

Civil Society for Poverty Reduction

Post budget statement

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1.0 INTRODUCTION

The Civil Society for Poverty Reduction's (CSPR) comments on the 2004 National Budget is based on the background of its active engagement in poverty eradication issues through capacity building, poverty monitoring, information dissemination and advocacy. This has mainly been around the realm of Zambia's Poverty Reduction Strategy Paper (PRSP). In November 2003, we presented a statement on civil society's expectations from the 2004 budget. This statement would like to evaluate our expectations on whether the 2004 budget will meet the poverty reduction and in the long run poverty eradication challenge.

It is essential to underscore that CSPR is very disappointed that the country failed to reach the HIPC Completion Point in December 2003 as originally scheduled. This failure marginalizes the fight against poverty due to the non-availability of resources for it.

In making this statement we are also alive to the fact that for the past two years, government has been implementing a plan for fighting poverty, that is, the Poverty Reduction Strategy Paper

(PRSP). To date, the levels of implementation are not impressive partly attributed to low prioritization and resultant low resource allocations and disbursements to this cause.

THE STATEMENT

Performance of the Economy in 2003

- ◆ As in 2002, the 2003 budget speech reveals that 2003 experienced under expenditures on poverty reduction programmes while at the same time higher than projected recurrent departmental charges and personnel emoluments. According to the Minister of Finance, K212.9 billion was spent on poverty reduction programs in 2003, representing 50.4 per cent of the allocated amount. This is higher than the 24.5 per cent spent in the previous year. At face value this appears to be an improvement. However, CSPR wishes to draw to the attention of the Minister that the 50.4 per cent is out of a lower allocation in 2003 of K420.7 billion when compared to the 2002 figure of approximately K450 billion. Taking inflation into account means that even less than what is reported was spent – in real terms. Had the Government even maintained the 2003 allocation at the same nominal level as for 2002 (K450 billion), the actual expenditure of K212.9 billion would have amounted to 47.3 per cent of that allocation. And in real terms, allowing for inflation of the 2003, the amount spent on poverty reduction programs would have been equivalent to K157.5 billion.
- CSPR also notes the presupposition that the Minister of Finance made in his budget speech concerning growth and poverty reduction in that the higher GDP growth compared to population presupposes poverty reduction. The 2003 growth rate of 4.3% against the population growth of 2.4 has little meaning for poverty reduction unless the growth is pro-poor. The 4.3% growth has been attributed to the agriculture sector, which has been favoring more the large-scale farmers rather than the small-scale farmers. We ask the government to recognize and reflect that the poor, most of who are women, are more in rural areas and largely practice small-scale farming. Therefore to have pro poor growth through agriculture demands that appropriate support is given to these groups.

The 2004 National Budget and Poverty Reduction

Given that CSPR focus is mainly on poverty eradication issues, our comments on revenue and allocations will be mainly on those aspects that directly address this.

Allocations

- CSPR wishes to commend Government for raising the allocation to Poverty Reduction Programs (PRPs) from K420.7 in 2003 to K521.7 billion in this year's budget and for the intention to fund this allocation solely from internally generated resources.
- However, this allocation is only 15.9 per cent higher than the K450 billion for 2002 and is offset by the 17.2 per cent inflation that occurred by end 2003. In addition, government has set itself an inflation target of 15 per cent implying, for all practical purposes, that there will be a notable decrease in real PRSP spending in the course of the year. And given the actual performance over the previous two years, there is no guarantee that the entire allocated amount would in fact be released and spent.
- As much as we commend the government for committing to fund all the PRP from domestic resources we raise questions as to what this entails for any resources received from debt relief. We urge the government to ensure that any additional resources from debt relief go to priority poverty reducing areas in line with the priorities of the PRSP.
- The CSPR has noted with concern that 2004 Budget has failed to re orient Government expenditure patterns towards poverty reduction by failing to cut on most unnecessary expenditures such as those for the office of District Commissioner/Administrator and the downsizing of the current over bloated Cabinet. We wish to reiterate the call to Government to free more resources to poverty reduction by trimming the over bloated Cabinet and the office of the District Commissioners in line with recommendations of the National Indaba as well the Poverty Reduction Strategy Paper (PRSP). CSPR is concerned that the government should

over look the recommendations from two national consultations (PRSP Forum and National Indaba) on this issue and attempt to over shadow it by changing the name of the office of the District Administrator. We demand that the government shows political will in implementing the recommendations from national consultations as lack of this will in future discourage stakeholders from participating in consultations.

- CSPR is equally disappointed that Government has failed to recognize poverty reduction as one of its macroeconomic objectives in this year's budget. Further, we are disappointed that the 2004 National Budget has failed to specifically set targets related to the social well being of its citizens. Setting targets related to employment creation, access to shelter, clean and safe water, education and health could have showed more commitment to poverty reduction and would have given an indication as to the direction that the government is driving the nation.

Revenue

- Last year government indicated through the MTEF, that it would domestically raise revenue amounting to K4, 372 billion, while external partners would contribute K1, 779 billion, representing 28.92 per cent of the Budget. However, in his address to Parliament, the Minister of Finance announced that a total of K3, 041.6 billion would be raised from external partners. CSPR views the 36.5 per cent of the budget to be financed from external resources as still high considering that the country is only likely to get back to the IMF's Poverty Reduction and Growth Facility (PRGF) in the middle of the year. In the event that Zambia fails to reach an agreement with the IMF, meeting the 2004 macroeconomic objectives and implementation of PRPs remain a mere dream.
- CSPR is still concerned about the levels of resources that the government continues to pay in debt servicing. To illustrate this, the government has allocated K541.7 billion to foreign debt servicing during 2004 while at the same time allocated K521.7 billion to poverty reduction programmes. The government has further suggested that in order to

domestically finance 63.5% of the budget, it will have to borrow K504.45 billion (2% of GDP). This is an issue that needs close monitoring if the future generations of Zambia are to escape from the chains of debt and the dungeons of poverty. We therefore reiterate the call by many Zambians to the international community for TOTAL DEBT CANCELLATION as the competition between debt repayments and poverty reduction is an immoral one, especially where debt servicing is allocated more resources than poverty reduction. We also ask that the government to be prudent and minimize unnecessary expenditures that would therefore reduce the amount that we would need to borrow to finance the budget. It does not seem wise that the amount of debt repayment is not very different from the amount that is to be borrowed within the same year.

- **Income Tax** -CSPR supports the view that Government went ahead to prepare this year's Budget on the premise of meeting the HIPC Completion Point rather than focusing on the need to provide basic necessities for its citizens. In this vein, CSPR urges government to seriously consider a downward revision of Pay as You Earn (PAYE) from the current 40 % as this is going to constrain many households from meeting basic necessities, including most families' ability to put food on the table. We therefore contend that the increase in PAYE is counter productive and is likely to eat away at the incentives given to economic sectors such as manufacturing.

- On the other hand, CSPR welcomes the increase in the PAYE exemption threshold from K160, 000-00 to K260, 000-00. However, we urge the government to further increase the threshold to meaningfully assist the lowly paid workers especially in light of the unfavorable prevailing social conditions and the weak purchasing power of the kwacha. According to the January 2004 Basic Needs Basket compiled by the JCTR, the cost of food alone stands at K409, 000-00. If other variables such as accommodation and housing are taken into account, the cost stands at K1, 065,000-00. CSPR is concerned that as long as workers continue to take home low wages and salaries, the scourge of child labour will not be

fought as parents will see little option beyond sending their young children into various economic activities to supplement the livelihood of the household.

HIPC Completion Point

- CSPR calls on Government to negotiate for clear, defined and quantifiable qualification or disqualification criteria for the HIPC Completion Point. We strongly believe that Zambians have sacrificed enough since the advent of structural and stabilization policies of the World Bank and IMF and that it is unfair to reverse all the efforts put in since the early 1990s simply because of failure to meet a benchmark.
- CSPR would like to encourage government and the international community that in the process of putting in place a new Poverty Reduction Growth Facility (PRGF) for Zambia, they should be transparent. In fact, CSPR urges the government to allow the process to be more participatory as the new PRGF will not only commit the government but ultimately the Zambian people to policies that will one way or another impact on their lives.

5.0 Conclusion and Recommendations

In light of the above, we urge the Government:

- To increase the PRSP budget to levels at which meaningful poverty reduction can occur. We recommend that PRSP expenditures should be at least 10 per cent of the total expenditures. This is important because expenditures on poverty reduction are intended to impact on 80 per cent of the Zambian population. The allocation of K521.7 billion out of an eight trillion kwacha budget only amounts to slightly over 6 per cent of the total budget;
- To ensure that PRSP budgets are at least maintained and preferably increased in real terms overtime.

- To ensure that the entire approved PRP allocations actually get disbursed in a transparent manner by the end of the year. PRSP expenditures should be treated as mandatory expenditures of the highest priority and should not be subject to any cuts;
- To ensure that strict and effective financial controls systems are put in place to reduce on the current hemorrhage of the scarce resources meant for the poor as revealed by the HIPC Expenditure Tracking Team. Then only can the Government consider raising taxes or imposing new ones.
- To be prudent in its allocations by eliminating unnecessary expenditures by cutting down the size of cabinet and removing the office of the District Commissioner.
- To ensure that each year the budget attempts to remove a minimum number of people from poverty through appropriate measures e.g. higher threshold levels etc
- To be transparent in its dealings and commitments to the International Finance Institutions and more specifically in agreeing on the PRGF and benchmarks for HIPC.
- To join forces with other stakeholders in calling for total debt cancellation for Zambia.

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