2008 National Budget
Views from the Jesuit Centre for Theological Reflection (JCTR)

Context in which the 2008 Budget will be presented

- Over 2 years after Heavily Indebted Poor Countries (HIPC) and Multilateral Debt relief Initiative (MDRI) debt cancellation
- Mid-point of FNDP 2006-2010 and Millennium Development Goals to be met by 2015
- Relative Macro-economic stability and favorable macro-economic outlook necessary for the improvement of human development
- Lack of tangible benefits being felt by the community level stakeholders especially in rural areas where poverty was estimated at over 70 percent 4 years ago. Currently 97 per cent of Zambians perceive themselves as poor in rural areas while 92 percent in urban areas perceive themselves as poor.
- Daunting challenges to infrastructure development and deplorable conditions of key infrastructure such as roads, bridges, particularly transportation and communication which has been adversely affected by the rains

Observations on the implementation of Budgets

- The last two budgets have shown modest increases in social sector spending from 30 per cent in 2006 to 36 percent in 2007.
- Zambia's debt reduced to US$1.5bn at the end of 2006 from US$7.1 billion at the end of 2004.
- However, debt management strategies have not been fully resolved and implementation has been unduly delayed. The environment that led to high unsustainable debt has not been relooked at holistically. 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.
- 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 and constitutionally so, be made by the Minister of Finance.
- This is also not coherent with the FNDP which on page 357 commits government to limiting external loans to on "average 1.0 per cent 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$60 million per annum, mostly from the World Bank and Africa Development Bank (FNDP, page 357)."
- Zambia's debt outlook is therefore fearful. For example, Zambia's debt was said to be at only US$ 502 million as at July 2006, six months later in December 2006, it was at US$1.5bn (2006 National Economic report). This gives us worries about the integrity of our data on debt and we think that our debt portfolio is at stake.

- Zambia's domestic debt has been steadily rising from K5 246 billion in 2004 to K8 821billion at the end of 2006. This indicates a 68 per cent change in a space of two years during which relief on external debt has been 77 per cent from US$7.1billion in 2004 to US$1.5billion at the end of 2006. In our view, this shows that there has been a shift of borrowing from concentration on the external market to borrowing heavily from the domestic market.
- Weaknesses in the implementation of planned activities leading to return of over K900billion to the national treasury—This could be because of inadequate absorption capacity and possibly delays in disbursements from the national treasury. How does/ did this impact on the delivery of services as it (service delivery) was last years budget theme?
- Lack of quarterly and monthly reports of expenditures as a monitoring tool stipulated in the 2007 Budget.

Suggestions for 2008 National Budget

- Implement debt management strategy and adopt a Debt Management Bill
- The budget needs to take advantage of the existing space due to debt cancellation to enhance poverty reduction by implementing policies which will increase household productivity through increased savings and creation of opportunities for economic engagement of distressed communities.
- To increase household productivity, it is essential to create and support a highly productive and dynamic industrial base rather than concentrate on promoting consumption related development such as retails and chain stores. These narrowly improve the employment base but increase imports thereby affecting the balance of payment which is the ingredient to a ballooning external and domestic debt.
- Opportunities for improving the industrial base range from new investments as well as innovative ways of improving quality and adding value to Zambia's products which are often raw materials. This paves the way for better and efficient technologies which can be encouraged locally and leant from other countries. While foreign direct investment can potentially contribute to this objective, it should not substitute the role of the state and that is to ensure that there is a favourable environment investment, especially local producers and investors.
- Increased Household productivity has the potential to contribute significantly to aggregate national income and even lead to the over 7 percent growth desirable for attaining the MDGs in Zambia.
- Increased household productivity is not only self assuring it can also be self sustaining as it includes the participation of individual households. In the long run, the dependency on foreign assistance both in terms of debt and grants can significantly reduce with a vibrant national growth dependent on individual households' contributions.

- 2008 Budget could be better placed as a tool for **“Enhancing Human Development through increased Household Productivity”**