



CATHOLIC CENTRE FOR JUSTICE DEVELOPMENT AND PEACE
(CCJDP)

ECONOMIC JUSTICE PROGRAMME
(EJP)

INITIAL ANALYSIS OF THE 2005 NATIONAL BUDGET

12th February 2005

INTRODUCTION

The paper is an analysis by the Economic Justice Programme (EJP) a unit of the Catholic Centre for Justice Development and Peace (CCJDP) which seeks to promote economic justice for the poor through the gathering of information from local people in order to effect economic justice and to lobby nationally and internationally for just economic policies.

This analysis starts by looking at the nature of operation of CCJDP giving basis on which this Budget analysis is being made. This will be followed by the second part, which looks at the various Benchmarks for transparency and accountability of the Budget as well as issues concerning the non-availability of Budget information specifically the Yellow Book. A review of 2004 budget performance will be made, followed by an analysis of the 2005 Budget raising specific concerns on major issues. The last part looks at the recommendations by CCJDP to the government.

The EJP statement on the budget arises from exercise of the Churches prophetic role to speak on behalf of the poor and marginalized in society. Guided by values of justice, solidarity and the common good in our analysis, it is our hope that as we contribute our voice government officials will take heed on areas that need to improve. As we have stated in previous statements our contribution is supported and premised on social teaching of the Church, research in situations people face and lived experience and above the call of faith challenging us to speak for the poor and promote the common good in society

2. BENCHMARKS FOR TRANSPARENCY AND ACCOUNTABILITY

a) Public Availability

EJP commends Government for continuing with the Activity Based Budget (ABB), which was reintroduced last year, and for formulating the MTEF for 2005 to 2007. However, most NGOs and interested citizens have failed to get hold of the voluminous – Estimates of Revenue and Expenditure (Yellow Book). This has had a negative impact on the level of analysis on the part of non-state actors especially the Non- governmental Organisation especially that, the Honourable Minister of Finance and National Planning called all analysts to base all Budget debates on the yellow Book. Most institutions have failed to acquire this Yellow Book from the Government printers. We hope that the Yellow Book and Economic Report for 2004 will be accessible so that we as a Nation can have meaningful debates both in Parliament and outside.

b) Transparency and Accountability

Like all Budgets formulated using the Activity Based Budgeting format, it should show explicitly the linkages between budget allocations to service delivery and

outputs. This as a measure helps achieve transparency and accountability. However EJP has observed with dismay that there is a lack of consistency in the build up of figures, disclosure of some figures from last year and also the tendency of introducing some new budget lines different or /not traceable in the MTEF whilst other Budget lines are in the MTEF but not in the Yellow Book, hence making comparison difficult.

The failure to be consistent on budget lines makes parliamentarians, budget analysts and members of the public suspicious of government. This failure to disclose such information also weakens the attainment of real democracy in the country.

For instance, the allocation to State House specifically on Presidential travels has been omitted in the yellow book but the MTEF (2005 to 2007) shows that Government intends to spend K25 bn. Surely no President can run a country without funds for travel. We know the allocation is there but it is difficult to point out exactly in which budget line this falls.

3. PERFORMANCE OF 2004 NATIONAL BUDGET

a) Economic Growth

The Economy registered growth, however the most interesting thing is that the Agriculture contributed significantly to this growth as a result of government subsidies and support. When analyzed with reference to the decade in the 1990s that Zambia was implementing the strict adjustment policies with emphasis on withdrawal of subsidies for agriculture as advocated by the IMF/ World Bank, it can be argued that the Bretton Woods' institutions through their policies contributed to the lack of growth in the economy. Therefore there is something to be said about standing up and challenging the prescription of Bretton Woods institutions. It is our hope that these aspects will grow in Zambia's governments.

b) Expenditure Patterns

On Budget performance with reference to the supplementary Estimates number 1 of 2004 shows that 2004 was not different from the other years where Cabinet Office (Office of the President), Ministry of Home Affairs, and Foreign Affairs received more than 100% of their allocation. For instance the supplementary estimates for 2004 show that:

- I. Office of the President at Headquarters (Cabinet office) was allocated K200, million for personal emoluments in the budget. However, on top of this a supplementary amount of K 263,703,130 which is 132% more than what was initially allocated was given to them
- II. Ministry of Home Affairs for staff welfare also was allocated a supplementary amount of K307, 762,947 when it was initially supposed to use K315, 345,124 an addition of 102% on the original allocation

- III. Ministry of Foreign affairs was initially allocated K1, 736, 664,282, however a supplementary amount of K5, 627,258,000 were provided. This is 224% increment of the original figure initially approved.
- IV. Supplementary estimates number 1 of 2004 shows that a lot of supplementary funds were spent on missions abroad amounting a total of K14, 872,307,844 bn.
- V. Reference is made to last years Budget in which Presidential Affairs had an initial total of K30 billion allocated, however, after a meaningful debate it was reduced to K18 billion. However, the supplementary estimates number 1 of 2004 shows that State House spent K24 billion. This has saddened most of us since it has shown once again that the government not sincere and it has failed to abide to the preached austerity. This raises serious questions of accountability in the use of public funds.

However, we commend government for breaking the chain of high overall supplementary expenditure in 2004. It is our hope that government continues to reduce supplementary expenditure further.

4. EXISTING SITUATION

Social Services for the people have continued to be inadequate and in some cases declining. In Health centers drugs are not enough and even general medical equipment is lacking at general hospitals. It is worrying that procedures that could easily be carried out at that level due to lack of equipment and medical staff are referred to UTH.

In the Education Sector, the schools that are meant to provide free education continue to demand PTA, which technically are not fees but in most cases are high making the notion of free education is a misnomer.

There are also issues of access and denial of social justice where prisoners and accused persons especially those who are poor seem to stay in remand for long periods due to poor financing of the judiciary and low availability of Legal Aid.

5. ISSUES OF CONCERN IN 2005 NATIONAL BUDGET

The EJP has observed that there are serious anomalies in the 2005 National Budget in relation to allocation of funding in certain key ministries. EJP would like to bring these anomalies to light so that necessary adjustments could be made.

a) Education

In Education, EJP has observed with dismay that in the Yellow Book on page 782, the allocation to Grant Aided schools has reduced by 72% i.e. from K4.5 billion to K1.2 billion. This entails that these institutions will receive fewer funds. The fear is that the capacity by Grant Aided institutions to provide educational services would be compromised hence leading to low enrolments at secondary levels. The measure also discriminates against pupils enrolled in mission schools since they will receive fewer funds compared to those in government schools. For instance, the allocation means only K200 per day per pupil to feed for boarders and K34 per day for day scholars. The implication is that Mission schools will be forced to increase fees, which would lead to them being elitist.

The reduction of grants to Community Schools from K300, 000,000 to K108, 000,000 is not justified looking at the people these schools serve. The fear is that this reduction of 64% in funding will further compromise the quality of education.

We commend government for increasing allocations to high schools. However, there has been a reduction in financing to Basic Schools, which is likely to lead to an increase of demand for fees or payments to these schools. The whole notion of free education in this case will be compromised.

The Current Ministry of Education establishment is about 60,000 employees but only close to 48,000 are employed. The allocation of K82.25 billion for the net recruitment of 5000 teachers only is welcome. However, this leaves us with a few thousands on the streets. EJP is also concerned with how recruitment will be conducted. We hope that this process will be transparent and corrupt free.

b) Health

As compared to last year, the allocation to health in the 2005 National Budget has increased by 25%. However, there have been some casualties in the Ministry. For instance, allocations to some key institutions like the University Teaching Hospital (UTH) are very low in real terms. EJP research shows that mission clinics are discriminated against when disbursements are made at districts level.

We have also noticed some introduction of new budget lines like Sensitisation and Advocacy and Case management. Our concern is that these two budget lines in many cases at District level have been allocated the same amounts. We have also noticed some introduction of new budget lines like sensitisation and advocacy and case management. Our concern is that these two budget lines

in many cases at District level have been allocated the same amounts. Surely is it justified that sensitisation and advocacy and case management be given the same allocated despite the fact that we all know that case management would require more resources than Sensitisation. We can take for instance serious diseases like T.B, Malaria etc.

The Ministry has in the Yellow book combined Drugs and Medical supplies under the heading "Health Systems". This is another example of the inconsistency in the classification of these allocations. However, one is not sure how the allocated funds will be divided between Drugs and Medical Supplies. Therefore, there ought to be consistency in the classification of these allocations

Also, issues of Child Health do not seem prioritised in a manner that shows direction towards attainment Millennium Development Goals (MDGs). Government should reconsider Nutritional issues and maternal healths, as these are some of the critical areas of concern if a country hopes to achieve the MDGs.

6 YOUTH AND CHILD DEVELOPMENT AFFAIRS

The Ministry of Sport, Youth and Development has been awarded an increment of 9% of which in real terms is nothing looking at inflation level of 17.5 %. Also, some institutions have received less allocation like the Anglican street children project, Cheshire homes, Children in crisis, Chilenje Transit homes, Fountain of hope and Kabwata orphanage open community school to name but a few. However, we also take into consideration the fact that Government may not have the capacity to reach out to all such institutions at community level. It is for this reason that there is a case for government to fund adequately institutions catering for the marginalized such as the severely challenged (handicapped).

7 COMMUNITY DEVELOPMENT

The Ministry of Community Development and Social Services is another critical ministry in the country. Allocations to Farmers Support Programme have been increased from 1,071,892,436 to 1,202,567,368, which is only an increment of 12%, which is not enough looking at inflation. Another allocation of significance is that to Micro Bankers Trust (MBT) which has been increased by 109 %, which is a plus on government as it raises the hopes for the urban poor (especially women) who can't afford to go to many Credit institutions due to the high lending interest rates.

8 AGRICULTURE

This Sector has shown its potential of being backbone of the Economy, providing a source of livelihood for many. The sector has good policies but we have assumed as a nation that agriculture is just for food security without taking into consideration the fact that farmers have other needs and wants. We need to look

at the extent to which these policies address the problems of small-scale farmers. If these policies have to address the small scale or indeed a peasant farmer then government should seriously go beyond input subsidies alone, but instead combine it with infrastructure development, transport, market environment for the produce and also put in place mechanisms that farmers are paid on time.

EJP has observed that despite the high requirement from Agriculture, the Budget allocation to this sector has increased only by 11%, comparing this to inflation rate of 17%, there is no real increment going to the Sector.

We have also observed that Funding to Out-grower schemes has reduced from K1.95 billion to K1.45 billion. Looking at the capacity requirement of the rural farmers we would hope for more allocation. The government has introduced Cashew, Pineapple Out-grower Schemes and the Dairy Out-grower Scheme for Cows and Goats. This is a plus and would benefit Western and Northwestern provinces specifically.

Under Livestock restocking and control, the government has only allocated K1.4 billion which shows an increase 40%. Looking at the animal level in the country, one would have thought high increments of about 120% would do, these would be enough to eradicate most preventable diseases and also help restore livelihoods of rural persons dependent on livestock.

On the Out grower Schemes Programme, the government should device a better system to control the capitalist tendencies of managers of these out grower schemes. In some of these schemes, the average earnings any farmer gets is for the 10% of the total produce delivered, claiming 90% as rejects. The government should look at a cross section of these out-grower schemes before showering praises, specifically, transparency in pricing. There should also be a system better organization and education for small-scale farmers so that their bargaining power can be enhanced. Otherwise if controlled; it is a very good system.

The recently announced changes in VAT, Value Added Tax on selected Agriculture products fail to address the needs of the majority of poor Zambians. VAT measures will be a welcome relief for agricultural producers who sell on the international market where increases in local costs cannot be passed on to the market. Local consumers of unprocessed agricultural produce are likely to face an increase in costs if producers do not pass on the benefit of the input claim to them.

Government in this year's budget introduced a standard rate on selected agricultural products including wheat, cotton seed, lint, paprika and some export vegetables enabling producers to reclaim input VAT. However, products such as maize, sorghum, cassava and Soya beans, which constitute the staple diet and

bulk of fresh agricultural products consumed by ordinary Zambians, did not benefit from the measure.

9. INFRASTRUCTURE DEVELOPMENT

We commend the government for increasing allocation to roads department from K366, 866,221,916 to K592, 300,794,546. And it intends to spend K100bn on rural road maintenance and K90bn will come from Fuel Levy. However, we hope that Government will utilise the allocations accordingly and also that the donors will disburse in full the pledged amounts. The lack of completion of roads only affects the poor more that have to use these roads to transport there produce to the nearest market.

10 REVENUE MEASURES

a) PAYE

EJP has observed that there is no tax relief for the poor and the exempt threshold of PAYE from K260, 000 to K280, 000 is a mockery to the worker. In light of the unfavorable prevailing social conditions, and with high inflation currently at 18.2%, this will erode purchasing power of majority of Zambians. As for the reduction of Tax from 40 % to 37.5% for the higher income group, the net effect is that the higher income group will benefit more proportionally from the changes. We hoped the 2.5% reduction could be reflected in all the tax bands if the measure was to really increase the take home pay for the poor working class. The budget has not adequately addressed the issue of broadening the tax base to include the informal sector so that more revenue would be earned without putting much pressure on PAYE.

b) Customs and exercise duty

- The removal of customs duty on children's books intended to offer universal education as one of the Millennium Development Goals, is too insignificant to have any impact. The measure should have been extended to other school supplies such as stationery and classroom equipment.
- The reduction of VAT on Agriculture products to make them competitive is welcome.
- The allowing of so called patriotic Zambians abroad to come back with one motor vehicle per family as personal effects is welcome but Government should look at how best this should be applied as people go out of the country for various reasons.
- The increase of the exempt portion of terminal benefits from K5million to K10 million is a very welcome, we hoped this measure would be extended

to all those in contract employment especially in the private sector, GRZ and NGOs, who may not find it easy to get the new employment.

11 AUDIT

The increase of Allocated funds for Internal Audit administration from K351, 523,448 to K561, 800,000 is a very welcome measure. We hope this will enhance efficiency and effectiveness in production of audited accounts and reports and will also improve accountability in the use of public funds.

12 RECOMMENDATION

In our effort to uphold our prophetic role and be the voice of the voiceless, so that human dignity of every individual will be acknowledged and that the National Budget reflects people's views, we have responded by calling the government and the members of parliament to consider the following recommendation:

- I. To increase the tax relief to K600, 000. This is inline with the Central statistical office revelations that for a family of six to survive as humans in Zambia, they should spend K 640, 982 on basic foods.
- II. We hoped the 2.5% reduction could be reflected in all the tax bands if the measure was to really increase the take home pay for the poor working class.
- III. The budget should adequately address the issue of broadening the tax base to include the informal sector so that more revenue would be earned without putting much pressure on PAYE.
- IV. To make available Yellow Book and Economic Report for 2004 so that we as a Nation can have meaningful debates both in Parliament and outside.
- V. Parliament should exercise constituency in the classification of budget lines in the yellow book to enable easy analysis and to reduce suspicion.
- VI. Government should consider producing the Yellow Book on electronic copies so that institutions like NGOs could have access to it enhance meaningful debate.
- VII. The allocation to Grant Aided schools institutions especially in the educational sector should be increased.
- VIII. The allocation of funds to Mission health centres and Hospitals at both at district level should increase.
- IX. The government should look out-grower schemes specifically, transparency in pricing.
- X. Government should ensure that it follows the budget strictly and full disburse funds to the social sectors if poverty is to be reduced.

- XI. Government should include measurable poverty reduction targets and ensure equity in its allocation.