

JESUIT CENTRE FOR THEOLOGICAL REFLECTION

20 Years of “Promoting Faith and Justice” 1988 – 2008

Analytical Paper on the 2008 NATIONAL BUDGET

Introduction

The Jesuit Centre for Theological Reflection (JCTR) has a mission to “foster from a faith-inspired perspective a critical understanding of current issues. Guided by the Church's Social Teaching that emphasises dignity in community, our mission is to generate activities for the promotion of the fullness of human life through research, education, advocacy and consultancy. Cooperating widely with other groups, our Jesuit sponsorship directs us to a special concern for the poor and assures an international linkage to our efforts. We aim to promote an inculturated faith, gender equality and empowerment of local communities in the work of justice and peace and the integrity of creation.”

Guided by our mission, our views on the 2008 national budget are drawn from the perspective of the need to ensure that the budget should contribute to the reduction of poverty and enhancement of integral and sustainable human development.

In this analytical paper of the 2008 national budget, we outline the context in which the budget was prepared and the challenges currently affecting Zambia which may impact on delivery of services, economic and human development. We consequently analyse the budget in respect of how it has been conceptualized under the theme “Unlocking Resources for Economic Development and Wealth Creation.” This is followed by an analysis of some policy reforms to be implemented this year, 2008, as outlined in the budget such as debt legal reforms, taxation regimes, etc. Subsequently, we focus on some key sectors which directly or indirectly contribute to the reduction of poverty such as Agriculture and Trade. Finally, we draw conclusions on the overall expected impact of the budget to the problem of not only poverty reduction but also integral human development in general and make recommendations.

Context in which the 2008 Budget was presented

The year 2008 marks three years after the attainment of the Heavily Indebted Poor Countries and the Multilateral Debt relief Initiative (MDRI) which significantly reduced Zambia's external debt to US\$1.8 billion in 2006 from 7.1 billion at the end of 2004. This year is also the mid-point of Zambia's Fifth National Development Plan which was launched in 2006 and intended to be implemented up to 2010. 2008, is also somehow the mid point for the Millennium Development Goals (MDGs) to be met by 2015.

Zambia's macro-economic indicators reveal that there has been steady growth recorded at an average of over 4 percent in the last 5 years while inflation has also been below 10 percent in the last two years. While this favourable macro-economic outlook is necessary for the improvement of economic and human development; in itself, it does not guarantee human development and poverty reduction.

The Lack of tangible benefits accruing to many Zambians is evident by the increase in rural poverty from 78 percent to 80 percent (LCMS 2006). Of Zambia's 11.7 million people, 7,612,472 or 65 % are in rural areas. Notwithstanding the recent pronouncements that urban poverty reduced to 34 % in 2006 from 53 % in 2004, currently 97 % of Zambians in rural areas perceive themselves as poor while 92 % in urban areas perceive themselves as poor (World Bank vulnerability study, 2007). This brings the average of self-assessed poverty to 95 %.

People's self assessed poverty and anxieties are expressed in various ways; through the ballot, comments in the media, student riots, public demonstrations at media stations and at offices of public service providers such as ZESCO, etc. One participant in an e-discussion organised by the Zambia Business Forum (ZBF) on the appreciation of the Kwacha made this remark: "Personally, to all these economic theories, statistics, jargons and arguments, I put 10.3 million Zambians in front. What has been the impact and how long are they going to wait for the so-called trickle down effects. I think of my mother in Chawama, and other mothers, grandmothers in her like situation...boarding school fees for kid brother increased, still buying Simba No. 1¹ at 47 pin², power cut team paid visit, no BP medicine at clinic and referred to Lusaka Chemist in town, water supply cut off...and the list is endless!"

The problem of poverty is further compounded by the daunting challenges to infrastructure development and deplorable conditions of existing infrastructure, particularly communication, energy and transportation such as roads, bridges which has been adversely affected in part by heavy rains in the 2007/08 season. Weather forecasts from the Meteorological department of Zambia indicate that Zambia is to experience further floods and above normal rainfall in the months of February and March 2008 especially in Eastern, Western and Northern Province in addition to Southern Province which is already faced by floods.

With the challenges and gains outlined in the context above, it is imperative that the 2008 national budget positions itself to resolve these challenges not only implicitly but explicitly.

Conceptual Approach of 2008 National Budget

The 2008 national budget carries the theme "Unlocking Resources for Economic Empowerment and Wealth Creation."

To understand this theme, we break it into three portions which are 1) Unlocking resources, 2) Economic Empowerment and 3) Wealth Creation. We have combined the analysis of the latter two parts because of their similarities.

UNLOCKING RESOURCES: It is impressive that there is common understanding of the failure to have macro-economic gains translate into meaningful human development. The long awaited "trickle down" effects are taking too long for most Zambians (especially those in dire need of services such as health care, agricultural inputs and social safety nets) to enjoy them. It is undisputable that the benefits of debt cancellation and macro-economic stability cannot be easily traced. The tangible benefits are obscure to many people. In fact president Mwanawasa has on a number of occasions alluded to this:

¹ Simba No. 1 is a brand of maize meal that is used to prepare the widely consumed meal - Nshima

² Pin is a local term referring to a thousand Kwacha, therefore, 47 pin is understood to mean K47 000.

"Not everybody in our nation has so far benefited from the achievements made so far and most of our people still wallow in poverty." President Mwanawsa at a press conference at State House, 03 August 2005"

'Whilst we have made important macroeconomic gains, admittedly the standard of living of the majority of Zambians remains poor. This was clearly the message that came out from the electorate in both the rural and urban areas. The people of Zambia now want results and a translation of the macroeconomic achievements into an uplifting of their standard of living.' President Mwanawasa: Official opening speech to the tenth National Assembly, 27 October 2006

Similarly, during the budget presentation of 2006 on February 3, the Minister of Finance and National Planning, Hon. Ng'andu Magande noted that despite the positive growth of the economy in the past six years averaging 4.6 % "poverty levels still remain high amongst our people." These views were also repeated by the president when he opened the Second Session of the National Assembly on January 3, 2008 when he said "More than ever before, the people of Zambia want accelerated socio-economic development."

Indeed, there is need to unlock resources but for what and for who are the two questions which should subsequently be responded to by the two phrases of the last part of the budget theme. Do "Economic Empowerment" and "Wealth Creation" provide enough guidance and rationale for "unlocking resources"?

ECONOMIC EMPOWERMENT and WEALTH CREATION: Both *Economic Empowerment* and *Wealth Creation* carry positive connotations. They on one hand imply the provision and/or creation of opportunities which would assist in the improvement of the economic outlook of the country through the wealth that is created. However, these terms do not explicitly carry the implications of equity which would require special concern for the disadvantaged and the poor.

It is possible that Economic Empowerment and Wealth creation can benefit only the upper deciles of the population which may be actively involved in driving the economy and eventually serve only to reinforce the class differences between the poor and the rich. In 2005, 56.6 % of national income accrued only to the upper 20 percent of the population while the lowest 20 % of the population benefited only 3.3 percent of the income. This is the extent of inequality that *Economic Empowerment* and *Wealth Creation* can be blind to!

It has been in many times emphasized that Economic Empowerment and Wealth Creation could lead to growth. Growth is seen as necessary for poverty reduction, but poverty reduction is recognized as a factor contributing to the achievement of high quality growth. This is why both the World Bank and the International Monetary Fund (IMF) recognizes the "increasing evidence that entrenched poverty and severe inequality in economic opportunities and asset endowments can themselves be impediments to growth."

Both Economic Empowerment and Wealth Creation can co-exist with absolute and relative poverty. It is imperative that in the process of *unlocking resources* poverty reduction and promotion of equity should be the primary goal. Therefore policies should explicitly be aimed at poverty reduction while all mainstream policy objectives should also integrate issues of poverty reduction in fostering growth and employment creation. There should be the promotion of poverty reduction and improved distributional outcomes which can accrue to women and youth societies, with special concern also to differently

abled persons and those faced by the challenge of the HIV/AIDS scourge which is affecting over 16 % of Zambia's adult population.

The distribution of income and opportunities to attain economic advancement should be relatively fair or at least not outrageously biased towards privileged groups. In this regard, the 2008 budget needs to be oriented towards "Enhanced human development through increased household productivity" or should be reoriented to reflect the need to "Unlocking Resources for Sustainable Integral Human Development."

Budget Execution 2007

Debt Repayment

The 2007 budget set aside K129.3 billion for external debt service but actually made payments of K244.8 billion with a supplementary allocation of K115.5 billion above the approved estimates. While supplementary estimates are lawful, it is not a good sign that such expenditures could be as much as 90 % of the projected expenditures. Considering that the amount for debt service is based on repayment schedules which are always kept by both creditors and debtors, it is therefore worrying that our debt repayment schedules should miss such indicative amounts in excess of K100 billion.

Such an amount could also be on account of creditors failing to deliver their part of expected debt relief based on HIPC terms. Creditors should have delivered their part of HIPC or Multilateral Debt relief irrevocably upon Zambia's attainment of HIPC Completion point. Zambia and the creditors should therefore quickly finalise the process of coming up with debt cancellation agreements.

An analysis of the composition of supplementary expenditures for external debt service (page 1554, 2008 Yellow Book) indicate that the highest figure of K73.9 billion was paid to bilateral non-Paris club creditors of which Romania was paid a non approved figure of K64 425 896 000 while Multilateral creditors were paid K41billion of which the European Investment Bank was paid K34.7 billion. Excessive supplementary expenditures on debt service point to the need for a comprehensive strategy which should ensure data integrity.

Zambia's external debt has also grown to over US\$2 billion at the end of 2007 from US\$1 019 million in 2006 on account of increased public guarantees made by the government on investment in plant and machinery by mining companies. Preliminary estimates indicate that private sector debt is now at US\$980.7 million, indicating a growth of over 16 %. The rate of contracting and nature of public guarantees needs to be revisited especially considering that the existing mines and new mines are sold to institutions of perceivably sound financial base which should not risk the debt stock of the country.

Execution and Monitoring of 2007 Budget

In the 2007 budget, paragraph 70, the Minister promised improvements in budget execution through monthly and quarterly reports from Ministries, Provinces and Spending Agencies (MPSAs) which were never shared with the public posing doubts as to whether they were actually produced. These measures and reports were also in part intended to "widen stakeholder involvement in budget implementation and give an opportunity to all stakeholders to be fully involved in the monitoring and evaluation of programmes". Without public scrutiny of reports from MPSAs and with bureaucratic structures which do not readily and easily provide information to interested stakeholders it is therefore

imperative that the Ministry of Finance and Ministry of Information broaden the basis for public engagement.

Policy Reforms to be implemented in 2008

Debt and Aid Policies

It is impressive that the Ministry of Finance recognises the need to ensure that new borrowings do not further threaten the current debt stocks and that management of resources requires further consolidation. It is also a good measure that K350.5 billion has been set aside for domestic arrears.

We note that both domestic and external debts have continued to steadily rise and this borrowing is controlled by a set of legal guidelines which have not been reviewed in a long time. To date, the Zambian government can borrow up to K20 trillion (approximately US\$5bn) and K5 trillion (approx US 1bn) annually through Statutory Instrument 53 of parliament of 1998 which has not been revisited since then. The countries' economic and human development outlook in 1998 was certainly not what it is today, yet parliament has not revisited this statutory instrument.

The country's debt portfolio is still in great peril as the decision to reach the K20 trillion ceiling authorised by the 1998 decree can solely be made by the Minister of Finance. The authority to discuss the conditions and terms of each loan are the preserve of the Minister of Finance and the Ministry of Finance. Furthermore, this ceiling of K20 trillion agreed by parliament in 1998 is not coherent with the FNDP which on page 357 commits government to limiting external loans to on "average 1.0 % of GDP, or US\$160 million per annum. This is inclusive of already existing loans to be disbursed over the plan period". The FNDP further indicates that "new borrowing is expected to be in the region of US\$50 to US\$60 million per annum, mostly from the World Bank and Africa Development Bank (FNDP, page 357)." It is hoped therefore that both debt and fiscal policies will augment debt management and enhance accountability procedures.

The Budget clearly identifies the need for enhancing debt legal framework. This framework has to be implemented soon and it is necessary that the Ministry of Finance should provide a time frame under which this will be undertaken.

Taxation reforms

The 2008 national budget makes efforts to provide consumers with modesty relief particularly by 1) adjusting upwards the minimum taxable amount from K500 000 to K600 000, 2) reducing Value Added Tax from 17.5% to 16 % and, 3) Exemption of infant formula for VAT purposes. Other tax reforms also include the introduction of a variable windfall tax and corporate tax of 30 % for mining and a 15 % tax on exports of copper concentrates which is favourable for value addition to copper exports.

We make a few observations tax revisions on the following sectors:

On Mining

The revision to the mining tax regime is a progressive step in ensuring that corporate institutions make higher contributions to the revenue side of the budget. We hope that the additional US415 billion to be generated from taxes on mining firms would be spread across social and economic sectors to improve service delivery and increase capital investments necessary for integral human development.

It will also prudent for the government to remain alive to the fact that low taxes were only a small part of the huge challenges facing the mining sector. As summarised by Fraser and Lungu (2006), these include 1) inadequate regulation, illegal operations, impunity, 2) Casualisation of the workforce, 3) Deepening pensioner poverty, 4) Lack of linkages to local business and 5) failure to protect the social infrastructure.

On PAYE

A close analysis of Pay As You Earn (PAYE) reveals that the net gain of increased minimum tax is eroded by the fact that the highest income band which pays 35 % tax will now include everyone earning above K4 000 000 as opposed to those earning above K5 200 000 as in the 2007 budget. This move pushes more people into the highest income band and hence subjecting them to the highest PAYE.

While the increment of the minimum taxable amount is an improvement of an upward adjustment from K320 000 in 2006 to K500 000 in 2007, the 2006 increment of K100 000 is sufficient only to meet absolute poverty measured in terms of basic food requirements. This amount falls short of the total cost of the JCTR Lusaka basic needs cost for December by K1 036 900. The Lusaka basic needs basket was at K1 636 000.

On Infant Formula

While zero rating tax on infant formula has been emphasized by the National Food and Nutrition Commission that it should not be perceived as “promoting the purchase and use of a designated product e.g., infant formula, feeding bottles, teats/pacifiers,” it has the implicit consequence of eroding the benefits of promoting breastfeeding.

Allocations to Social and Economic Sectors

The last two budgets showed modest increases in social sector spending from 30 % in 2006 to 36 percent in 2007. For 2008, social sector spending will be 39 %.This is clear manifestation of the benefits of debt cancellation which has enabled Zambia to reprioritise spending for social sector spending. This same commitment is expected for spending in economic sectors particularly Agriculture and infrastructure development. These sectors are vital for enhancing poverty reducing growth.

However, Agriculture allocation for 2008 has gone down by 3 % from 8.8 % (1 064 billion in 2007) of the total budget to 5.8% (800 billion in 2008). The estimates for 2008 are just above the spending for 2006 which was 5.7 % of the budget. Given that over 68 percent of the Zambian population is in agriculture and mostly located (82%) in rural areas where poverty has gone up by 2 % from 78% to 80%, it is expected that Agriculture spending would be scaled up to reflect this reality. Agriculture spending for 2007 was even close to the Maputo commitment under which African governments agreed to provide 10 % of the national budget for agriculture.

With the move towards diversification and under the current challenges to the 2007/08 agriculture season caused by above normal rainfall, it will be prudent to ensure that provision of agricultural inputs such as fertilizer as well as the provision of water harvesting mechanisms are secured.

Table 1 Trend Analysis of allocations to broad Categories of sectors 2006-2008

	2006 (%)	2007 (%)	2008 (%)
General public services	40.9	31.7	32.8

Economic Affairs	18	19.7	16.7
Education	16.1	15.0	15.4
Health	10.7	10.7	11.5
Defence	6.4	6.6	7.1
Housing and Community amenities	2.9	6.7	6.0
Social Protection	0.4	3.8	4.2
Public Order and Safety	3.8	3.8	4.2
Recreation and Culture	0.3	1.1	1.3
Environmental Protection	0.4	0.9	0.7
Total	100	100	100

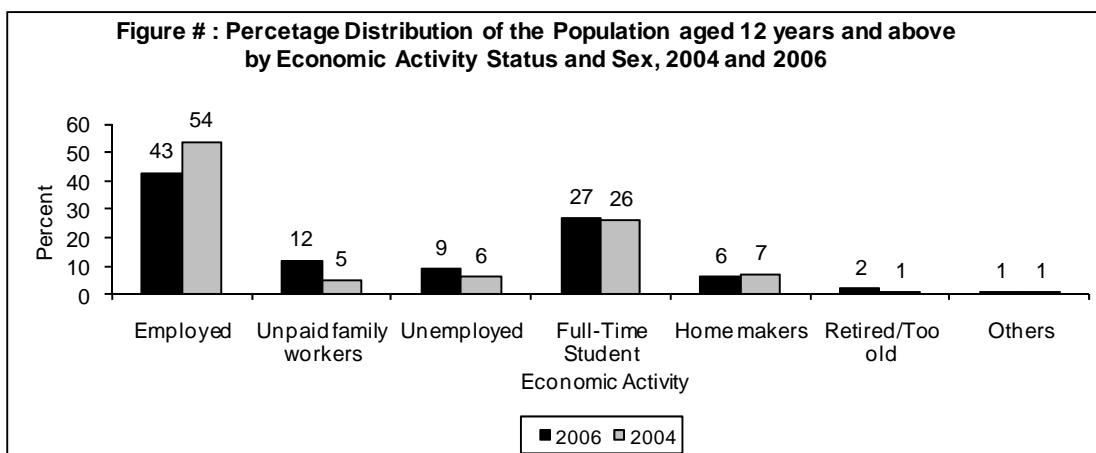
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The allocations to broad sectors as reflected above shows the areas where government has placed high priorities.

It is vital that sectors such as Environmental protection should be relooked so as to reflect the challenges coming with climate change, mining activities, etc. Of the sectors which did not receive disbursements in 2006, the Environment sector received less by 44 %. It will therefore be important that government does not only provide more resources for this sector but that it also ensures full disbursements.

Employment

Considering that “more people were employed in 2004 than in 2006, 54 percent and 43 percent respectively, while more people were classified as unpaid family workers in 2006 (12 percent) compared to 2004 (5 percent)”, it is essential that the 2008 should provide robust strategies for absorbing the extra labour force. In 2006, 43 percent of the total labour force was employed.



Source: CSO, 2006

The 2008 national budget will clearly absorb a limited amount of this labour force by recruiting 5000 teachers and 1700 health workers. However, other sectors which can clearly assist to generate more jobs such as expansion of manufacturing activities have been obscured in the 2008 national budget. The manufacturing sector plays a key role in enhancing both the quantity and quality of production for both the domestic and export market. With the looming threat of higher liberalisation through the Economic Partnership Agreements, Zambia needs to boost its manufacturing sector by ensuring that incentives and opportunities are created for value addition.

The findings of the 2006 Living Conditions Monitoring survey were that the overall unemployment rate for the whole Zambia was 14 percent. This rate is much higher than that observed in 2004 (9 percent). In both 2006 and 2004, females had higher unemployment rates than males.

Conclusion

The policy pronouncements and allocations to different areas can create more impact if budget execution is tightened and improved by the adoption of accountable and transparent mechanisms which ensure timely utilisation of resources.

The past five years have built a strong and favourable macro economic outlook which should be used for the benefit of creating opportunities for Zambian entrepreneurs, producers, farmers, manufacturers and traders.

The 2008 national budget will in many ways maintain the current status-quo and is not expected to robustly deal with the key question of poverty and the access to basic requirements including social and economic services.

Recommendations

1. The 2008 budget needs to be oriented towards “Enhanced human development through increased household productivity” or should be reoriented to reflect the need to “Unlocking Resources for Sustainable Integral Human Development.”
2. Budget monitoring and implementation mechanisms should be reinforced through the provision of monthly and quarterly reports from Ministries, Provinces and Spending Agencies to the public.
3. Estimates for debt servicing should be more appropriate to avoid ballooning allocations under supplementary expenditures. This should also be augmented with appropriate data management procedures to avoid perpetually changing debt stock and unforeseen repayment figures.
4. There should be a publicly determined ceiling for the amount for which the government of Zambia can publicly guarantee external debt for private investments. Government should further circumscribe the type of public guarantees.
5. The Ministry of Finance should provide a road map for the adoption of the debt legal framework (the JCTR has offered a proposal for debt legal reforms) which assures broader participation in debt contraction and provides timely debt sustainability analyses and futuristic debt management strategies

6. Notwithstanding the efforts to increase the minimum taxable amount from K500 000 to K600 000, there is need for a quantum leap to enable most citizens to meet the total cost of basic needs.
7. The high income band proposed tax of 35 % should be revisited.
8. Allocations for social sector spending should be augmented with enhanced implementation strategies which ensure that services and goods reach the intended beneficiaries in a timely manner.
9. Spending on Agriculture should be scaled up to reflect the recent challenges facing the agriculture sector in view of the floods which have affected most parts of the country. Agriculture spending should also be commensurate with the demographic dynamics and the poverty levels in rural areas.
10. In view of the challenges of climate change, the allocations to environmental protection require significant revision.
11. In view of the failure to meet development projects arising from unutilised funds, the challenge of capacities to absorb resources within the government ministries should be resolved.

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