



2008 Post-Budget Analysis

Staying the Course on Pro-poor Spending

By
Civil Society for Poverty Reduction
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INTRODUCTION

Civil Society for Poverty Reduction (CSPR) is a civil society poverty network of over 140-member organisations. These organisations are primarily concerned with reducing poverty and its impact on vulnerable groups within Zambia. Civil Society has an important role in fighting poverty by acting as a critical facilitator to poverty reduction. As part of its strategy to contribute to poverty reduction and pro-poor development in Zambia, the CSPR network undertakes policy and budget analysis activities covering key aspects of poverty reduction. The policy and budget analysis is considered especially important because it determines the opportunities for, and constraints on, effective policy change and poverty reduction.

Given that the focus of CSPR is mainly on poverty reduction issues, our comments on the 2008 Budget will be on those aspects that directly address this. The Post Budget analysis is a synthesis of views and recommendations drawn from various network members.

OVERVIEW OF THE 2008 NATIONAL BUDGET

At face value, the theme of the 2008 National Budget, 'Unlocking Resources for Economic Empowerment and Wealth Creation', appears to relate more to macroeconomic aspects rather than poverty reduction. The Budget is based on a growth promotion, with little focus on how different sectors and investment priorities would influence the composition of growth and hence the extent of poverty reduction or key impediments to pro-poor growth. CSPR is concerned that Government has failed to recognize poverty reduction as one of its macroeconomic objectives in this year's budget. Government's intention to 'unlock resources' admittedly does demand macroeconomic stability and positive economic growth but this must be translated into improved delivery of quality and essential services and more generally, improved standard of living for the people.

The Budget gives no indication of resources being 'unlocked' for the poor who make up the majority of the rural population. The statistics from the Living Conditions Monitoring Survey (LCMS) of 2006, as highlighted by the Minister of Finance and National Planning

in his Budget speech, indicate that 80% of the rural population is below the poverty line while in urban areas the corresponding figure is 34%. Considering this huge disparity in poverty levels between the country's rural and urban areas, we expect Government to set parameters for equitable redistribution of these resources it hopes to 'unlock'. Accelerating growth in rural areas is a particular priority, both on poverty reduction and equity grounds. The satisfactory realization of the redistribution of resources and the promotion of rural livelihoods, are vital for the overall poverty reduction as they have positive implications on a country's economic development. In this regard, CSPR is of the view that emphasis should then be placed on poverty reduction programmes that will enhance the rural population's participation to enable them be more economically productive. For the rural population to participate there would be need for Government to provide the poor with the tools they need to participate in market-led growth. This would be contingent on ensuring that the rural poor have the assets, credit, education, entrepreneurial skills, good health, access to functioning markets and access to public goods and services they need to grasp new opportunities.

Resources should also be unlocked for the youth. Last year the Government allocated some funds towards the youths' empowerment. These funds were not disbursed and in this year's Budget there is no mention of this fund. Our main concern is how do we unlock resources and empower our unemployed youths.

On the whole, CSPR feels that the Government should aim for poverty reduction and this should be achieved with a deliberate focus on rural development as the basis. Government should also stay committed to the MDG promises, which include halving poverty by 2015.

BUDGET EXPENDITURE

(i) Social Sectors

Health and Education are two sectors that are critical to the fight against poverty. CSPR is concerned that the 0.8 % and 0.4 % nominal increments in the allocation to the health and education sectors respectively would not positively impact on the multiple problems the two sectors are currently going through. However, the pronouncement by Government in the 2008 Budget to alleviate some of the problems in these two sectors

through infrastructure development and recruitment of teachers and medical personnel is indeed praiseworthy. In addition to these measures, there are certain conditions that Government needs to pay attention to if it is to achieve quality service delivery, these are highlighted below for specific social sectors.

The Health Sector

The Health sector continues to face difficulties due to inadequate funding among other factors. The increment in allocation of K1, 586.6 billion or 11.5% of the budget though higher than the 2007 allocation of 10.7%, unfortunately continues to fall short of the 15% Abuja Commitment of which Zambia is a signatory. The 11.5% allocation is not adequate to address the challenges that face the sector, particularly with the high incidence of HIV/AIDS related diseases. In terms of budget allocation to HIV/AIDS related activities, the Yellow book reveals that K17.5 billion will go towards management and control of HIV/STIs, K1.1 billion towards Pediatric HIV and K36.9 billion towards Anti Retroviral Treatment Program. Under the Ministry of Community Development and Social Welfare Services, HIV/AIDS awareness and control has been given a total of K500 million. Based on these estimates of expenditure, this year's budget allocation towards the fight of HIV/AIDS is very insignificant to have the desired impact. In his speech in the 2007 Zambia Human Development Report, Hon. Magande acknowledged that until we fight HIV/AIDS we may not achieve all the other MDGs. This recognition should be followed through with commitment.

Of the total allocation to the health sector the Budget indicated an allocation of K113.5 billion for procurement of essential drugs. A further K42 billion has been provided for infrastructure development and K24.7 billion has been provided for recruitment of 1,700 health workers. The recruitment of more staff is commended in the face of a human resource crisis which the health sector has been experiencing. Ensuring that health care services are fully staffed is not the only challenge facing the health system. Even if the Government is able to find the human resources to respond adequately to the needs of the health care system, there is evidence that human resources alone will not provide the needed health care services. Preliminary data from the Baseline Study of the FNDP (Fifth National Development Plan)¹ commissioned by the CSPR reveals that in addition

¹ The *Baseline Study on the Fifth National Development* was commissioned by CSPR and conducted in 2007.

to the limited number of health personnel, the health care system is undermined by a lack of drugs, medical equipment and basic infrastructure. As a result, it was identified that the poor continue to suffer diminished access to health care services. With this current scenario, we request that Government puts in place better coordination of sector resources towards priority areas. At present there is no clear indication that resources are being directed towards priority areas of the sector. We also request that the allocated resources are released in a timely manner for immediate action.

The Education Sector

In his Budget address, the Minister of Finance and National Planning indicated that Government in 2007 recruited and placed 10,600 teachers in various schools in the country and that this recruitment process will continue in 2008 with an addition of 5,000 teachers. Government should be commended for giving priority to the deployment of more trained teachers in various schools in the country. However, our concern is to whether there are good conditions in place for recruitments and retention of these teachers. We recognise that even though there are more trained teachers than the number recruited, there is currently an acute shortage of teachers particularly in rural and remote schools due to the conditions in place. This was confirmed by respondents interviewed in all the districts where the Baseline Study of the FNDP was conducted. It was cited that due to lack of attractive incentives to motivate the staff to remain in the rural areas, rural areas continued to have low quality service delivery.

To deal with this challenge, our advice to Government is to focus on improving conditions for recruitments and developing retention schemes. The commitment to improving housing for teachers should be carried through as this would add to the success of the recruitment and retention process. The Government needs to also see the importance of improved personnel emoluments and allowances for social service providers. The budgetary allocation for settling allowance in this year's budget is only for 600 teachers, which is far below the targeted 5000 teachers. Our concern is on how Government will hope to fill in this gap.

In the Budget, it was also indicated that the Government will focus on developing and improving infrastructure and K350 billion has been set aside. Poor infrastructure in terms

of teacher's houses and classrooms were categorically stated by respondents in the FNDP Baseline Study as one of the main challenges in the education sector. The inadequate infrastructure coupled with inadequate school materials was stated to compromise the quality of education. In Luapula province it was pointed out that as a result of the poor education standards there was an increased dropout of pupils. Despite these difficulties, there are some reasons for optimism as Government has prioritised infrastructure development in the Budget. In the effort to develop and rehabilitate infrastructure, Government should do this with a view to provide equitable access to education particularly for those in isolated rural communities, where access is particularly limited. In addition, government should improve access to education for the deaf and other less able bodied persons. Schools which have integrated the deaf students and pupils have failed to meet their needs. We therefore expect subsequent budgets to reflect the trainings of teachers in sign language to encourage the deaf community to access proper education.

Water and Sanitation

Zambia's FNDP (2006-2010) includes water and sanitation as one of the intervention areas for tackling the country's poverty situation. However, the attention given to water supply and sanitation has been judged inadequate. The 2008 Budget has allocated K399.4 billion to water supply and sanitation. With regards to the breakdown of expenditure², support to Peri-urban Water Supplies is K320 million while support to Rural Water Supply Schemes is K1.1 billion. This breakdown would appear reasonable with spending tilted towards Rural Water Supply Schemes. However, in reality the spending on both of these categories proves inadequate to meet actual needs. The total budget allocation to the water and sanitation sector does not seem to meet the needed amounts to facilitate and expand coverage of water supply and sanitation, particularly in rural areas and low-income urban communities.

There is a large population in Zambia that does not have access to safe water and adequate sanitation. According to the 2006 Living Conditions Monitoring Survey, only 57 percent and 15 percent of Zambia's households had access to safe water and proper toilet facilities respectively (see **Table 2**). Access to safe water was estimated at 88

² Estimates of Revenue and Expenditure 1st January to 31st December 2008

percent of the population in urban areas and 41.5 percent of the population in rural areas, while access to proper toilets was at 39 percent in urban areas and 2 percent in rural areas.

Table 2: Access to Water and Sanitation Facilities, 2006 LCMS

	HHs With Access to Safe Water	HHs With Access to Proper Toilets
Zambia	57	15
Rural	41.5	2
Urban	88	39

Source: Central Statistical Office, Living Conditions Monitoring Survey 2006

While it can be noted that there has been some improvement in access to safe water in the urban areas, there is massive variations between urban and rural areas in access to safe water and sanitation. Given the importance of adequate water and sanitation coverage to human development, there is need to increase investments in the sector to raise coverage of rural areas. CSPR feels that if the country has to make meaningful progress in the water and sanitation sector, particularly progress in meeting the MDG target of “improving the proportion of people having access to safe water”, then more capital investment is needed. A basic calculation of necessary performance increases required for MDGs done by Water Aid Zambia, indicates that up to 360% increase in outputs may be required as illustrated below.

Table 1: Zambia Water Sector Performance Increases to Meet Water & Sanitation MDGs

Sector	Location	Performance (Households/ month)		Increases Required for MDGs (additional performance required)
		1990-2000	2001-2015	
Water	Rural	995	4,572	360%
	Urban	635	2,371	274%
Sanitation	Rural	1,477	4,310	192%
	Urban	571	2,385	318%

Current financing strategies of the water and sanitation sector need revising to raise funding to levels matching MDG targets as well as investment requirements of the sector which were identified in the FNDP. Among other issues, financing strategies to raise the level of funds flowing into the sector would need to strengthen the D-WASHes which have become the focal institutions in rural water and sanitation supply.

(ii) Social Protection

CSPR feels that Government's allocation of K577.7 billion (4.2%) of the 2008 budget to social protection is a positive development compared to the 3.8% allocated in the 2007 budget. CSPR wishes to commend Government for making provisions for payments of arrears to pensioners. This provision would alleviate the suffering of those that committed their productive lives to serving the public. We call on Government in future, to make such payments at the time of separation to ensure that retirees get their dues when these still have a strong purchasing power.

While noting Government's commitment to complete payment of pension arrears, which accounts of K435.9 billion from the K577.7 billion, CSPR questions why other social protection programmes such as the care for the aged, persons with disability, orphaned and vulnerable children should lie low in priority. The allocation of the Budget to other social protection programmes as indicated in **Table 3** is not sufficient to cover effective delivery of the Ministry of Community Development and Social Services (MCDSS).

Table 3: 2008 Estimates of Expenditure for Social Protection Programmes

Programme	Activity	Expenditure allocation 2008
Social safety Net	Transfers to vulnerable persons	K1, 393,000,000
	Retirement Benefits for Zambia Agency for persons with Disabilities	K5,000,000,000
Social Welfare	Places of safety	K216,000,000
	Street Children	K10,000,000,000
	Children home	K300,000,000
	Care for the aged	K300,000,000
	Public Welfare Assistance Scheme	K4,292,630,548
	Social cash funding	K1,500,000,000

According to data from the baseline of the FNDP, households generally described frequent illnesses, crop failures due to droughts and floods and lack of credit to engage in income generating activities as leading them to vulnerability. Lack of these and lack of social support can lead to chronic poverty. We therefore advise Government to offer an effective path through which the various issues affecting the aged, vulnerable women, orphaned and vulnerable children including street children, can be addressed. One of

these paths would to have “well-designed social protection programmes, including cash transfers and employment programmes”³

(iii) Gender

Gender issues are critical in the poverty reduction process. Almost the whole of the region’s rural population directly depends on agriculture for its livelihood. According to statistics, women in Zambia contribute more than 70% of the agricultural labour. This is apart from the other demands on them such as providing for their families’ health and nutrition. Notwithstanding these facts, women are, however, disadvantaged in that they do not have equal access to productive resources and means including credit, land, technology, extension information and decision making. The 2008 Budget does not address gender issues adequately. The gender-blindness in the Budget will have inevitable consequence of leaving out women from ‘economic empowerment’ programmes and projects. CSPR believes that it is vital to address gender issues in the Budget, if development is to move forward particularly in the rural areas.

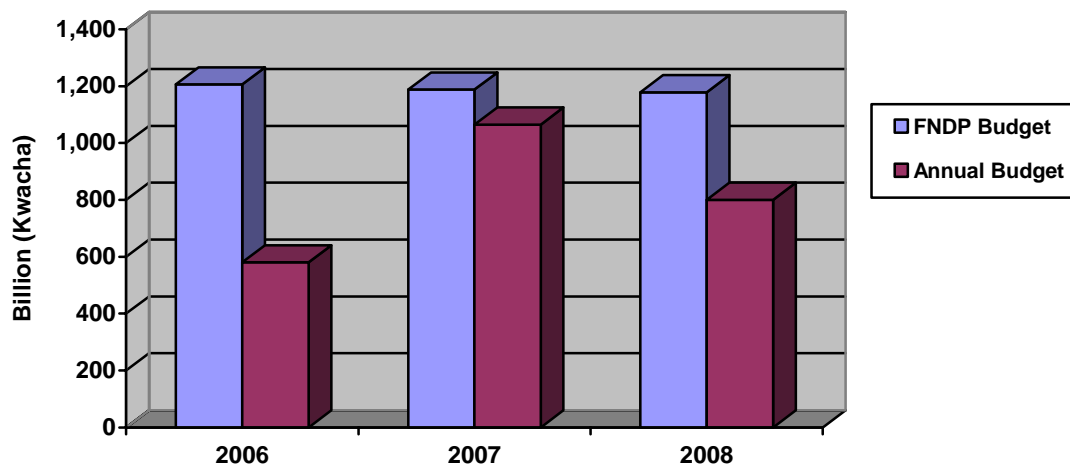
(iv) Economic Sectors

Agriculture

Funds allocated to the Agriculture sector in the 2008 Budget have reduced from 8.8% of the total budget in 2007 to 5.8% this year. In comparison with the budget estimates of expenditure for Agricultural Sector for 2008 in the FNDP (2006 -2010) of K1.1 trillion, resources allocated to agricultural activities in the 2008 Budget and in preceding Budgets have changed radically as can be noted in **Chart 1**. This significant shift in budget allocation undermines the FNDP and the commitments made for agriculture to grow at 10% per annum and for agricultural contribution to GDP from 18% to 25% by 2010. By not reflecting these existing commitments, the FNDP may lose the opportunities to improve its pro-poor focus. Furthermore, the status of sector commitments and goals is undermined by the repeated habit of abandoning or ignoring previous pledges.

³ EAZ Budget Analysis 2008

Chart 1: FNDP Annual Estimates of Expenditure and Actual Annual Budgets



In recent statements, some government officials have attributed the reduction in budgetary allocation to the agriculture sector to poor performance. As a result, resources have been drawn back to enable Government evaluate the performance of the sector. Based on the preliminary findings from the Baseline Study of the FNDP, bottlenecks to growth in this sector were identified as: (1) inadequate infrastructure; (2) the small size of the domestic market; (3) uncertain weather conditions not sufficiently conducive to growth; (4) poor service delivery by Government; (5) poor marketing systems; and, (6) inadequate provision of credit facilities to support the development of small farm enterprises. These bottlenecks, in addition to weak public institutions can choke any attempts for the agricultural sector to become a stronger engine of growth in Zambia. In view of these bottlenecks, Government's retreat of resources in the agriculture sector will pose greater challenges to smallholders, particularly those that are geographically isolated. Changing budget allocation, can only be justifiable if the new expenditures were poverty reducing, and likely to contribute to economic growth.

The potential for agriculture to empower and create wealth, particularly for those in rural areas is not questionable. We therefore ask the Government to recognize the role that agricultural productivity, particularly small-scale farming, plays in economic growth. CSPR believes that increasing growth in the agricultural sector and ultimately reducing poverty will require more resources allocated to small-holder agricultural activities and programmes. Encouraging small-holder agricultural activities and programmes is the

best way to help poor farmers and the rural population become more productive and improve their living standards. Therefore, to have meaningful economic growth, we encourage Government to provide appropriate support to small scale farmers. Realistically, many of the rural poor will continue to need support and assistance for years to come. In addition there is need for Government to find more effective ways to promote small-holder agriculture e.g. through strengthening the policy framework, improving market integration and infrastructure, and ensuring better access to credit and complementary inputs.

Mining sector

CSPR would like to commend Government on the move to increase tax for the mining sector. The proposed fiscal regime is deemed to be in line with best practice, specifically the application of a both a variable profits tax and a windfall tax related to prices, and the use of a reference price instead of average revenues declared by the mining companies.⁴

The minister indicated that the country is expected to earn in excess of US\$400 million in additional revenues from the new mining tax regime this year. The additional revenue expected from the new mining tax regime is equal to about 16.0% of domestic revenue, 11.5% of total proposed expenditure or about 3.1% of GDP. In this context, we expect additional resources generated from this to be reflected in the planning of poverty reduction programmes. However caution should be taken in the use of such revenues for additional recurrent costs of Government, such as those in the social sectors, unless it can be demonstrated that those costs can be sustained, through future revenues (EAZ 2008).

BUDGET REVENUE

Income tax

CSPR welcomes the increase in the PAYE exemption threshold from K500,000 to K600,000. However, we feel that this increase is not enough as it may be quickly eroded by increases in prices during the year. CSPR is concerned that PAYE of 35% is being

⁴ EAZ Budget Analysis 2008

made on an income of K4,000,000 which is a reduction from 2007 which was at K5,200,000. The reduction of PAYE for the income groups from K5,200,000 to K4,000,000 should have been left at K5,200,000 per month. It is also a concern that an employee who gets K4,000,000 per month, should be taxed at the same rate of 35% as one receiving an income of K20,000,000. We request the Government to pay attention to how they tax those in lower earning groups and those in much higher earning groups.

We call on Government to broaden the tax base. The formal sector, which accounts for 10 percent of the Zambian labor force, has been shrinking and associated to this has been the fall in earnings. The informal sector has largely been ignored as a longer term source of wealth and its important current role in providing jobs, incomes for the poor and revenue for government. Nonetheless, whilst greater engagement and consideration of the needs and opportunities found in the informal sector is needed, it is not necessarily the case that the informal sector offers the best opportunity for urban poverty reduction in the medium to long term. Issues of whether reliance on the informal sector can promote income security, safety at work and or necessary levels of economic growth can all be questioned. However, the informal sector provides a substantial contribution to current economic survival. But in order to make a significant contribution to poverty reduction, means must be found to help the informal sector transform into a small and medium scale business sector. Efforts by Government through the Citizens Economic Empowerment (CEE) is hoped to do exactly this. However the budget allocated to the CEE seems to be negligible.

CONCLUSION

It is indeed positive that the 2008 Budget will take economic growth as its major focus, however it is essential that the Government addresses the question of what policies for growth promotion are most likely to reach the poor in Zambia, how public resources should then be allocated to ensure a balanced and inclusive growth process, and what additional measures are needed to enhance security and equip the poor to take advantage of new opportunities. In order to address these questions, Government must develop a well-functioning and responsive public administration, and an overall institutional environment that supports, and indeed encourages both urban and rural development initiatives, active and healthy involvement of civil society organisations (in

policy debates as well and service delivery), and fair and transparent political processes. In addition, Government must increase equity and should expand economic opportunities for the poor. As already alluded to there would be need in this process to provide the poor with the tools they need to participate in market-led growth and grasp new economic opportunities.

RECOMMENDATIONS

- There is need for Government to facilitate quick delivery of goods and services by ensuring that certain activities done at national level should be provincial and district driven. In this view, there is need for Government to expedite the implementation process of the Decentralized Implementation Plan. Progress on decentralization should be linked with capacity building for local and central Governments.
- The challenges related to the long tender procedures and procurement systems that were attributed to the slow delivery and subsequent non utilization of resources in 2007, should be addressed by reducing bureaucratic tender procedures i.e. the approval process for tender procedures should be shortened. In addition, every effort should be made to ensure timely allocation and disbursement of budgeted resources. In addition there should be more transparent and effective budget and procurement systems.
- Government should exercise strong control on its expenditures by reducing non priority expenditures. Key areas like health, education, water and sanitation, orphans and vulnerable children issues including disability issues must take priority in the Poverty Reduction Programme.
- Expenditure on agriculture should be more than 10% of the total of the national budget to enhance effective development.
- We support the Government's youth and citizen empowerment programmes. However, there is need for Government and responsible institutions to speed up the implementation process as well as provide solutions that will cater for all and not just a few people in urban areas.

- No matter how well the economy performs, there are many who still remain destitute, food insecure, and malnourished, and suffer from chronic illnesses. It is therefore essential that Government improves security for individuals, households, and communities through well-designed policies that support formal and informal risk management strategies and provide for the needs of the most destitute.
- Government should set up retention schemes to attract and retain skilled and professional staff.
- Agreeably, rather than becoming merely consumptive in nature, CSPR would like to see a situation where more poverty reduction programmes result in the rural population participating in economically productive activities. This should include broad measures to improve the investment climate for private sector-led growth, ensure well-functioning markets, and promote a more diversified, stable, and faster-growing economy.
- Increase allocation towards the education and health sectors.
- Government should include in the national budget money for sign language teachers and lecturers in both primary to university level. In financial resources should be included in the national budget for the training of health workers in sign language.

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