. Therefore, the government needs to undertake an in-depth cost-benefit analysis of all existing CIT rates as well as both general and specific tax incentives: What is the efficacy of the various tax incentives and of the differentiated CIT rates? It is also important to enhance the transparency around bilateral deals between the government and corporations, including disclosure of what tax incentives are offered and at what revenue cost. The government needs to provide evidence and justification for any incentives to be retained as well as any new incentives offered. The goal must be to reduce the number and scope of tax incentives.

The existing incentives are *"gender blind"*. While the government is prioritising investment flows, it may potentially be driving economic inequality as well as gender inequality. Thus, the Zambian government needs to produce and publish information both on the specific discretionary incentives - who are the beneficiaries receiving what benefits – and, in the aggregate, and on general incentive policies - what are revenue costs and what are gender impacts.

3.5.Double Taxation Agreements

Research confirms that tax revenue losses from Zambia's double tax agreements (DTAs) are not justified by FDI inflows. The Zambian government should, therefore, review all its DTAs and involve the parliament in all future ratification processes. Re-negotiations of DTAs should be based on modified model templates like the ATAF model which, compared to the OECD framework, is friendlier to capital-importing least developed countries like Zambia.

3.6.Gender Disaggregation of Revenue Information

ZRA should place a deliberate focus on producing and publishing gender-disaggregating data so as to highlight the possible explicit and implicit gender biases that are existing in its current form to enable evidence-based policy reforms.

3.7. Transparency and Accountability

To strengthen transparency and accountability, the Zambian government should:

- Re-establish the *Gender Ministry*.
- Produce and make easily accessible detailed information about tax revenue collection, budget allocations and disbursements, including gender impact assessments.
- Expediting the passing of the Access to Information Act (ATI) to ensure citizens the right to access public information.
- Learn from the failure in the 7NDP's implementation and enhance efforts to attain gender-balance in political leadership positions, including representation in Parliament through deliberate strategies such as legislated quotas and in line with constitutional provisions on gender parity as per Article 259 of the Constitution (Amendment) Act No. 1 of 2016 which also provides for the formation of a Gender Equity and Equality Commission.
- Make gender mainstreaming default features of any policy design process and implementation.

3.8. Unpaid Care Work

Unpaid care work must be recognised by the Ministry of Labour. Sensitisation of unpaid care work among duty bearers such as the newly-elected parliamentarians and government officials would allow for a top-down recognition of the problem and influence policy formulation during the 8NDP period.

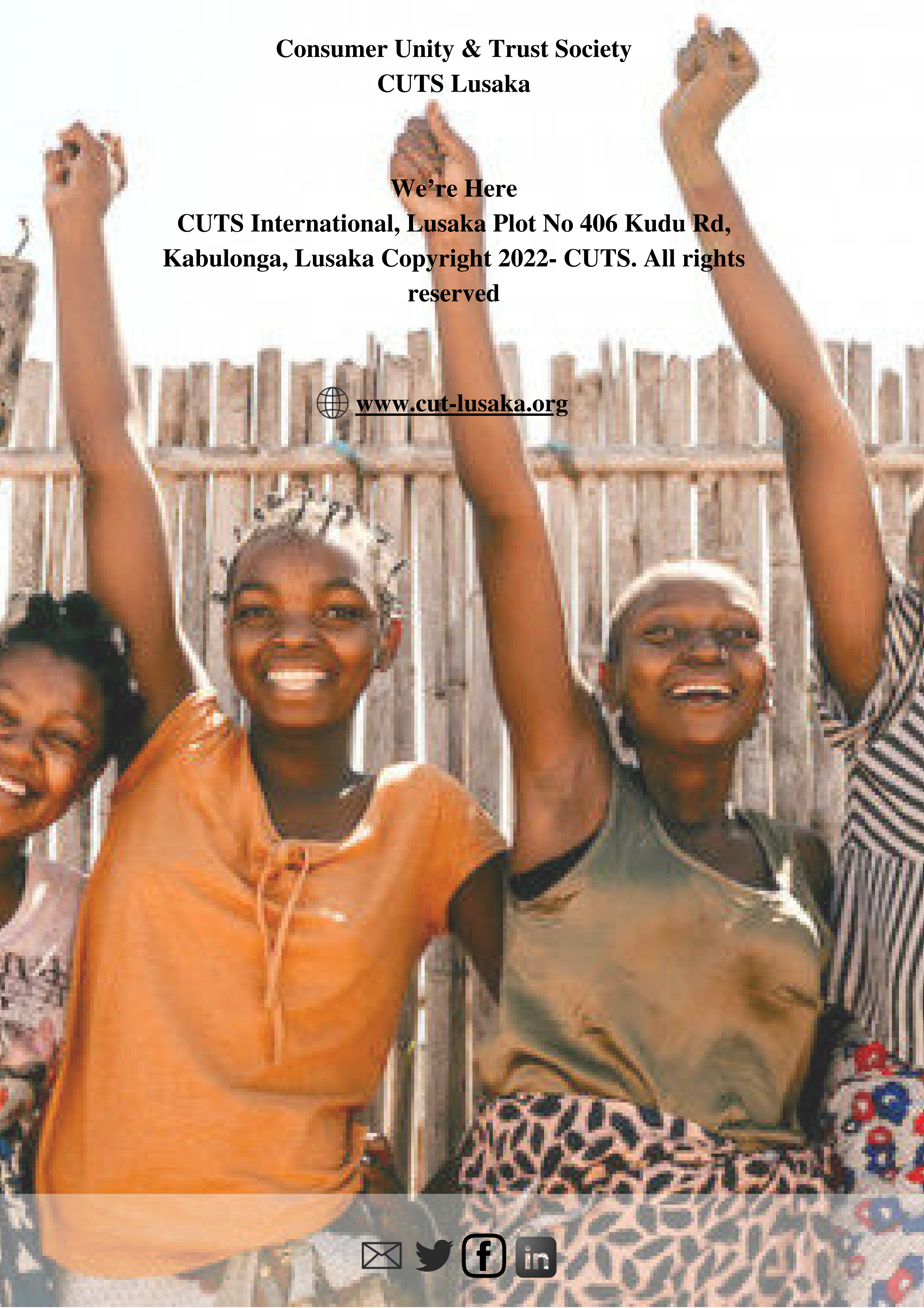
3.9.Debt Management and Government Spending

Public spending has continued to rise without a corresponding rise in tax revenues. Therefore, Zambia now has an unsustainable debt overhang and debt servicing costs are crowding out expenditure on key social sectors. Therefore, the government must seek solutions to restructure existing debt, slow down debt contraction, and prioritise expenditure to protect the poor and the vulnerable. Among other things, the government should, together with other developing country governments, make it imperative for the G20 Finance Ministers to approve a significant increase in Special Drawing Rights (SDRs) by IMF, extend the Debt Service Suspension Initiative (DSSI) and crucially mandate debt-relief actions from private creditors and multilateral development banks such as the World Bank.

The Government must also progressively increase tax revenues as well as reduce spending on non-social sectors such as Defence and Public Order and instead honour its international commitments (e.g., the Abuja Declaration) by prioritising social sectors such as Education, Health and Social Protection critical to the welfare of women and girls.

3.10.Education

Closure of learning institutions during the Covid-pandemic has derailed school retention efforts, especially among female learners at primary-school level. Therefore, the government and stakeholders need to sustain interventions to retain children in schools through prioritising more technical and financial resources to implement interventions such as the *National Strategy on Ending Child Marriage, the Re-Entry Policy and the Keeping Girls in School Program.*



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We're Here
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[**www.cut-lusaka.org**](www.cut-lusaka.org)