Chapter 15

Financing of the Poverty Reduction Programme

15.1 Underlying Considerations

Several underlying considerations are noteworthy when looking at the financial resource requirements for poverty reduction programmes in the three-year period of this PRSP. ***First***, while recognising that there are several projects for which external resources have already been committed and their implementation still ongoing (particularly in the roads and transport sector), the estimations of expenditures presented in this PRSP will be monitored and reviewed periodically with a view to updating them based on the impact of the funded interventions. ***Second***, the volume of the resource envelope targeted towards a particular sector need not necessarily define the level of importance given to it. This is in recognition of the fact that some priority sectors/interventions may require a relatively smaller initial level of resources during the next three years mainly for the building of the requisite capacity before full-scale implementation of the needed actions. This is an important consideration given the evident institutional capacity constraints that generally characterise many state and non-state agencies and structures.

Third, while every effort will be made to increase the proportion of internally-generated resources for financing the PRSP, the current fiscal difficulties facing the country, not least the uncertainties coming from the mining sector, necessitate significant dependence on external resource flow to fund the PRSP. This is clearly an unsustainable way of assuring success in the light of the numerous pre-disbursement conditionalities Zambia's cooperating partners often attach to the financial support that is pledged. This state of affairs underlines not only the importance of adopting conservative estimates of the needed resources during the PRSP implementation period, but also the strategic importance of economic growth as the primary catalyst of sustainable poverty reduction in the medium term since it is only through positive growth that the availability of the required resources could be assured.

Fourth, it is the government's policy to encourage the full participation of the private sector, NGOs, CBOs, and communities themselves in the financing of the many interventions contained in this PRSP. In this regard, the government would seek the formation of a national alliance with all the stakeholders concerned with poverty reduction and economic growth. In this respect, cost-sharing, co-financing, and similar financing arrangements will constitute one of the main pillars for the enhancement of the PRSP resource envelope.

Last, considering the high premium that this PRSP has placed on fiscal decentralisation as part of the proposed Decentralisation Policy, it is expected that the role of local government authorities (municipalities and councils) will be more clearly defined during the course of PRSP implementation. The clarity of their actual contribution to the overall PRSP resource envelope would become known only then. This means that any new changes in both the *modus operandi* and resource flow will be incorporated more explicitly into the annual PRSP financial plans following the planned periodic reviews.

15.2 Defining the Resource Envelope

The proposed measures in this PRSP demand substantial resource input. Zambia, however, faces a severe resource constraint caused primarily by economic stagnation. Consequently, the country has carefully prioritised PRSP interventions so that only those that are crucial for poverty reduction, including economic growth, are adopted. This chapter sets out the framework for financing Zambia's PRSP. This is done by defining a resource envelope for the period 2002-2004 and outlining how this envelope will be distributed between PRSP and non-PRSP expenditures.

15.2.1 Revenues and Grants

The overall resource envelope is the sum of tax and non-tax revenues, a domestic budget deficit financing of about 3 percent of GDP, plus external support in the form of programme and project grants. Also to be added are external financing in the form of programme and project loans (Table 15.1). Total revenues and grants are projected to increase from K3,263 billion in 2001 to K3,831 billion in 2002 and then rise modestly to K4,824 billion in 2004. As a ratio of GDP, revenues and grants are projected to slightly decline from 24.9 percent in 2001 to 24.0 percent in 2002, and then to 23.7 percent by 2004. This decline is because revenues in 2001 included collection of tax arrears of K23 billion from ZESCO, which has become current on its payment of tax liabilities.

Tax revenues are projected to average 18.5 percent of GDP over the period 2002-2004. This is based on the anticipation of tax relief and other fiscal incentives to be provided to industry to stimulate industrial activity. These incentives could include the Export Processing Zones, relief on imported raw materials, the declaration of a number of cities and towns as tax-free areas, levelling of the playing field for investors in the mining sector, as well as tax relief on Pay As You Earn to partially compensate for inflation. Non-tax revenues are projected to remain flat at around 0.4 percent of GDP. This essentially implies that this component will grow in line with average annual inflation and real economic activity.

External financial assistance to the budget in the form of programme and project grants is projected to average 5.3 percent of GDP during 2002-2004, slightly below the average for the past five years. This is on the basis that external support will roughly be close to the same level as in the recent past. On the other hand, external financing in the form of programme and project loans are projected to drop from 6.1 percent of GDP in 2002 to 4.3 percent and 4.1 percent in 2003 and 2004, respectively (see Table 15.1). External financial support in the form of the interim HIPC Initiative will range between 7.2 percent and 5.1 percent of GDP over the projection period.

15.2.2 Domestic Deficit Financing

In order to maintain macroeconomic stability, and thus bring down the inflation rate to a single digit by 2003, the domestic financing of the budget deficit will gradually be reduced from 4.5 percent of GDP in 2001 to a balanced budget from 2003 and 2004. It is vital to establish this fiscal balance outcome in order to bring down inflation levels as mentioned above from the current high levels of around 20 percent, which have been persistent for some time. This will be a strong prerequisite for bringing interest rates down to manageable levels, which are supportive of investment.

Table 15.1 Central Government Overall Operations, 1999-2004
(In billions of Kwacha)

2/20/02 17:04	1998	1999	2000 Prog.	2000	2001 Rev. prog.	2001 Est.	2002 Prog.	2003 Proj.	2004 Proj.
I. Revenue and grants	**1,529**	**1,921**	**2,635**	**2,528**	**3,122**	**3,262**	**3,831**	**4,389**	**4,825**
1. Revenue	1,131	1,324	1,849	1,953	2,365	2,509	2,940	3,403	3,782
Tax revenue	1,094	1,289	1,820	1,931	2,325	2,449	2,878	3,313	3,662
Income taxes	398	483	594	634	881	953	1,137	1,314	1,450
Excise taxes	211	222	241	278	358	366	441	498	551
Value-added tax (VAT)	303	429	578	575	739	821	955	1,116	1,238
Domestic VAT	200	248	330	230	282	278	309	380	439
Import VAT	103	181	248	345	457	544	647	736	799
Customs duty	182	156	216	252	309	285	342	385	422
Clearance of ZESCO tax arrears	0	0	191	191	37	23	3	0	0
Nontax revenue	38	34	29	22	40	60	62	90	120
of which: privatization receipts		0		0	0	20	0	0	0
2. Grants	398	597	786	575	757	754	891	986	1,043
Program	0	140	318	100	107	107	136	136	140
Project 1/	398	457	468	476	650	647	755	851	903
II. Expenditures	**1,842**	**2,195**	**3,188**	**3,122**	**4,103**	**4,212**	**4,999**	**5,607**	**5,993**
1. Current expenditures	1,162	1,253	1,709	1,701	2,489	2,578	2,857	3,223	3,438
Wages and salaries	327	402	516	538	825	888	1,139	1,314	1,452
Public service retrenchment	77	51	74	74	20	19	80	39	0
Recurrent departmental charges	161	192	250	300	719	801	441	645	697
Arrears clearance 2/	0	0	0	0	75	117	40	150	150
Elections	0	0	0	. . .	86	110	4	0	0
OAU summit	0	0	0	0	72	72	0	0	0
HIPC-financed	0	0	0	0	69	50	30	. . .	. . .
Other RDCs	161	192	250	300	417	453	367	460	509
Transfers and pensions	149	181	211	219	429	353	394	473	523
of which: HIPC-financed	0	0	0	0	146	64	28	. . .	. . .
Domestic interest 3/	80	105	142	140	195	207	500	440	385
External interest (paid)	123	107	227	167	139	124	198	172	224
Other current expenditures	127	95	135	88	162	178	86	99	109
of which: financial estructuring 4/	0	0	0	0	53	64	0	0	0
Contingency	0	0	109	82	0	8	21	43	47
Payments of domestic arrears 2/	117	121	44	92	0	0	0	0	0
2. Capital expenditure	680	789	1,056	1,009	1,483	1,557	2,092	2,326	2,492
Domestically financed	113	124	172	228	419	494	718	828	916
of which: HIPC-financed	0	0	0	0	65	73	292	. . .	. . .
Foreign financed	567	666	884	781	1,064	1,063	1,374	1,498	1,576
3. Net transfers to ZCCM	0	152	423	413	131	77	50	58	64
Change in balances and statistical discrepancy 5/	46	-24	0	-114	13	-108	0	0	0
III. Overall balance 6/	**-267**	**-297**	**-553**	**-708**	**-968**	**-1,058**	**-1,168**	**-1,217**	**-1,168**
Domestic balance 6/ 7/	25	31	-227	-335	-501	-609	-488	-534	-411
Domestic primary balance 6/ 7/ 8/		136		-195	-306	-402	12	-94	-26
IV. Financing	**267**	**298**	**553**	**708**	**968**	**1,058**	**1,168**	**787**	**832**
1. Domestic	220	72	39	177	273	591	193	0	0
Bank	224	35	36	139	252	485	135	-67	-74
Nonbank	-3	37	3	38	21	106	58	67	74
2. External	47	226	514	531	696	467	975	787	832
Program loans	0	266	319	479	406	165	524	317	327
Project loans	169	209	416	289	436	434	619	647	673
Amortization (paid)	-123	-249	-221	-237	-146	-132	-168	-176	-168
V. Financing gap		. . .		. . .	. . .	. . .	. . .	**430**	**336**
Memorandum items:									
HIPC expenditure		0		. . .	280	186	350	. . .	. . .
Military expenditure				146	. . .	. . .	. . .	. . .	. . .
GDP (billions of kwacha)	6,033	7,480	9,853	10,075	13,043	13,079	15,987	. . .	. . .
Stock of domestic arrears				. . .	. . .	. . .	. . .	. . .	. . .

Sources: Zambian authorities; and Fund staff estimates and projections.

1/ Figure for 2001 includes grants of K 24 billion used for elections and domestic transfers, rather than capital expenditure.

2/ From 2001 onwards, arrears clearance has been classified under recurrent departmental charges.
3/ Figure for 2002 includes t-bills issued for interest on the forex bridge loan.
4/ BoZ recapitalization (K24 billion) in 2002 is captured under capital expenditure.
5/ Includes changes in balances of government commercial bank accounts, as well as any statistical discrepancy.
6/ Cash basis (with interest on a commitment basis).
7/ Excludes foreign grants, external debt service, and foreign-financed capital (and other) expenditure.
8/ Also excludes domestic interest.

15.2.3 Overall Resource Envelope

Table 15.2 shows that the projected financial situation for Zambia is difficult because of resource constraints with the overall fiscal balance (excluding grants) at minus 12.9 percent of GDP in 2002, which, however, declines slightly to minus 11.5 percent by 2004. With grants taken into account, the overall balance as a percentage of GDP falls from minus 7.3 percent in 2002 to minus 6.4 percent in 2004. Considering all available resources and vital expenditure commitments, this desirable envisaged fiscal outturn however still leaves a financing gap of 2.3 percent and 1.6 percent of GDP ($95 million and $72 million) in 2003 and 2004 respectively.

Table 15.2: Central Government Budget, 1999-2004

(In percent of GDP)

	1999	2000	2001		2002	2003	2004
2/20/02 17:03			Rev. prog.	Est.	Proj.	Proj.	Proj.
I. Revenue and grants	**25.5**	**25.1**	**23.9**	**24.9**	**24.0**	**23.8**	**23.7**
1. Revenue	17.6	19.4	18.1	19.2	18.4	18.5	18.6
Tax revenue	17.1	19.2	17.8	18.7	18.0	18.0	18.0
Income taxes	6.4	6.3	6.8	7.3	7.1	7.1	7.1
Excise taxes	2.9	2.8	2.7	2.8	2.8	2.7	2.7
Value-added tax (VAT)	5.7	5.7	5.7	6.3	6.0	6.1	6.1
Domestic VAT	3.3	2.3	2.2	2.1	1.9	2.1	2.2
Import VAT	2.4	3.4	3.5	4.2	4.0	4.0	3.9
Customs duty	2.1	2.5	2.4	2.2	2.1	2.1	2.1
Clearance of ZESCO tax arrears	0.0	1.9	0.3	0.2	0.0	0.0	0.0
Nontax revenue	0.5	0.2	0.3	0.5	0.4	0.5	0.6
of which: privatization receipts	0.0	0.0	0.0	0.2	0.0	0.0	0.0
2. Grants	7.9	5.7	5.8	5.8	5.6	5.3	5.1
Program	1.9	1.0	0.8	0.8	0.9	0.7	0.7
Project 1/	6.1	4.7	5.0	4.9	4.7	4.6	4.4
II. Expenditures	**29.2**	**31.0**	**31.5**	**32.2**	**31.3**	**30.4**	**29.4**
1. Current expenditures	16.7	16.9	19.1	19.7	17.9	17.5	16.9
Wages and salaries	5.3	5.3	6.3	6.8	7.1	7.1	7.1
Public service retrenchment	0.7	0.7	0.2	0.1	0.5	0.2	0.0
Recurrent departmental charges	2.5	3.0	5.5	6.1	2.8	3.5	3.4
Arrears clearance 2/	0.0	0.0	0.6	0.9	0.3	0.8	0.7
Elections	0.0	. . .	0.7	0.8	0.0	0.0	0.0
OAU summit	0.0	0.0	0.5	0.5	0.0	0.0	0.0
HIPC-financed	0.0	0.0	0.5	0.4	0.2	. . .	. . .
Other RDCs	2.5	3.0	3.2	3.5	2.3	2.5	2.5
Transfers and pensions	2.4	2.2	3.3	2.7	2.5	2.6	2.6
of which: HIPC-financed	0.0	0.0	1.1	0.5	0.2	. . .	. . .
Domestic interest 3/	1.4	1.4	1.5	1.6	3.1	2.4	1.9
External interest (paid)	1.4	1.7	1.1	0.9	1.2	0.9	1.1
Other current expenditures	1.2	0.9	1.2	1.4	0.5	0.5	0.5
of which: financial restructuring 4/	0.0	0.0	0.4	0.5	0.0	0.0	0.0
Contingency	0.0	0.8	0.0	0.1	0.1	0.2	0.2
Payments of domestic arrears 2/	1.6	0.9	0.0	0.0	0.0	0.0	0.0
2. Capital expenditure	10.5	10.0	11.4	11.9	13.1	12.6	12.2
Domestically financed	1.6	2.3	3.2	3.8	4.5	4.5	4.5
of which: HIPC-financed	0.0	0.0	0.5	0.6	1.8	. . .	. . .
Foreign-financed	8.8	7.8	8.2	8.1	8.6	8.1	7.7
3. Net transfers to ZCCM	2.0	4.1	1.0	0.6	0.3	0.3	0.3
Change in balances and statistical discrepancy 5/	-0.3	-1.1	0.1	-0.8	0.0	0.0	0.0
III. Overall balance 6/	**-4.0**	**-7.0**	**-7.4**	**-8.1**	**-7.3**	**-6.6**	**-5.7**
Domestic balance 6/ 7/	**0.4**	**-3.3**	**-3.8**	**-4.7**	**-3.1**	**-2.9**	**-2.0**
Domestic primary balance 6/ 7/ 8/	**1.8**	**-1.9**	**-2.3**	**-3.1**	**0.1**	**-0.5**	**-0.1**
IV. Financing	**4.0**	**7.0**	**7.4**	**8.1**	**7.3**	**4.3**	**4.1**
1. Domestic	1.0	1.8	2.1	4.5	1.2	0.0	0.0
Bank	0.5	1.4	1.9	3.7	0.8	-0.4	-0.4
Nonbank	0.5	0.4	0.2	0.8	0.4	0.4	0.4
2. External	3.0	5.3	5.3	3.6	6.1	4.3	4.1
Program loans	3.5	4.8	3.1	1.3	3.3	1.7	1.6
Project loans	2.8	2.9	3.3	3.3	3.9	3.5	3.3
Amortization (paid)	-3.3	-2.4	-1.1	-1.0	-1.1	-1.0	-0.8
V. Financing gap	**. . .**	**. . .**	**. . .**	**. . .**	**. . .**	**2.3**	**1.6**
Memorandum items:							
HIPC expenditure	0.0	. . .	2.1	1.4	2.2	. . .	. . .
Military expenditure		1.4	. . .	. . .	. . .	. . .	. . .
GDP (billions of kwacha)	. . .	10,075	13,043	13,079	15,987	. . .	. . .
Stock of domestic arrears		. . .	. . .	. . .	. . .	. . .	. . .

Sources: Zambian authorities; and Fund staff estimates and projections.
1/ Figure for 2001 includes grants of 0.2 percent of GDP used for elections and domestic transfers, rather than capital expenditure.
2/ From 2001 onwards, arrears clearance has been classified under recurrent departmental charges.
3/ Figure for 2002 includes t-bills issued for interest on the forex bridge loan.

4/ BoZ recapitalization (0.2 percent of GDP) in 2002 is captured under capital expenditure.
5/ Includes changes in balances of government commercial bank accounts, as well as any statistical discrepancy.
6/ Cash basis (with interest on a commitment basis).
7/ Excludes foreign grants, external debt service, and foreign-financed capital (and other) expenditure.
8/ Also excludes domestic interest.

As things stand now, most of the existing domestic revenue will in the next three years remain committed to running government with hardly any room left for spending on PRSP programmes beyond those that are already running. This is partly because Zambia expanded her public service decades ago when she was rich and now finds herself trapped into such structures. She will, therefore, strongly pursue institutional reform under the Public Service Reform Programme (PSRP) so that money can be freed for poverty reduction by reducing the cost of running government. Measurers such as reducing the size of government and adopting modes of delivering services that are more cost-effective can achieve this. However, this will take time to be realised.

A significant portion of the proposed PRSP expenditures in this document is of a capital nature. By design, however, PRSP expenditures are aimed at achieving specific deliverables, which may entail current expenditure, personnel costs, capital expenditure, or any combination depending on the specific deliverable. General personnel costs, running costs, and even capital expenditure have not been included in the definition for PRSP expenditure in this document unless they were aimed at a specific PRSP deliverable. Nearly $1,500 million is projected for capital expenditure between 2002 and 2004 with donors roughly providing two-thirds of the money. Given the circumstances of very limited resources, Zambia believes that this resource provision presents the best chance of providing financial resources for the PRSP within the next three years. In other words, it is donor financial assistance, most of which is for capital expenditure and is by tradition labelled capital expenditure anyway whether genuinely or not, that should finance the PRSP.

While an opportunity exists for orienting the capital expenditure to finance PRSP programmes, this will not happen automatically and substantial prior work will be required. For example, some of the existing ongoing projects proposed for capital funding are not in perfect match with PRSP planned capital expenditures. It follows that in some cases where it is feasible, decisions will have to be made to redirect money from ongoing to prioritised PRSP projects. This applies to both donor- and locally-funded projects. Further, there will be need to re-allocate money across sectors to reflect PRSP sectoral priorities. This is because in the past, when there was no PRSP or any other plan, sector allocations of money were not always undertaken after weighing priorities across sectors. This may have resulted in some sectors being 'over-funded' while others were 'under-funded'.

In 2002, discussion will be held within government and between the government and donors to see how financial resources could be freed to PRSP programmes in a manner reflecting appropriate sectoral balances as per the programme's priorities.

15.3 Priority PRSP Expenditures

15.3.1 Overview

Following the points raised in the previous section, Zambia estimates that $1,200 million is available for spending on PRSP programmes over the period 2002-2004. This is deliberately projected below the $1,600 million estimate for capital expenditure to take account of the difficulties that will be faced in trying to re-align capital expenditures towards PRSP priorities. Against this, costed programmes, which were initially submitted for the PRSP, were in excess of $4 billion. These submissions underwent strict evaluation with stakeholders in terms of their contribution to economic growth and enhancing welfare especially for the very poor. On this basis, only the core priorities, which could fit within the general budget ceiling of $1.2 billion, were retained. The rest of the submissions, many of which are important, have been costed at zero as a way of indicating that there are insufficient resources to include them.

This PRSP puts emphasis on agriculture, tourism, transport, and energy infrastructure for the productive sectors, and education, health and HIV/AIDS with regard to the social sector. Currently, there is substantial uncertainty in the economy due to an imminent pullout of the crucial mining sector by one large investor, Anglo American Corporation, due to low copper prices. This threatens to bring about economic decline on a massive scale. It is in line with the major objective of arresting and reversing the fallen per capita GDP, while building human capital and focusing on the poor, that the priority sectors as outlined above have been chosen.

15.3.2 Agriculture

Whatever the final outcome of the mining crisis, it is now clear that diversification from mining must succeed as a matter of top priority and, given Zambia's resource endowment, agriculture has the best potential to be the lead sector towards this objective. On top of this, most Zambians depend on agriculture for livelihood but, currently, the majority in this category barely manage subsistence because of low productivity.

Zambia's strategy in agriculture is two-pronged. On the one hand, assistance will be provided to small-scale producers. This group constitutes one of the most poverty stricken in the country (84 percent of them are poor) and as more of them get uplifted out of poverty the better. Interventions in support of small-scale farmers include assistance towards small-scale irrigation schemes, credit, better extension, and enhanced access to markets. Also to be encouraged are sustainable farming methods such as soil conservation and animal disease control to help secure food availability at the household level. On top of this, Zambia intends to draw small-scale producers into commercial agriculture because poverty reduction should go beyond attaining subsistence to reach surplus production at the household level. The lead arrangement for this will be outgrower schemes where large-scale estates will support surrounding small-scale farmers in input provisioning and in marketing of output. Already, there are existing arrangements on this model in Zambia for export crops such as cotton, coffee, paprika, vegetables, and flowers and they will be assisted to expand.

On the other hand, Zambia also recognises that commercial agriculture is well below potential. Consequently, the second strand of agricultural development will aim at encouraging large-scale production to exploit the untapped potential, especially for the export markets in appropriate products so as to escape the market constraint imposed by the small Zambian market. Large-scale commercial agriculture will increase demand for labour and hence also provide alternative livelihood for rural dwellers that are not full-time farmers as well as creating other poverty reduction linkages such as jobs in agro-processing.

The key interventions in support of large-scale agriculture include establishment of new farming blocks especially in the poorest provinces of Zambia where, in some cases, hardly any commercial agriculture exists. These farming blocks will require support like rural electrification, farm roads, and irrigation dams. Foreign investors will be welcome to participate in these schemes but they will need to make their own financial arrangements. A credit fund is being established for resident commercial investors including the small-scale outgrowers who will be near the large-scale producers.

15.3.3 Tourism

Tourism is, together with agriculture, planned to play a major role in diversifying Zambia's economy. The key interventions, given the limited resources, will be to rehabilitate and to develop infrastructure needed for expanded tourism investment. The focus will primarily be in established areas where improved infrastructure will lead to higher investment and increased visitors. On top of this, the government will undertake a consultative process with traditional leaders to allow for release of traditional land for investment in agriculture and tourism. Areas with highest poverty incidence but with tourist potential will, in particular, be targeted for this initiative so as to encourage investment inflows in those areas. It is very important for a vast country like Zambia to adopt this organised approach in rationalising the provision of infrastructure for investment because it is too expensive to attempt to take infrastructure everywhere in a disorganised manner. Tourism tends to be labour-intensive and, therefore, enhances livelihood. Beyond labour provision, money has also been set aside for tourist development credit, which will be accessible to local investors, especially in areas where they can ride on the success of major tourist investors with international marketing connections.

15.3.4 Infrastructure Development

Functioning infrastructure like railways, roads, energy, and telecommunication is important for reducing poverty. This is true from both the perspective of enhancing economic growth through improved international competitiveness in landlocked Zambia and from the perspective of linking poor rural areas to urban markets and social amenities. Zambia's primary objective for infrastructure is foremost to secure the extensive investment she has made already by making timely rehabilitation and maintenance. This infrastructure includes the trunk roads that link the main urban centres with rural areas, feeder roads, hydroelectric power stations, electric transmission lines and petroleum pipelines, and handling facilities. Most of this infrastructure is over thirty years old and has not had major rehabilitation and it is important to do it now.

The second objective for infrastructure is, where necessary, to create new developments in support of planned economic activity. In particular, the proposed new farming blocks, especially but not exclusively in the poorest parts of Zambia, will need functioning feeder roads, power, and simple irrigation facilities. Given Zambia's resource constraint, development of infrastructure for its own sake will be minimised. For the reasons given, substantial budgetary resources have been earmarked for infrastructure in this PRSP to cover areas like rehabilitation of trunk and feeder roads, tourist roads, power stations, electric transmission lines, and the rehabilitation and construction of new dams for irrigation.

15.3.5 Education

Education is a very powerful tool for poverty reduction. At the basic level, it is a well-established fact, for example, that mothers with basic education are better equipped to avoid aspects of poverty through practices such as improved hygiene and child nutrition. At higher levels, access to education in a growing economy with rising job opportunities can uplift many from poverty. Education, therefore, is being accorded one of the highest shares of resources.

When Zambia had money, it implemented a policy of free education from the first grade to the highest possible levels for all capable children and this has had positive effects. With limited resources now, Zambia intends to bias her resources towards basic education, as it is the foundation. Basic education currently covers the first seven years of education with the objective of extending it to nine years. This will cover infrastructure development, educational materials, teacher development, deployment, and compensation, equity and gender, school health and nutrition, and upper basic school curriculum development. Other aspects are capacity building, decentralisation, and HIV/AIDS. Within the overall enhanced budgetary allocation for education, basic education will have the largest share. This is because it covers the bulk of the population, most of whom are the poor in rural areas. Beyond basic education, other interventions for education include functional literacy, skills training, equity issues, high school improvement, and tertiary education.

15.3.6 HIV AIDS and Health

In the past decade, HIV/AIDS has contributed enormously to the rise in poverty through a heavy disease burden and many deaths of breadwinners, parents, and many other categories. Among the severe consequences of this is the large number of orphans and street children. To combat this threat, preventive measures will continue to be undertaken. Substantial resources have also been earmarked for those already afflicted through enhanced funding of home-based care as well as a revolving fund to introduce treatment of patients with ARVs.

Health has also been provided for with substantial resources. The bulk of this provision is on basic health care, primarily at the district level followed by the second and third level health packages. Basic health care involves basic drugs and disease prevention against common ailments like malaria, diarrhoea, and others, which tend to afflict the poor more.

15.3.7 Overall Allocation of Resources

In accordance with the priorities identified above, the overall allocation of PRSP expenditures within the total resource envelope of $1,200 million is presented in Table 15.3. Details of the distribution of the resources within each sector are available in the appendices of policy actions.

Table 15.3: Sectoral Share of PRSP Budget, 2002–2004

Sector	Cost ($)	Share of Total Budget
Roads	229,000,000	19.1
Health	200,150,000	16.7
Agriculture	173,000,000	14.4
Education	147,500,000	12.3
Energy	114,000,000	9.5
HIV/AIDS	94,600,000	7.9
Tourism	58,700,000	4.9
Water and Sanitation	42,400,000	3.5
Macroeconomic Reforms/Institutions	38,200,000	3.2
Governance	27,000,000	2.3
Mining	26,600,000	2.2
Transport	22,000,000	1.8
Industry	12,500,000	1.0
Social Safety Net	9,000,000	0.8
Environment	3,000,000	0.25
Monitoring and Evaluation/Statistics	1,500,000	0.12
Gender	976,500	0.1
Total	**1,200,126,500**	**100.0**