



JCTR

# CONSOLIDATED ANALYSIS OF THE 2008 NATIONAL BUDGET

## **INTRODUCTION**

This document outlines the 2008 National Budget analysis prepared by the Caritas Zambia, Civil Society for Poverty Reduction (CSPR) and Jesuits Center for Theological Reflection (JCTR)

It is our aim therefore to critically analyze the budget and examine what options it has for the poor. As Civil Society, we believe that every prospective national budget be viewed in light of whether it protects or undermines the dignity of the human person and realizing that all people have the right to participate in the economy of a given country.

### **Context in which the 2008 Budget was presented**

The year 2008 marks three years after the attainment of the Heavily Indebted Poor Countries and the Multilateral Debt relief Initiative (MDRI) which significantly reduced Zambia's external debt to US\$1.8 billion in 2006 from 7.1 billion at the end of 2004. This year is also the mid-point of Zambia's Fifth National Development Plan which was launched in 2006 and intended to be implemented up to 2010. 2008, is also somehow the midpoint for the Millennium Development Goals (MDGs) to be met by 2015.

Zambia's macro-economic indicators reveal that there has been steady growth recorded at an average of over 4 percent in the last 5 years while inflation has also been below 10 percent in the last two years. While this favourable macro-economic outlook is necessary for the improvement of economic and human development; in itself, it does not guarantee human development and poverty reduction.

The Lack of tangible benefits accruing to many Zambians is evident by the increase in rural poverty from 78 percent to 80 percent (LCMS 2006). Of Zambia's 11.7 million people, 7,612,472 or 65 % are in rural areas. Notwithstanding the recent pronouncements that urban poverty reduced to 34 % in 2006 from 53 % in 2004, currently 97 % of Zambians in rural areas perceive themselves as poor while 92 % in urban areas perceive themselves as poor (World Bank vulnerability study, 2007). This brings the average of self-assessed poverty to 95 %.

### **BASIS OF OUR COMMENT ON THE NATIONAL BUDGET**

Traditionally, national budgets are a single most important tool reflecting the performance of several critical economic and social functions. They facilitate the allocation of resources, provision of basic social services, amelioration of income and wealth disparities, stabilization of prices, and generation of economic growth and employment.

National Budgets reflect the vision of the economic and social development of a government and more generally the values of a given society. They also reflect the choices that governments make to realize their social and economic agenda.

## **SPECIFIC MEASURES**

Below we present some of the policy measures that have been announced and briefly comment on their implications.

## **MACROECONOMIC TARGETS FOR 2008**

The following targets were set out in Paragraph 68 of the 2008 National Budget;

1. Achieve real GDP growth of at least 7 percent;
2. Bring down end-year inflation to no more than 7 percent;
3. Limit domestic borrowing to 1.2 percent of GDP; and
4. Maintain the coverage of gross international reserves at no less than 3.6 months of import cover.

### **GDP growth of at least 7 percent**

It should be emphasized that Economic growth is a necessary condition for poverty reduction (***A minimum of at least 8% is needed if we are to attain the MDGs***). This study done by JCTR and CSPR IN 2005 dubbed "costing of the MDGs" clearly substantiates this demand. This is needed not only to reduce income poverty, but also to reach the other MDGs and trends indicate that countries with the greatest progress in poverty reduction are those with the strongest economic growth rates. In as much as the budget tries to be realistic, a target of 7% falls short of the recommended percentage for a meaningful dent on poverty. This poses a lot of questions on the focus of the budget on why it is aiming for a low target of 7%.

It is also important to reflect on whether the increased GDP recorded in the past four years has trickled to the general citizenry. In view of the high unemployment levels and increased rural poverty, it is imperative to question who is creating this wealth and where it is going. Whilst the FNDP singles out the Agriculture sector as its major driver, the reduction by 5.8% (800.5m) from 8.8% (1064.8) comparing the

2007 and 2008 budgetary allocation as indicated in paragraph 101 of the 2008 National Budget, is disproportionate to this aspiration. . This is the sector that employs the majority of the population most of them marginalized. These people are therefore likely to be left out from benefiting the projected growth and wealth creation. The call to adequately cater for the less privileged through increased budgetary allocation to sectors promoting improved livelihoods of the poor can therefore not be overemphasized.

### **Bring down end-year inflation to no more than 7 percent;**

The government aims to reduce inflation from 9% to 7%. This is really desirable as far as macroeconomic stability is concerned. Lower inflation is expected to lead to reduction in interest rates, which could encourage long term borrowing for investment. We commend the government for aiming for low inflation as high inflation tend to be indirect taxes on incomes, consequently reducing the value of the incomes of the poor in particular.

However the desirability of low inflation depends also on the cost of achieving the so much talked about inflation that the government has achieved. The government has been aiming at reducing inflation to as low as 5% but the question to ask is what development policy objectives does this target intend to achieve? Reducing inflation has a cost to society and what is the cost that is acceptable to society- what are they sacrificing- is it the high rate of unemployment? Or is it the high levels of inequality?

We believe that lowering inflation at the expense of increasing unemployment levels does not net any increase in purchasing power of Zambians. An inflation rate of 7% means nothing to the unemployed since they earn no money to spend. Reducing inflation under the current conditions would therefore be meaningless to an unemployed Zambian, no matter what the price level is.

### **Limit domestic borrowing to 1.2 percent of GDP**

The government wants to maintain its domestic borrowing to 1.2% of GDP. This is inconsistent with the FNDP's proposal of reducing domestic government borrowing to less than 1.0 percent of GDP from 2008 onwards,. Furthermore, this is not commensurate with the theme, 'unlocking resources' since the government is insisting in continuing to borrow.

The government ought to realize that the increase in domestic borrowing tends to crowd out the private sector investment that we have been trying to encourage in the recent past. Certainly, private investment is essential for ensuring not only economic growth but also sustainable development and poverty reduction. The private sector helps to increase the productive capacity of an economy, drives job creation, brings innovation and new technologies, and boosts income growth. This can only be promoted if the government

reduces its domestic borrowing **NOT** increasing it or maintaining it at its high levels. This has also considerable effect on the interest rates that we have been trying so hard to reduce.

**We urge the government to reduce its domestic borrowing to less than 1 percent of GDP as a first step in 'Unlocking Resources for Economic Empowerment and Wealth Creation'**

### **Social Targets**

As much as setting macroeconomic targets for the budget is important, **the government needs to set targets for the social sectors (e.g water and sanitation facilities, education, health etc)**. There is need for progressive realization of social sector improvement and more equitable creation of employment should be created. The country is now facing an employment crisis with barely 500,000 people in formal employment and more than 3.5 million people looking for jobs, most of them college and university graduates. It is regrettable that the 2008 budget completely ignores the issue of employment.

Therefore, empowering people with jobs that ensure sustainable livelihoods to individuals and their families is one of the best and effective ways of unlocking the resources, otherwise the other macroeconomics targets become meaningless if they do not translate to anything in people's lives.

### **BUDGET EXECUTION**

It is a good gesture that the government intends to build capacities of Ministries, Provinces and other spending agencies to evaluate and implement capital projects on time (paragraph 71). **The government really needs to build capacity in ministries in implementing programmes and projects, which has been seen to be lacking**. Even the practice of having to wait for the funds to be transferred to the Banks for programmes and projects needs to be discouraged. As per tender regulations, ministries should start the procurement procedures based on the allocation in the budget. **However, government should make funds available on time to facilitate timely implementation of projects especially infrastructure development**. Lack of tender plans and timely release of funding retards development in most constituencies.

We also take note that in the 2007 budget, paragraph 70, the Minister promised improvements in budget execution through monthly and quarterly reports from Ministries, Provinces and Spending Agencies (MPSAs) which were never shared with the public posing doubts as to whether they were actually produced. These measures and reports were also in part intended to "widen stakeholder involvement in budget implementation and give an opportunity to all stakeholders to be fully involved in the monitoring and evaluation of programmes". Without public scrutiny of reports from MPSAs and with bureaucratic structures which do not readily and easily provide information to

interested stakeholders it is therefore imperative that the Ministry of Finance and Ministry of Information broaden the basis for public engagement.

## **DEBT AND AID POLICIES**

In paragraph 29 of the 2007 national budget, it was indicated that the domestic debt stock was estimated to be at K7, 687 billion but in paragraph 25 of the 2008 budget preliminary figures show that the stock of domestic debt and other public liabilities declined by 7.1 percent to an estimated K8, 885.5 billion in 2007. This is a contradiction. The domestic debt actually increased by 26.02% in 2007 and by 45.66% compared to the 2006 domestic debt which was standing at K6, 100.0 billion!!!

The domestic debt has been cumulatively increasing and is largely owed to local contractors and suppliers whose income is crucial to maintaining employment. Utmost urgency should be paid to this issue and It is worrying to note that the government keeps on ignoring this issue and our worry is that we are falling into a vicious cycle of domestic borrowing to service that debt. This is a crisis that the government needs to work on and give it its utmost urgency that it deserves unlike the way they are underplaying it. ***The government should resolve this crisis.***

Critical analysis also reveals that the bulk of the arrears are owed to commercial banks road developers, mostly foreign owned thus questioning if these is really 'domestic debt'. ***The definition of domestic debt will therefore need to be clarified.*** Government also borrows from the public (treasury bills) and benefits of workers.

## **ECONOMIC SECTORS**

### **Mining**

We commend the government for changing the fiscal regime to match the current trends in the mining industry. This will also help in the much needed financing of development of the social programmes. This could not have come at a better time in the sense that it has the potential of removing the dangers of overdependence on donor support to some extent. While this support will continue to be important and duly appreciated, we believe that the new fiscal regime will be an important stepping stone to embark on a deliberate programme of weaning the economy from kind of dependence which has often left it vulnerable.

The revision to the mining tax regime is a progressive step in ensuring that corporate institutions make higher contributions to the revenue side of the budget. We hope that the additional US 415 million to be generated from taxes on mining firms would be spread across social and economic sectors to improve

service delivery and increase capital investments necessary for integral human development.

For the people of Zambia to share in the benefits of increased world market prices of their national assets it is essential the new tax regime be introduced noting that the current situation is inequitable, unacceptable and inconsistent with the principles of the constitution and the Government of Zambia has a sacred responsibility towards the people of Zambia whom it represents. We applaud the GRZ for its determination and its stance on the new tax regime and we urge the government officials not to compromise its current position. It will also be prudent for the government to remain alive to the fact that low taxes were only a small part of the huge challenges facing the mining sector. As summarized by Fraser and Lungu (2006), these include! 1) inadequate regulation, illegal operations, impunity 2) Casualisation of the workforce, 3) Deepening pensioner poverty, 4) Lack of linkages to local business and 5) failure to protect the social infrastructure.

## SOCIAL SECTORS

### Education

The governments' intention to hire additional 5,000 teachers is a welcome move (Paragraph 112). We just hope the government will be more practical and not just mention figures to please the masses. We also welcome their intention of wanting to intensify the retention of teacher's initiatives, expand the provision of education materials and the construction of classrooms and teachers houses in rural areas especially.

As much as we want to hire teachers, **they government needs to be mindful of the quality of education being offered by the schools so as to improve the quality of schooling in general.**

The table below shows a comparison of the budget and the FNDP

Item	2007 (ZMK'billion)	2008 (ZMK'billion)
National Budget	K12,042.4	13,761.4
Total National Education budget.	K1,808.4	2,118.5
% of total Budget	15.00%	15.4%
FNDP Absolute amounts	1,998	2,205
% FNDP of total Budget	17.1	17.8
Cairo Protocol	20%	20%

The national budget has in absolute amounts increased by 14% compared to the 2007 national budget. However, the Education budget has in absolute amounts increased only by 17.15% (which is ZMK310.1 billion) compared to 2007. Comparing the last two national budgets and the FNDP we realize that we have been allocating less to this sector than what we had projected. This questions the ability of the government and its commitment in wanting to improve the standard of education in Zambia and also the welfare of the teachers!!! .

**The government needs 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 for social service providers. That is in order to improve morale of workers and improve the retention of trained staff.**

**The 2008 budget does not provide any support for Community schools opposed to the 2007 budget in which they received assistance in excess of k163 million. The role played by community schools is already appreciated by the Ministry of Education and their enrolment is only second to government institutions.**

If resources are really to be unlocked, education is key and **more budgetary allocation should be channeled to this sector**. Therefore, education should not be seen as consumption but investment! The projected budget allocation to the education sector won't be enough if we truly want to create a society where human life has equal worth and where every child has an equal opportunity to succeed, we must improve the quality of our schools. This will not happen on its own. We need concerted action to make things change.

## **Health**

We commend the government for realizing that the health sector is in need of more personnel, thus its intention in paragraph 115 to recruit 1,700 workers. This will at least help the health institutions respond adequately to the increasing demand of their services especially in this day and age of HIV/AIDS.

In paragraph 115 the government increased total expenditure on health as a share of the total budget which is projected to scale up by 0.7% (less compared to the MTEF 2008-2010 paragraph 75 which proposed an increase of 1.18 percentage points). In actual fact there is no real increment to the health sector. Will K292.6 billion ( 0.7%) be able to pay for the salaries of the new recruits and the old employees at the same time, maintaining them plus procurement of essential drugs and provision of infrastructure and equipment development that the health sector so desperately needs??!!!

Broadly speaking, this budget outlay covered DHMT activities at District level in terms of personal Emoluments [Salaries and Wages, [36%]; Health care at District hospital levels and Disease prevention and Health promotion in the district, [22%]; and District Health System Administration / Management – [9%]. At Provincial level, the allocation covers General Hospitals [17%]; Health Worker Training Institutions – [3%] and the Provincial Health Offices – [13%] –.These allocations have been adhered to for all provinces, except in Lusaka Province where we do not have a General hospital.

In as much as the we appreciate that Principles of fairness have been followed, such that well-off and/or urban provinces have less allocations per person than in rural provinces [which are generally disadvantaged in terms of both development and disease burden (more illnesses and deaths in rural and poor provinces)]

But this apparent fairness is merely deceptive if we take into account allocations to Central hospitals and other allocations from central level, which are targeted at general hospital. It will follow from this that since there is generally lack of transport and a broken down referral system, most people that used the facilities at General and Central hospitals are local residents. This fact changes the factors to consider for per capita allocation and the picture changes to **unfairness** – in that the urban and better off provinces now have bigger allocations to a person for health than residents in rural and poorer provinces

**The population is increasing, it is not constant, and health demand is also increasing. The health sector is desperately in need of real monetary budget increase which will be able to cushion the shortage of health workers, improve the provision of quality health care and services in the midst of the HIV/AIDS, malaria, TB scares. The commitment of the government towards this sector leaves much to be desired. The government needs to put more effort to this sector improvement.**

### **Social Protection**

Civil Society would like to commend the government for its willingness to dismantle ALL the pension arrears, Paragraph 117 in the 2008 budget. As such, allocation has increased by 68.2% i.e. from K343.5 billion (2007) to K577.7 billion (2008). K435.9 billion will be for the complete payment of pension arrears and meeting the current obligations to the Public Service Pension Fund while the balance of K141.8 billion will go towards other social protection programmes.

This simply means that the government will in actual fact allocate K141.8 Billion to policies and practices that protect and promote the livelihoods and welfare of people suffering from critical levels of poverty and deprivation, and/or

people who are vulnerable to risks and shocks." **Surely is this enough?!!!! The government should not consider spending under social protection as a luxury, they government should increase its spending to this sector by at least 30% looking at the numbers of people that are vulnerable and also realising that more than 47% of the population are living in abject poverty.**

The allocation of the budget to other social protection programmes is not sufficient to cover effective delivery of the Ministry of Community Development and Social Services (MCDSS). We can therefore conclude that the 2008 Budget has neglected and does not offer an effective path through which the various issues affecting the aged, vulnerable women, orphaned and vulnerable children including street children, can be addressed

**We urge the government to put sustainable measures that will ensure that the government does not accumulate the pension arrears again.**

## **REVENUE MEASURES**

### **Direct taxes**

#### **PAY –AS –YOU -EARN**

The 2008 national budget should be concerned with inequality and equity because it can mitigate against the achievements of economic growth and a lot of research showed that there tends to be a negative relation between the prevailing inequality and subsequent economic growth. This means that that high inequality especially in a low income-country like Zambia can have disastrous consequences for poverty, hunger, malnutrition and mortality. The country's objectives of maintaining the Millennium Developmental Goals (MDG's) or of making poverty history can never be achieved as long as high inequality and hence lack of equity – remains a major issue which 2008 national budget adequately ignores.

This is especially reflected in the income tax. The 2008 budget has increased the tax credit from K500, 000 to K600, 000.

We feel that the budget has failed to relate the cost of living to the tax exemption that has been provided for. The Tax credit of 20 percent increase is very insignificant considering the high prices of commodities- e.g. electricity tariffs and fuel was increased recently. Going by the Jesuit Centre for Theological Reflection (JCTR) data which shows the cost of living using the cost of essential food items and essential but non-food items for a family of six in Zambia, the statistics of poor people could be higher. The December 2007 Basic Needs Basket (BNB) shows that, for a family of six in Lusaka to have adequate food, it needs about K569, 500 (this is less cost of essentials but non foods items including housing, electricity, water etc). This means that a minimum

wage/income per month should be at least K 569,500 which is just enough to meet the food aspect. In this regard we feel that a tax credit of K 600,000 per month is a mockery considering the high cost of living in Zambia today. **The threshold should be increased to not less K 1, 500,000.**

The 2008 budget has not taken the equity aspect on board. For example let's consider individual A and B whose earning is K1, 500,000 and K2, 500,000 per annum. The difference between the two incomes is K1, 000,000.

One of the objectives of taxation is by narrowing the difference of incomes. The net incomes difference in 2007 between the two would have been K710,000 and now in 2008, the net income difference is K716,750. The net incomes would have significantly increased but the inequality in their net incomes compared to 2008 and 2007 would have also risen. This is worrying and **we urge the government to effect changes in the tax credit and tax bands as to make the rate structure of the income tax more progressive so as to avoid causing huge disparities in the already highly disparate personal income distribution.**

### **CUSTOMS AND EXCISE**

The Government reduction of customs duty on musical equipment in order to promote the music industry is a welcome gesture (paragraph 129). This will help in the expansion and improvement of the industry.

We also commend the government imposing an export levy of 15 percent on export of copper concentrates paragraph 132, this will help in the industry to concentrate not only on raw material export and this is also expected to generate employment opportunities.

- **Value Added Tax**

We commend the government for reducing tax from 17.5% to 16% effective 1<sup>st</sup> April. **However the government should consider reducing VAT proportionately to the GDP growth so that Zambians get the benefits of having a positive and higher GDP. We also feel that it would have been more meaningful if it was effective the day the budget speech was announced.**

It is now common knowledge that the tax changes have generated much heated debate and opposition within the labour movement and the public in general. For people to see the benefits of a progressive tax system, government needs to control its tendency to spend excessively on such things as vehicles, travel and sitting allowances at the expense of declining resources in health, education, infrastructure and social welfare for the core poor. **Government needs to check its record of poor accountability, lack of transparency, misappropriation of funds and blatant corruption that go unpunished.**

## Non-Tax Revenues

There are a variety of revenue-generating measures that have been put forward by government such as lifting the waiver on visa fees under tour packages, revise the fees payable under the Passport and Citizenship Act and revision of the road user fees payable under the road traffic (paragraph 139-142).

The government should realise that the success of such measures at generating revenue depend on the related fees being modest and reasonable to reduce the incentive for evasion, while the capacity of relevant institutions to process the necessary documentation and handle the finances is also important.

Often times these institutions will lack administrative capacity and financial, accounting and internal control mechanisms for effective accountability prior to having such a great responsibility thrust upon them. Consequently, the high fees charged by government do not automatically translate into higher revenues because of a variety of intervening factors. **We urge the government to resolve these issues if we are going to raise the revenues projected in the 2008 national budget.**

## CONCLUSIONS AND RECOMMENDATIONS

The government needs to improve its implementation capacity that is noticeably very low otherwise the objectives and goals set under the FNDP will be a pipe dream. It has been noticed that the line ministries start the procurement procedures only after the funds asked for from the treasury has reached their respective commercial banks thus contributing to low implementation levels in terms of implementation. The ministries should be starting the procurement process before the funds have been sent otherwise we will continue seeing the increase of programmes and projects not implemented or partly implemented. This surmounts to a strong case for making increased use of service delivery surveys and tracking surveys to give fast, cheap feedback on how Government funds are actually used, and what the population thinks of services.

If public expenditure is to serve the interests of the poor people, political will is a must!! There is need to confront difficult choices and it is inevitable and necessary, but not sufficient- there is also the aspect of political courage. Choices and decisions need to be made that will align public expenditure to make it more effective and efficient; macro-economic and budget stability is a must, and budget systems that turn policy analysis into actual cash releases to implement the intended policies need to be in existent. This has to be accompanied with reforms that bring the incentives facing those required to implement expenditure programmes that are stipulated in the national budgets

and policy documents/ National development programmes e.g. The Fifth National Development Plan (FNDP).

1. As we try to attain the macroeconomic objectives we hope that the government will also look at setting targets for the social sector- it should include targets like employment levels realizing that the levels of unemployment is turning into an economic crisis, we need to generate more low skilled jobs in our quest for higher growth thus also having a growth that means something to the ordinary people. We need to generate more low skilled jobs in our quest for higher growth thus also having a growth that means something to the ordinary people
2. We support the government's efforts in the war against corruption and abuse of offices. However, we feel more can be done especially in speeding up cases and meting out stiffer punishment to deter others. The Auditor General's reports show that billions of public resources are ending up in pockets of a few greedy people. Most of these people are custodians, such as accountants, or leaders, such as heads of government departments. These are people who may have higher education and been trained in ethics. There is need to research on the selfishness that is being exhibited by professional. May be there is also need to have ubuntu or patriotism courses included in the school syllabus.
3. Spending on Agriculture should be scaled up to reflect the recent challenges facing the agriculture sector in view of the floods which have affected most parts of the country. Agriculture spending should also be commensurate with the demographic dynamics and the poverty levels in rural areas
4. For faster economic growth, infrastructure is important hence emphasis should be placed on its development
5. The government needs to improve the working conditions of public servants to act as incentives and motivation for efficiency, develop clear objectives and performance standards for each line ministry, strengthen the monitoring and evaluation of the public sector reform program and as well making sure that the budget implementation, monitoring and reporting are systematic rather than ad hoc. This will equally encourage the much-needed economic growth.
6. 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

7. The government should increase the allocation to the Health sector to not less than 13% of the total budget and the government should increase the allocation for rural housing for medical staff. This will encourage medical staff to work in rural areas, as they will be assured of having accommodation.
8. The government should embark on hospital revitalization programmes, as an infrastructure programmes with a clear budget line in the national budget
9. The government should increase the threshold from K600, 000 to K1,500,000
10. Government to harmonize and concentrate on the decentralization process so that the budget process and the budget itself are reflective of the local communities and not the opinion of the people in power. Government should consult the people in the rural and urban communities rather than subjecting the people to the priorities that are not workable or which do not trickle down to the communities and people in the streets.
11. The budget needs to focus on the major strategic choices facing allocations between departments rather than detailed costing of outputs and activities. This will require strengthening of central planning/budget departments, enabling them to question officials on how their budget proposals relate to Government policy, and to advise Cabinet on budget allocations.
12. There is a strong case for simplifying the budget, giving managers increased discretion to allocate budgets as they see fit, but holding them accountable for achieving their outputs. It was pointed out that the government takes a lot of time in releasing funds for implementation of projects and for infrastructure development. The inability of Ministries to make funds available to their constituencies in good time results in retarding development in the communities.

We thank you for the confidence you have shown in us and It is our hope that your work and our input will help to move the country forward.

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