



## CIVIL SOCIETY FOR POVERTY REDUCTION

Post net # 302  
Private Bag E891  
Lusaka

Telephone: 290154  
Facsimile: 293489  
Email: [cspr@zamnet.zm](mailto:cspr@zamnet.zm)  
Website: [www.cspr.org](http://www.cspr.org)

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### **DOES THE 2005 BUDGET PRESENT A PRACTICAL PATH TOWARDS POVERTY REDUCTION IN ZAMBIA?**

#### *o* Introduction

CSPR, being a Network focusing on poverty-centred advocacy, states its reflections on the 2005 National Budget, as presented to Parliament. The vision of the network is a 'Poverty Free Zambia' and its members strive for effective civil society participation in poverty eradication programmes, activities and policies. CSPR has been and continues to pay particular attention to the implementation of Zambia's Poverty Reduction Strategy Paper (PRSP). It is this background that guides CSPR's contribution to the post budget discussion. The fight against poverty is about right priorities and the political will to ensure the availability of resources to support these priorities.

From the outset, the 2005 budget states that its contents are in accordance with government's priorities as contained in the Transitional National Development Plan (TNDP), PRSP and other strategic plans. This is an issue that CSPR has been calling for, especially in relation to the PRSP.

Overall, Government intends to spend K9, 779.02 billion in 2005 compared to K8, 328.6 billion in 2004, reflecting a 17.4 per cent increment. However, the continued high inflation target (set at 15 % for end 2005) means that this increase is insignificant in real terms. The implication is that resources to be targeted at policies for economic growth and poverty reduction will not be adequate to bring about the necessary improvements in the quality of life of many Zambians and progress towards attainment of the MDGs.

In announcing the 2005 budget, the Minister set broad macroeconomic objectives of attaining real GDP of not less than 6 per cent; bringing inflation rate down to not more than 15 per cent; containing budget deficits to 1.6 per cent; and raising poverty reduction expenditures to 13 per cent of GDP which translates to 42 per cent of the total budget.

CSPR feels that the government should aim for a better GDP growth than the target of 6 %. This is in recognizing that 2/3<sup>rd</sup>s of Zambians live in unacceptable poverty situations and the government committed to the MDG promises, which include halving poverty by 2015. We

believe that growth, especially pro-poor growth, is a fundamental ingredient to eradicating poverty. We therefore urge government to use the 6% growth target primarily as a lower benchmark and aim for at least 8% by end 2005.

We observe that the 17.5% inflation rate achieved at close of 2004 is still very high, especially when viewed within a global context. Similarly, we are dissatisfied with the 15 % target for end year inflation for 2005. High inflation, especially in double-digit, is counter productive to economic growth and negatively affects the poor more. As the Minister himself admitted, inflation is the single most important factor contributing to the high interest rates obtaining in the country. Containing inflation to a single digit figure would substantially reduce the cost of capital critical to wealth creation and poverty reduction.

### ∂ **Poverty Reduction Expenditures**

CSPR commends the government for raising the profile of poverty reduction in 2005 by recognizing it's expenditures under the 2005 macroeconomic objectives. The 2005 budget rates Poverty Reduction Programme (PRPs) expenditures as 13 % of GDP and 42 % of the total budget. We commend the Government for beginning to listen to the calls by CSPR and many Zambians to reorient the whole budget towards poverty reduction. But this is just the start!

It is also worth noting that the budget classifies PRPs as PRP1 – direct, PRP2 – indirect and PRP3 – remote impact on the poor. We question the rationale behind hiding those expenditures that have a 'remote' impact on the poor as PRPs. These should be clearly stated as non-PRP expenditures as they are misleading. On the other hand we commend the government for acknowledging that PRPs demand a higher level of accountability and transparency. Further that the amounts released to PRPs **must exclusively be used on the same**. CSPR wishes to warn the government that it will hold it accountable to this commitment!

CSPR also wishes to state its concerns around the content of PRPs in this year's budget. As much as we welcome the increment of expenditures on PRPs from 2 % of GDP in 2004 to 13 % of GDP in 2005, the broadening of what should constitute PRPs is questionable.

Specifically, the government has stated that as much as PRPs constitute 42% of the national budget, these have this year included personal emoluments for service providers such as teachers, nurses, doctors etc. It is grand that the government sees the importance of improved budgeting for service providers, but CSPR maintains that these payments are traditional expenditures of the government that should not be concealed under PRPs but clearly be stated as the wage bill of the country.

In this year's budget, around 20% of PRPs, amounting more than K730 billion are for Personal Emoluments for health and education service providers. This is more than the K532 bn allocated and disbursed to PRPs in 2004.

Zambians are more than aware of the limits to our wage bill as conditioned by HIPC but will remind government that if it sets the right priorities within the 8% of GDP wage bill, then PRPs could primarily be for priority, sustainable and long run poverty reducing expenditures. For example, reducing the size of Cabinet can free a considerable amount of resources that could be used in maintaining the critical service providers in health and education. CSPR is of the view that emphasis be placed on PRPs that build individual's capacities enabling them to be more

economically productive rather than those PRPs that are merely consumptive in nature, for example, through capital investments in health, education, marketing systems for small scale farmers etc. We would like to have more PRPs that will result in people becoming self-sufficient. For instance, after benefiting from the PRPs the small scale farmers should be able to pay for fertilizers at market price through their own earnings rather than expect to continue receiving subsidised inputs.

Other critical programmes such as the social safety nets under the Public Welfare Assistance Scheme (PWAS) continue to receive gross under funding. In 2005, only K4bn will go to Social Safety Nets (SSN) despite the many orphaned and vulnerable groups in society emerging from the HIV/AIDS pandemic. If this programme is not prioritised, the vulnerable of today will constitute the extremely poor of tomorrow.

### **Misclassification of PRP Expenditures**

CSPR would like to caution Government to check the trend of misclassifying expenditures that are remote to poverty reduction as poverty reduction expenditures. The whole question of PRP3 should be removed from PRP classifications, as by definition, these are expenditures that are remote to poverty reduction and hence, only sugar coat non-poverty reducing expenditures as PRPs. We must emphasise that the government should only classify as PRPs those expenditures that have a direct bearing on the livelihoods of the poor and those that, though indirect, will undoubtedly impact and improve their situations.

For example, CSPR questions the following;

- ∂ Why information dissemination and development in terms of posters, bill boards, editing documents etc are classified as PRP1 and will receive K339.8 million,
- ∂ How the MoFNP activity of follow up compliance of donor conditionalities are PRPs to receive K111.7 million
- ∂ How the Central Statistics Office (CSO) indicator survey is a PRP to receive K4.6 bn (which is more than social safety net allocation), etc.

We strongly question the rationale behind this.

Institutional capacity building should not be classified as PRPs e.g. workshops/ study tours, setting up systems, etc

### **Education and Health Sectors**

Health and Education are two sectors that are critical to the fight against poverty. CSPR is concerned that the 3.5 % and 0.46 % nominal increments in the allocation to the education and health sectors respectively would not positively impact on the multiple problems the two sectors are currently going through. The announced increments would be swallowed by inflation. The implication therefore is that the said increments are purely *cosmetic*, probably aimed at quieting the many Zambians affected.

The pronouncement to remedy the shortage of teachers and medical personnel by making a provision for recruitments and retention schemes is indeed praiseworthy. However, we recognize, for instance, that there are more trained teachers than the announced number to be employed. CSPR would like to learn how government plans to absorb those that are graduating

in the course of the year. Ironically, there is currently an acute shortage of teachers particularly in rural and remote schools while many continue to be on the streets.

The Health sector continues to face difficulties due to inadequate funding and lack of adequately trained staff especially in rural health centres. The increment from K719 billion in 2004 to K889 billion in 2005 is not adequate to address the challenges that face the sector, particularly with the high incidence of HIV/AIDS related diseases.

### **Public Debt**

CSPR wishes to commend government for making provisions for payments to pensioners and suppliers. We further commend government for its intention to clear the backlog of lump sum payments to all those it owes including for the deceased and those retired early. This provision would alleviate the suffering of those that committed their productive lives to serving the public. We call on government in future, to make such payments at the time of separation to ensure that retirees get their dues when these still have a strong purchasing power. It is in this vein that we applaud the provision in the 2005 budget of all pension payments due in the course of the year.

On payment to contractors and suppliers, CSPR appreciates government's rationale for not liquidating in full the K577 billion owed to contractors and suppliers. However, K76 billion provided for in the 2005 national budget could be interpreted to imply low commitment on the part of government to settle this debt as soon as possible. We thus call on government to set a clear and time bound programme for honouring this debt.

### **Revenue Measures**

On revenue measures, CSPR notes with regret that the call by the general public to widen the tax base was not heeded by government. This implies that a small number of workers in formal employment, estimated at less than half a million, will continue to shoulder the burden of providing social services to over ten million Zambians, as well as keeping the wheels of government running. This could explain why the government maintains high levels of indirect taxes such as 17.5 % VAT, one of the highest in the region.

The tax exemption threshold of K280, 000 from K260, 000 is too low. This can be practically seen in comparison to the cost of the food basket for a family of six of approximately K453, 350 (JCTR, January 2005). We propose a tax relief of at least K450, 000 for the relief to be meaningful to the fight against poverty. The reduction of PAYE for the higher income groups from 40% to 37.5 % should have maybe been left at 40% and translated into a higher exemption threshold for the lower earning groups.

### **Conclusion**

*In decision making processes like that of the budget, we urge the government to prioritise the needs of the poor and 'Rank Poverty Eradication 1<sup>st</sup> for Zambia'!*

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**Besinati Mpepo, CSPR Network Coordinator**