

“THE 2007 NATIONAL BUDGET: POLITICALLY PRACTICAL, OR PRACTICALLY POLITICAL?”

*A 2007 Post Budget Synopsis of the Civil Society for Poverty Reduction (CSPR) Network
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1. Introduction

Following the announcement of the 2007 National Budget, the CSPR, a Network of over one hundred and forty Civil Society Organizations from diverse backgrounds and from different parts of the country, puts forth its comments and suggestion on the 1st post-Fifth National Development Plan (FNDP) National Budget.

Driven by a vision of *“A Zambia In Which All Of Its People Enjoy All Basic Needs”* and having contributed to the National 2030 Vision of Zambia becoming a *‘Middle Income Prosperous Nation By 2030’*, CSPR is compelled to carry out a postmortem of the 2007 National Budget, to assess the extent to which this policy instrument practically supports a pro-poor development agenda aimed at uplifting the lives of the majority of Zambians that live in deplorable conditions, as promised in various international declarations and treaties such as the Millennium Development Goals (MDGs), sector strategies and the more recently launched FNDP.

(a.) On Face Value

The theme of the 2007 National Budget, *‘From Stability to Improved Service Delivery’*, presents an admission that the previous budgets have focused largely on macro economic aspects and fallen short of paying optimal attention to the delivery of quality and essential services to the majority of the people. Government is also echoing the demands of civil society that macroeconomic stability and positive economic growth be translated into improved standard of living for the people. We welcome these admissions and echoes as moves in the right direction in the delivery of the many development pronouncements made at local and international forums.

CSPR acknowledges and commends the Government on the positive macroeconomic gains during 2006. Further, the 2007 Budget strives to reflect the development priorities of the FNDP, a practical step after the adoption of a national development strategy, an issue many actors encouraged Government to do. Although it falls short on some of the resource targets, it is largely aligned.

The costing of decentralization is commendable as one of the core minimum requirements for the effective implementation of the FNDP.

However, there continues to be a lack of clarity on how politically practical the Government is willing to take the pro poor development agenda as evidenced from the continued high allocations to defense in a seemingly peaceful country, and to political personnel, especially when compared to people-centered sectors such as social security, water and sanitation and the health sectors.

The 2007 budget of approximately K12 trillion or 26% of Gross Domestic Product (GDP), would appear ambitious, especially in comparison to the approximately K10 trillion budget in 2006. However, the confidence to fund over 70% of the budget from domestic resources is commendable.

(b.) 2006 Performance

CSPR commends government for the positive macroeconomic indicators achieved in 2006, including the upward GDP growth rate of 5.8% (though short of the 2006 target of 6%) ; single digit end year inflation of 8.2% compared to the previous year’s end year inflation of 15.9%; and the within target domestic borrowing of 1.5% of

GDP. Zambia was also fortunate to experience outstandingly high copper prices on the global market, at a time of increasing oil prices and hence cushioning the country's terms of trade.

We further congratulate the Government for spearheading concerted stakeholder efforts for Zambia's shift from a Heavily Indebted Poor Country (HIPC) to a level of annual debt service of US\$33.9 million compared to US\$373.2 million per annum in 2004. Zambians expect to reap the benefits of this debt relief through increased resource allocation to priority and previously competing expense lines. It is necessary at this point to remind the Government of the punitive experiences under high debt levels and caution against already threatening signs of borrowing for expenditures on ventures that will not directly generate the resources required for repayment.

On the overall 2006 budget performance, we are pleased that Government has reported that despite an overall budget shortfall of 8.4%, cash releases for Poverty Reduction Programmes (PRPs) were in line with the budget. We will keenly follow up the utilization of these resources in line with the priorities of the poor.

2. Macroeconomic Frame Work

We receive the macroeconomic targets of a 7% growth rate of GDP and 5% inflation with mixed feelings. While the targets are a positive move from 2006 and those reflected in the Medium Term Expenditure Framework (MTEF) and FNDP, civil society maintains that the growth rate falls short of the 8-10% required for the effective implementation of the FNDP and the achievement of the MDGs.

To this effect, CSPR underscores the need to create the necessary investment climate for the private sector to drive the growth of the economy, but at the same time implore Government to ensure that this growth is broad based and focused in those sectors that facilitate the involvement of one of our greatest assets – our people - so as to ensure sustainability of this growth.

3. 2007 Budget Expenditure measures

(i) Social Sectors:

The two critical social sectors in poverty reduction, *education and health* have not seen significant increases relative to last year. In fact, as percentages of the total budget, allocations to the Health Ministry have reduced by 0.21% from the 2006 budget while allocations to the Ministry of Education have only increased by 1.29%. Both of these allocations are lower than the 2007-2009 MTEF and FNDP projections.

The *Health Sector* allocation of K1, 218 billion or 10.17% of the budget is lower than the FNDP projection of K1, 349 billion and unfortunately continues to fall short of the 15% Abuja Commitment of which Zambia is a signatory. Zambia's health sector is in a state that requires urgent redress to end premature and avoidable deaths resulting from deficiencies in health service delivery. We therefore request that the allocated resources are released in a timely manner for immediate action.

Further, in appreciating the need to invest more resources in the recruitment and retention of critical personnel in the health and education sector, CSPR questions the make up of the 29% of the budget going towards personal emoluments.

Specifically, what composition is targeted at remuneration and upkeep of political personnel such as Cabinet and Deputy Ministers and Parliamentary positions versus the retention of the critical front line service deliverers in health and education? Civil society has always contested that Zambia has an over bloated Cabinet for its size, especially in recognizing the other priority demands for national resources.

With regards to *Water and Sanitation*, there continues to be under budgeting to the sector related agencies and ministries like the Ministry of Local Government and Housing - MLGH (3.62%) and the Ministry of Energy and

Water Development-MEWD(0.52%), as seen by the budgetary allocations of less than 7% going to the two lead Ministries put together.

If the country has to make meaningful progress in meeting the MDG target of improving the proportion of people having access to safe water, then more capital investment is needed particularly in the rural water and sanitation sub-sector through increased funding to the Department of Infrastructure and Support Services (DISS) under MLGH.

(ii) Social Protection: Women, children and the disabled neglected in 2007 budget

Table 1 below shows that none of the key ministries and programmes dealing with issues of women, children and young people are in the top 10 allocations in this years budget. Further, the allocation to the Ministry of Youth Sport and Child Development (YSCD) of K 59.9 billion or 0.5% of the total budget just goes to show the low level of commitment and priority being attached to addressing *young people and children issues* including the plight of street kids.

Table 1: Top 10 Comparison of Allocations to selected heads as a % of Total Budget

2006 Budget	2007 Budget
Min.of Finance and National Planning -23.55%	Ministry of Finance and National Planning -19.01%
Ministry of Education -14.36%	Ministry of Education -15.65%
Ministry of Health -10.38%	Ministry of Health - 10.17%
Constitutional & statutory expenditures. - 10.23%	Constitutional.& statutory expenditures - 8.99%
Ministry of Defense - 6.85%	MACO - 8.46%
Ministry of Agriculture - 6.57%	Ministry of Defense - 6.72%
MLGH, Loans & invest. - 2.4%	MLGH, Loans & Investment. - 3.62%
ZSIS: Office of the President – 1.52%	Min.of Home Affairs.: Zambia Police- 2.54%
Min.of Home Affairs.: Zambia Police - 1.21%	MLGH -1.43%

Government’s allocation of K343.5 billion (2.9%) of the 2007 budget to social protection is a positive development. This is an increase from the 0.4 percent in 2006. However, the increase would appear cosmetic as it encompasses K266 billion for pension arrears which are a domestic debt. The balance of K77 billion is just within the budget domain of the FNDP social protection budget, an amount which is insufficient to cover effective delivery of the Ministry of Community Development and Social Services (MCDSS) to vulnerable groups including the chronically poor, *Orphans and Vulnerable Children*, the aged and *persons with disability*.

We can therefore conclude that the 2007 is neither gender nor child responsive; it does not offer an effective path through which the various issues affecting women and children including street children in Zambia can be addressed.

4. Poverty Reduction Programmes – (PRP)

While noting the Government promise to exercise strong control on its expenditures by reducing non priority expenditures, CSPR questions the convergence in the definition of ‘priority’ and ‘non-priority’ expenditures in and outside the political realms. Experiences from the Poverty Reduction Strategy Paper (PRSP) era necessitated discussions for the revision of some activities defined as PRPs due to the perceived de-link with the immediate welfare of the poor.

The 2007 budget has an allocation of K5,64 trillion or 46.8% of the total budget towards what are being classified as Poverty Reduction Programmes (PRPs) and of this, 28.5% is made up of the entire Ministry of Education head 80 and 22.5% is composed of allocations to heads 21 and 37 under the Ministry of Finance and National Planning.

There is need for clear definition and classification of what constitutes PRPs as earlier agreed to by government and other key stakeholders.

Table 2: PRP ranking in order of % allocations

Ministry of Education - 28.49%
MOFNP (including Loans & Investments)-22.5%
Ministry of Health-21.6%
MACO- 8.7%
Medium Term pay reforms-4.58%
Ministry of works and supply -1.13%
Nine Provincial OP offices -1.07%
Min. of youth Sport and child devt-0.68%
PRPs as share of total budget=46.8%

Further, within the PRPs allocations key areas like water and sanitation, youth and child issues including disability issues are yet again lying very low in priority as can be seen in the low allocations to the responsible ministries dealing with these issues.

5. Economic Sectors

Agriculture

CSPR welcomes the 2.1 % increase in the agriculture sector budget, putting the allocation at K1, 062.9 billion or 8.8 % of the budget. However, like the Health and Education Sectors, this is also less than the international target signed, the Maputo Protocol, to allocate not less than 10 % of the budget on agriculture.

CSPR continues to call on Government to pay particular attention to the small scale farmers, especially the women, who make up a large component of Zambia's poor.

6. Decentralization

Findings from the civil society evaluation of the PRSP reveal that pro-poor development can not be achieved without the timely implementation of full decentralization. To this effect, CSPR is pleased that decentralization is being made practical through the allocation of K102.7 billion in this year's budget. We request that Government provides regular feedback to its people on the process of decentralization and how this allocation is strengthening the local structures to take up increased responsibilities.

Further government should actually put in place a mechanism for involvement of civil society in the implementation of the decentralization process as outlined in the Implementation Plan, including disbursements of the funds to civil society for this purpose.

7. Revenue measures

Taxation

With respect to the income tax exemption threshold, CSPR commends the government for revising the taxable income threshold from the current K320, 000 to K500, 000. CSPR believes this will enhance people's ability to afford the monthly food basket.

Despite the reduction in the various tax brackets, the income tax levels remain among the highest in the region and income tax still continues to be the biggest contributor to the tax revenue compared to company tax. Currently, 61% of government proposed direct tax revenue will be from Pay As You Earn (PAYE) while only 27% of this revenue will come from company tax.

We appreciate the measures proposed to broaden the tax base and encourage Government to expand the Informal Sector tax and consider introducing and revising other corporate taxes, to give relief to the burden of the workers.

The slapping of a 5 % tax on clear beer and cigarettes is a welcome development and it will not only improve the government's revenue position but also social wellbeing. *CSPR commends the government for its pronouncement to renegotiate the mineral royalties upwards from the current 0.6 % to 3 %. Though seemingly ambitious, we urge government to build capacity in its negotiating skills to guarantee favorable outcomes.*

8. Monitoring and Evaluation

The acknowledgement and invitation of all stakeholders to be vigilant and demand that programmes are duly implemented cannot go without mention. This should be complimented with structural changes such as institutionalization of the Sector Advisory Groups (SAGs) and the formal recognition of the monitoring work of non-state actors.

We urge Government to pay particular attention and report not only on the disbursement of resources, but also the practical utilization of these monies. This, among others, calls for Parliament's role in providing oversight controls in the budget execution to be strengthened, by involving the public accounts committee to regularly monitor spending rather than wait for the Auditor General's Report.

We further urge Government to seriously include stakeholders like civil society in monitoring the implementation of the budgets, particularly the PRPs. We propose that a multi-stakeholder group be incorporated to work with the new Division for Planning and Economic Management in monitoring PRPs in the budget.

9. CSPR Recommendations

In view of the above and other observations noted from the various civil society analyses of the 2007 budget, CSPR would like to recommend for the following areas of the budget to be addressed even as Parliament debates the estimates:

- The Poverty Reduction Programmes in the budget must be clearly classified and ranked to reflect the priority areas of utmost significance to poverty reduction. These must be tagged as PRP1, PRP2 or PRP3 accordingly.
- The budget must clearly show all the programmes which are being funded by debt relief savings as a result of the Multi-lateral Debt Relief Initiative (MDRI) and other debt relief sources.
- Conditions for all the loans contracted for which debt servicing payments have been allocated for in the 2007 Budget must be made transparent and known by Parliament before any such debt servicing payments are authorized.

- Budget allocations to children, the disabled and water and sanitation must be increased in order to ensure meaningful service delivery in these areas.