

CIVIL SOCIETY FOR POVERTY REDUCTION



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Poverty Eradication Must Guide the 2005 National Budget – Says CSPR

Civil Society for Poverty Reduction (CSPR) demands that **Poverty Eradication** be the theme of the 2005 national budget. The network has observed on previous occasions the failure of the national budget to reorient expenditures in line with national poverty reduction priorities. Implementation of poverty reduction activities should not be reduced to Poverty Reduction Programme (PRP) budget lines, but should be reflected through at least three quarters of budget expenditures.

Government should not ignore the poverty reduction strategy that was put in place in 2002 through various stakeholder input, and should use this firmly as a guide, taking cognizance of the priorities outlined. CSPR demands that the promises reflected in the plan be practically translated with increased emphasis. The PRPs, of increased value, should act as a tool of emphasis and priority setting of key poverty reduction expenditures. Government's commitment to reaching the HIPC Completion Point has been painful for many Zambians. It has however shown that if government puts its efforts and political will to achievement, it can see it through.

With this premise, CSPR expects the 2005 budget to;

- **Be oriented to Poverty Eradication**– The government has on many occasions agreed with many stakeholders that the fight against poverty goes beyond the budget line of PRPs. As such, we are calling on government to give more focus on improving the lives of three quarters of the population this year through a reorientation of the whole national budget to poverty eradication. All expenditures should be tested against their contribution to poverty eradication. This will imply high levels of priority setting and focusing on people.
- **Prioritise Poverty Reduction Programmes (PRPs)**: K521 billion was allocated PRPs in 2004 out of a total budget of K8, 329 billion. This amounts to 6.25% of the total expenditure. Given the scale of poverty in the country, CSPR is of the view that the percentage be increased to at least 8.5% this year and should go up to at least 10% thereafter. This increase in percentage should be achieved without any broadening of the definition of what constitutes poverty reduction activities and allocations. In fact, the poverty reduction expenditures that should constitute PRP allocations should be only **Priority Poverty Expenditures** with highest immediate on the poor. If definitions are broadened, then higher percentage allocations should be made accordingly. Other poverty reduction expenditures should be reflected throughout the reoriented budget.

- **Emphasis on Small Scale Agriculture** - CSPR recognizes the need to take a holistic approach to fighting poverty. However, some sectors require special mention. Agriculture has shown its potential to be the backbone of the Zambian economy, providing a source of livelihood for many many Zambians. In channeling resources to this sector, more attention needs to be given to supporting small-scale farmers, of who the majority are women. It is the hope of CSPR that the Activity Based Budget will show how these are being considered.
- **Scale up Health, Education, Water and Sanitation (WSS)** – the social sectors continue to play a pivotal role in uplifting the lives of the poor. CSPR would like to see an increased allocation to capital investments in Health, Education, Water and Sanitation that will be able to bring these critical services closer to the communities – especially in the rural areas. More resources should be pumped into essential drugs, the fight against HIV/AIDS, critical teaching aids and sustainable measures of retaining staff in these fields.
- **Focus on Zambia's Progress towards attaining MDGs** - 2005 is a critical year for Zambia as well as all other countries in attempting to achieve the MDG's - if we don't drastically step up progress and strategies this year, then we are likely to miss the mark on the critical goals. The recently launched UN Millennium Project report clearly concludes that the goals are achievable but barely if efforts are not increased. CSPR would like to encourage government to present concrete policy pronouncements for achieving the MDGs and reducing poverty through the 2005 budget.

Other critical issues include:

- **Pro- Poor Macroeconomics;** The macroeconomic targets set for 2004 and those stated for 2005 in the Green paper on MTEF are modest and are not likely to help much in terms of propelling the economy forward or reducing poverty. Setting low targets may enable the Government to claim success by achieving them at the end of the day. But civil society is of the opinion that more ambitious targets should be set that could be achieved if right policies and priorities are put in place. Accordingly, the growth target for 2005 should be set at 6% and inflation rate at 12%. Further, fiscal discipline continues to be necessary especially in order to bring down the otherwise growing burden of domestic debt.
- **Taxation:** The PAYE schedule introduced last year is undesirable in terms of the low threshold as well as the marginal rates of tax and tax bands. CSPR looks forward to a revision of the thresholds, possibly as follows;

Income bands	Tax rate (%) First K1, 800,000- Exempt
First K6,000,000 per annum	0%
Next K10,000,0000 per annum	20%
Next K60,000,000 per annum	30%
Above K75,000,000 per annum	35%

CSPR recognizes the need for Government to increase revenues through broadening the tax base and at the same time not stifling growth by choking resources for investment among the higher income groups. In addition, the preferential tax rate of 33% for companies listed on the Lusaka Stock Exchange that was withdrawn last year should be restored and brought down preferably to the 30% level that was obtaining prior to 2003. Zambia's capital market is still in a fledgling stage. Strong incentives are required for some more years to enable growth of the capital market.

Customs duty concessions given to computers and some other products in the 2004 budget should continue. We say this since Government sometimes has a tendency to provide an incentive in one year and

withdraws the same the following year. The promotion of the manufacturing sector, especially the Information Technology sector, is critical to the long-run development of the economy.

Zambia Revenue Authority (ZRA) should be strengthened to tighten leakages and collect up to their full potential e.g. taxes on fringe benefits for groups like expatriates, high-income executives e.t.c.

Finally, we are calling on Zambians – ordinary citizens, Members of Parliament - to take interest in the 2005 national budget and raise the following questions;

1. *Does the 2005 national budget 'Rank Poverty Eradication as the number 1 priority' through increased allocations to poverty reduction programmes and through Poverty reduction reorientation?*
2. *Is the 2005 National budget deliberately allocating sufficient resources to the identified priority areas in the PRSP*
3. *How much is going to improving the lives of three quarters of the population as reflected in resources allocated to the social sectors and poverty reduction programmes compared to non poverty reducing expenditures?*

The 2005 national budget is another opportunity to step up efforts in attaining the MDGs and reduce poverty. Political will must be shown through the ultimate test - allocation and utilization of resources for the benefit of the people.

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