POVERTY REDUCTION FORUM

RECOMMENDATIONS FROM THE 2003 PRE- BUDGET SEMINAR

1.0 INTRODUCTION

Poverty Reduction Forum (PRF) is a civil society grouping, which was formed in 1996. It brings together Non-Governmental Organisations (NGOs), civil society groups, academics, the private sector, donors and government. The Forum's mission is to influence the formulation of pro-poor policies through engaging in dialogue with policy-makers and all stakeholders by carrying out research and advocacy work. Currently PRF is housed at the Institute of Development Studies at the University of Zimbabwe, which is a public institute.

In order to fulfil its mission, the Forum is guided by the following objectives:

- To strengthen partnership between government, NGOs, civil society, donors, research institutes and the private sector in programme development and implementation.
- To expand public dialogue to include the views of various stakeholders in the country's development and poverty reduction initiatives.
- To facilitate research on poverty and its reduction in order to influence the formulation of pro-poor policies. To this end the Forum's major output is the Zimbabwe Human Development Report which is widely consulted by both government and other development partners.
- To disseminate information, documentation and research on poverty reduction, wealth creation and social development aimed at supporting lobbying and advocacy initiatives.

PRF has been running Pre-Budget seminars since 1999. As Zimbabwe prepares for the 2003 national budget, numerous challenges are facing the country. Over the years, there has been extensive debate on the National budget largely because of its central role in economic planning and social development. The PRF considers the national budget an important short-run instrument of national economic policy with the potential to eradicate the increasing levels of poverty in the country.

It is against this background that the Poverty Reduction Forum held a public pre-budget seminar on the 9th of October whose major objective was to mount stakeholder participation and contribution towards issues to be addressed by the forthcoming 2003 national budget. The workshop had a total participation of 88 people from various backgrounds. The seminar participants expressed the recommendations submitted in this report.

Mr. L. Turugari, Deputy Director Operations Social Development Fund in the Ministry of Public Service, Labour and Social Welfare, officially opened the seminar.

Challenges of the 2003 National Budget as Perceived by the Ministry of Public Service, Labour and Social Welfare

- **i.** The economy is facing an environment of hardships which is triangular in nature, involving the economy, food security and governance issues. The challenge is how the budget could break this triangular environment of hardships.
- **ii.** What then are the priority issues that need to be addressed particularly by the national budget for an economy under siege?
- **iii.** The social sector is normally most vulnerable under economic hardships such that the challenge is to protect the social sector irrespective of the economic environment.

2.0 MACRO-ECONOMIC ISSUES

The economy has shrunk by 33% in real terms cumulatively since 1999 to the extent that in 2002 the forecast real GDP decline is 10% to 15% by year-end. The challenge is how can the national budget contribute to reversing this economic decline. The national budget should contribute to the creation of a stable macro-economic environment, which is conducive for economic growth and development.

i. **Inflation Policy:** The challenge is to reduce inflation from the current three digit/hyperinflation (135% pa) for August and currently forecast at nearly 200% by year end, to a two digit target in the first instance. The national budget should help put in place measures that address the fundamental sources of inflation, the major one being the cumulative inflationary financing of the budget deficits. The inflation problem is the biggest challenge in the search for macro-economic stability. High inflation increases costs of production, discourages savings by reducing real interest rates and above all it erodes the welfare of the whole population especially that of the poor, thus increasing and deepening poverty.

ii. **Interests Rate Policy:** The economy is experiencing negative real interest rates resulting from the combination of the low interest rate policy and hyperinflation and this is discouraging domestic savings. This is complicated by the fact that credit to the private sector under the low interest rate policy is going into consumption and speculative activities and not into productive activities. At the same time it is acknowledged that government has an interest in keeping nominal interest rates low in order to keep interest payments on domestic debt sustainable. The challenge is to have an interest policy, which will encourage savings as well as keep interest payments on domestic debt sustainable for both government and the private sector. This cannot be achieved without addressing the inflation problem, showing that addressing inflation is high priority in the sequencing of macro-economic policies.

iii. **Exchange Rate Policy:** While the exchange rate has been fixed at 1US dollar to 55 Zimbabwe dollars since 1999, in reality the economy is operating under an unofficial parallel market rate of 1US dollar to 750 Zimbabwe dollars as of October 2002 reflecting a serious shortage of foreign currency and hence the heavy unofficial devaluation of the Zimbabwe dollar. Under this scenario it is imperative for the authorities to acknowledge this reality and put into place mechanisms to address the challenge of realigning the exchange rate to reflect the levels of current economic activity. This should be combined with measures to address the supply constraints in the economy thus encouraging total production and exports.

iv. **Investment and Employment Creation Policies:** Investment has fallen from 24% of GDP in 1991 to 8.2% of GDP as of April 2002. The economy is facing a structural unemployment rate of 70%. Given this scenario, the challenge goes back to addressing the macro-economic fundamentals mentioned above starting with inflation so as to create an environment, which is conducive to investment, removal of structural rigidities and employment creation.

v. **Debt Management Policy:** Both foreign debt and domestic debt need to be managed on a sustainable basis so as to release resources for development and poverty reduction.

3.0 SOCIAL ISSUES

i. The poverty challenge is huge with 75% of the population estimated to be falling below the total poverty consumption line (TPCL) while 80% of the working population fall below the poverty datum line (PDL) of Z$23 000 per month gross income. There is no doubt that social issues and economic issues are closely related. The challenge is to provide a minimum targeted guaranteed resource level in the national budget so as to protect the human resource base even under economic hardships because this is a prerequisite fro resuscitating the economy.

ii. The national budget should reflect the following priorities in the social sector allocations:

Priority 1- Health: To address impact of HIV/AIDS epidemic, brain drain in the health sector and the continuous increase in user fees.

Priority 2- Education: To address the brain drain in the education sector, increase in levies and tuition fees and curriculum to make it more development oriented. Tertiary education needs protection and support under the environment of economic hardships instead of leaving to private sector, which is also struggling.

Priority 3- Housing: In urban areas 1 in 10 households are tenants, 50% are loggers and many displaced under structural changes are homeless. The challenge is for the national budget to support the provision of basic shelter to the majority of the population mainly in urban areas.

Priority 4- Ministry of Public Service Labour and Social Welfare: Given the poverty challenge, there is need to revive the Social Dimension Fund's safety nets with more resources and better management systems.

Priority 5- Agriculture: There is need for a clear strategy to support resettled farmers with infrastructure, agriculture finance and extension, markets etc.

4.0 RECOMMENDATIONS

1. The budget must support in all manner possible the resuscitation of the economy as a minimum pre-condition of sustainable poverty reduction

2. The national must provide a minimum targeted guaranteed resource level so as to protect the human resource base even under economic hardships because this is a prerequisite fro resuscitating the economy.

3. There should be expenditure switching in the national budget to prioritize productive and social expenditure and move away from non-productive expenditure. This ensures that the budget is pro-poor or sensitive to poverty reduction.

4. Rebuild confidence in the economy through having an economic recovery framework, which ensures broader participation in the economy by the majority of the people and also put in place a poverty reduction strategy. This kind of economy ensures a broader tax base from which government can then deliver on development challenges.

5. The national budgetary process must be open including broad stakeholder participation including grassroots communities and should be externally audited to ensure accountability to the nation (resources vs. outputs). Government should engage stakeholders in putting their bids together. Initially given the limited resources it is imperative to strengthen the existing budget monitoring mechanisms to ensure delivery. Stakeholders should be involved in the formulation, implementation and monitoring of the budget process.

6. Government should create conditions conducive for a social contract in order for the nation to push forward the development agenda together.

7. The national budget must accommodate the allocation of resources to mitigate the impact f HIV/AIDS in each ministry.

8. Open dialogue at all levels (both domestic and international) in order to maximize mobilization of support for development and poverty reduction.