



Caritas Zambia,



JCTR

Caritas Zambia  
Civil Society for Poverty Reduction  
Jesuit Centre for Theological Reflection  
Platform for social protection Zambia

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Submission

TO THE

EXPANDED COMMITTEE ON ESTIMATES AND MINISTRY OF FINANCE AND  
NATIONAL PLANNING  
On the 2012 National Budget

November, 2011

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## INTRODUCTION

Over the years Caritas Zambia, the Civil Society for Poverty Reduction (CSPR) and the Jesuit Centre for Theological Reflection (JCTR) have been analyzing National Budgets. This is because we regard the National Budget as an important economic policy instrument, which has the potential to reduce the incidence of poverty and on this premise CSPR has found it imperative to undertake a Budget analysis.

Caritas Zambia is a faith based organisation that aims to promote socio-economic and legal justice in Zambia. Its mandate is to foster and uphold human dignity through promotion of integral human development and it is involved in a number of activities ranging from advocacy, research and capacity building to humanitarian interventions.

CSPR is a civil society network of over 100 organizations involved in the fight against poverty in Zambia. These organizations are primarily concerned with reducing poverty and its impact on vulnerable groups within Zambia through advocacy and lobbying of policy makers.

The Jesuit Centre for Theological Reflection (JCTR) is a faith based research, education and advocacy centre established in 1988. JCTR is concerned with equity, social and economic justice to enable Zambia to achieve human and pro-poor national development. The center has for many years worked at bringing to the fore the situations of poverty in Zambia and made recommendations of policy responses to address these.

The analysis of the budget for 2012 with the theme ‘**Making Zambia a better place for all**’ is a contribution of Caritas Zambia, CSPR and JCTR.

The analysis is presented in three parts: part one which gives an analysis on Macro – Economics and Growth Sectors, part two makes an analysis of ‘Agriculture’ and Social Sectors, Part 3 makes an analysis on financing the budget for 2011.

The analysis is meant for submission to the Expanded Committee on Estimates and Revenue of Parliament.

## **Part 1**

### **Macro-Economics & Growth Sectors**

## 1.0 POVERTY

High poverty levels and low growth rates remain the two major challenges of Zambia. Poverty levels are as high as 64 percent (7.5million) people- the majority of the population. Today Zambia is ranked number 68 out of 81 countries compared to 70 out of 84 countries on the 2010 Global hunger index (This index measures Proportion of undernourished in the population (%) Prevalence of underweight in children under five years (%) and Under-five mortality rate (%)).

The government needs to focus on their majority needs – the poor so that we have so that they have a strong sense of ownership of a national poverty agenda- The Budget.

It's a good start that the budget speech does recognize that poverty exists.

Facts and consensus about inequality:

- sustains extreme deprivation
- wastes human potential
- weakens economic growth
- enhances socio-political instability

Fighting poverty in Zambia today still remains a challenge. If we are to get past this challenge, we need political commitment. This is particularly important when the attainment of the goal requires painful sacrifices; such as those needed to achieve a more balanced redistribution of wealth and income. The national budget gives us an opportunity to recommit ourselves every year to improving the welfare of the people.

## 1.1 MACROECONOMIC PROJECTIONS

The macroeconomic objectives in the 2012 national budget will be to:

- a) Achieve real Gross Domestic Product growth of above 7.0 percent;
- b) Attain end-year inflation of no more than 7.0 percent;
- c) Limit overall fiscal deficit to 4.3 percent of GDP and domestic borrowing to 1.3 percent of GDP; and
- d) Maintain gross international reserves of at least four months of import cover.

These are moderate objectives with nothing new in them with no new innovations. Zambia has been struggling to move beyond the 7 percent growth, for the past four years. This means there still exist some bottlenecks in the economy that is inhibiting growth- mainly in

the agriculture, extractive, construction and the manufacturing sector. The question is, has the 2012 budget dealt with these issues and what strategies have been put in place to ensure that the growth Zambia experiences in the short, medium and long terms benefits the Zambians more especially the poor and the excluded.

**We analyze the macroeconomic chapter in 2012 national budget with the following spectacles;**

- As Caritas Zambia we want a budget that will lead the economy to the high, broader and inclusive GDP growth rate of 10 percent per annum at the earliest possible time. Growth of income is important in itself, but it is as important for the resources that it brings in. These resources provide us with the means to bridge the critical gaps that remain in our development efforts, particularly with regard to the welfare of the vulnerable segments of our population.
- We are looking for a budget that deepens and broaden the agenda for inclusive development; and to ensure that no individual, community or region is denied the opportunity to participate in and benefit from the development process.
- The third aspect is that we want a budget that re-energizes government and improves delivery mechanisms. Our public institutions must provide high quality public services, security and the rule of law to all citizens with transparency and accountability.

## **1.11 GROWTH**

At the outcome level, the improvement in the macroeconomic situation has been the most significant success story of the last 4 years and we hope that it continues- though taking cognicence of source and broader meaningful and impact oriented growth. GDP growth has now averaged just under 6 % p.a. for the last four years,

The most effective and sustainable key to reducing poverty is maintaining consistently high rates of inclusive growth of 8 to 10 per cent each year. It requires rapid and fundamental changes. But high growth rates are not the sole requirement; such growth must occur in such a way as to create the jobs/employment that will lift people out of poverty and reduce inequality. This will even draw us closer not only to achieving the MDGs but also socio-economic development, which at the moment cannot be achieved by urgently adopting a radical approach and through bold and decisive action.

Caritas Zambia believes the government needs to do more to ensure that economic expansion can be sustained and participation should be broadened. Part of the answer lies in our fiscal and investment decisions and partly in ensuring that our economy is able to adjust to global risks and opportunities.

- The government should not limit reduction of poverty to buying of cars, construction of houses and an increase in business – these are more of an urban phenomenon.
- Despite positive economic growth in Zambia, poverty and unemployment still remain a huge challenge. We need to broaden the participation of people in economic activities, thus stimulating growth through job creation unlike concentrating growth in urban areas.
- We are restricting growth to the urban areas through the MFEZs. In the long run, development will only be restricted to urban areas as there are better incentives than in other towns. This will create the problem of urban drifts.

**Caritas Zambia recommends that growth should be redistributed among sectors and regions, which is critical in determining which groups benefit from expanded employment and income-earning opportunities.**

**Also the government should reform the informal sector and emphasize growth in agriculture. Remote poor regions and urban slums should be improved upon to the extent to which the poor benefit for the much talked about growth targets.**

Rural areas are not productive due to infrastructure underdevelopment. Caritas Zambia recommends that the government should focus on rural infrastructure development so that we could tap on the potential growth distribution of our rural areas.

We need to provide all possible assistance to our exporters to help them overcome the short-term disadvantages. More specifically:

- To enhance growth and competitiveness, the government needs to address regulatory and microeconomic barriers to our competitiveness. This involves detailed sectoral analysis and consultation with affected industries and interest groups. This will guarantee sustained, faster and broad based growth- inclusive growth
- A Market Development Assistance Scheme that would provide support to exporters in developing new markets. With many traditional markets still under financial stress, greater effort is required to identify and develop new markets

- Micro, Small and Medium Enterprises (MSMEs) have been affected by the slowdown in exports and the indirect effect of the global crisis on domestic demand. To support this sector, the government should have provided a credit facility at reasonable rates, by providing a special fund out of the Citizens Economic Empowerment scheme or the introduced Tourism Development Fund

We need to move from the traditional mode of only limiting ourselves to macroeconomic targets but now the government needs to start including social targets indicators in the budget. At the moment the government makes no mention of what progress has been made in the last financial year with regards to social sector, however we are meant to believe that the indicators are met by accident, as there is no projection of targets.

**To this end, Caritas Zambia recommends that the government to include the following as social targets;**

#### Employment

- The governments should estimate the employment opportunity that they will create and also by what percentage they are going to reduce the unemployment rates. However, we recommend the mention of 5000 and 2500 creation of jobs in education and health respectively. Empowering people with respectable jobs that ensure sustainable livelihood to individuals and their families is one of the best and effective ways of unblocking the resources and empowering the local people, otherwise the other macroeconomics targets become meaningless if they do not translate to anything in people's lives.
- We know the government has made mention of the employment creation opportunities. These, however, are foreign investor biased. It is not helpful to invest so much faith in the foreign investors to be employment generators as witnessed with the Multinational Corporations that own most of the mines; they took the government to ransom when there was a crisis.

It should also be noted that in Zambia poverty does not only exist in the unemployed by also includes those who have jobs (the working poor) and underemployed, those that have low productivity or receive low wages or incomes, as well as those who are not employed. To reduce poverty, the incomes of the working poor must rise above the poverty line and the unemployed poor need work which produces incomes sufficiently high to get them out of poverty, whether in the rural areas, the informal sector or urban slums.

### **1.12 INFLATION TO NOT MORE THAN 7 %**

Caritas Zambia recognizes that reducing or maintaining inflation rate at 7 percent, or to the lowest possible level, is obviously desirable as far as macroeconomic stabilization is concerned. It is expected that lower inflation will help reduce interest rates, encourage long terms investment borrowing, and possibly help decrease the government's debt service burden.

The inflation target is realistic. However, looking at the government intentions of increased infrastructure development, this will work against this objective recognizing that inflation in Zambia is hugely influenced by fuel (transport cost) and electricity. So any adjustment to the two affects inflation targets.

### **1.13 LIMITING DOMESTIC BORROWING TO 1.3% OF GDP**

**Caritas Zambia still believes and maintains its stance that the government must decrease its domestic borrowing, as borrowing causes interest rates to raise, thereby crowding out private sector organizations and ordinary citizens from borrowing from commercial banks.**

It is recognized that the government is under pressure to borrow for capital projects and infrastructure development; however, continued borrowing by the government from the country's limited savings has an adverse impact on interest rates. The government is competing with the private sector in getting funds from banks, and as such is crowding out private sector investment while pushing interest rates upwards. This policy limits private sector employment creation; as such small business owners and citizen-entrepreneurs are denied access to local funds, as the interest rate is too high for them.

We recommend that the government should reduce the domestic borrowing to less than 1%. The revenue needed can be raised through building a trust based, simple, neutral, tax system with almost no exemptions and low rates designed to promote voluntary compliance. Today we are losing millions of Kwacha through tax avoidance and tax evasions, which are amplified by, tax holidays, tax incentives and corruption.

We recommend that the government introduce a tax system that generates revenues on a sustained basis without use of coercive tax collection methods so that we could raise the much-needed revenues to meet the gaps in our financing.

## **1.14 OTHER AREAS OF CONCERN**

### **Budget Bill**

For the past three years, the national budgets have been stating they are putting in place a budgeting and planning bill (amendment to constitution, No 20, 2009, Date of assent, 28<sup>th</sup> August 2000). The bill is long overdue and needs to be enacted. There is need to strengthen the powers to Parliament to offer constructive criticism on the budget and be able to make amendments to the budget. This will help in directing the resources to the priority areas and reduce the urban and rural divide,

### **Proposed inclusion in the budgeting and planning Act/Law**

**Recommendation that should be adopted in the Zambia context -A mid-year report shall include**

- An update on the current macroeconomic and fiscal situation ,
- A comparison report on the out-turned current and capital expenditures and revenues with the estimates originally approved by the National Assembly with explanations of any significant variances; and
- A list of major fiscal risks for the remainder of the fiscal year, together with likely policy responses that the Government proposes to take to meet the expected circumstances.

### **Passing of the Appropriation Bill- National Budget**

Parliament must pass, with or without amendments, or reject the Appropriation bill before the start of the financial year to which relates

The standing rules must provide that;

- a) The committee on appropriation to hold public hearing on the Appropriation Bill and proposed amendments,
- b) The committee on appropriation to report to the House on the comments on and amendments to the bill;
- c) Other committees to consult with the Committee on Appropriations in respect of the proposed amendments to transfer payments, recurrent and capital expenditure of a vote, or a main division within a vote, taking into consideration any report adopted by the House;
- d) Other committees to consult with the Committee on Appropriation in respect of proposed conditional appropriation;

- e) The committee on appropriation to mediate between the committees proposing conflicting amendments to the Appropriation Bill; and
- f) The committee on Appropriation to recommend to the House the proposed amendments reported by other committees are rejected where those amendments are inconsistent with the fiscal framework, the adopted Division of revenue or not motivated adequately in terms of this section.

The minister and other members of the Cabinet affected by the proposed amendments must be given at least 10 days to respond to any amendments proposed to the Appropriation Bill by the Committee on Appropriation prior to reporting to the House

A report of the committee of Appropriation to the House that proposes amendments to the main appropriation Bill must, in respect of each amendment-

- a. Indicate the reason of the amendments
- b. Demonstrate how the amendment takes into account the broad strategic priorities and allocations if the relevant budget And allocations to the relevant budget;
- c. Demonstrate the implications of reach proposed amendment of an affected vote and the main division within that vote;
- d. Demonstrate the impact of any proposed amendment on the balance between transfer payment, capital and recurrent spending in affected vote;
- e. Set out the impact of any proposed amendments on service delivery; and
- f. Set out the manner in which the amendments relates to the prevailing departmental strategic plan, reports of the Auditor General, committee reports adopted by a House, reports on Finance, annual reports and any other information submitted to a House or Committee in terms of the standing rules or on request

**Recommendation that should be adopted in the Zambia context - Supplementary expenditures in the budgeting and planning bill**

- The Minister, when introducing a supplementary appropriation Bill, shall present to the National Assembly the reasons for the proposed variations and provide a supplementary document describing the impact that the variations, if approved, will have on the financial plan outlined in the annual budget.
- The Minister shall not, in any fiscal year, introduce more than four supplementary appropriation Bills, except in circumstances of grave national emergency, where the Minister may introduce a Bill, entitled an emergency appropriation Bill, to meet the situation.

- The Minister shall present to the National Assembly within thirty days after the end of the first half-year of each fiscal year report on the year-to-date execution of the annual budget and the prospects for the remainder of that fiscal year.

**Recommendation to be included in budgeting and planning bill: Reports on loan and grant**

The president through the Minister of Finance shall, either at the time of presentation of the budget or at any time before [sixty days] in each financial year, cause to be presented to parliament information relating to total indebtedness of the state in that financial year showing inter alia-

- a) The total principle and the source of the loans and debt
- b) The accumulated interest on each loan and debt
- c) Provision made for servicing or repayment of each loan and debt
- d) The balance of payment under (c) and ;
- e) The utilization and performance of each loan or debt including the extent of the achievement of the objective targets of each loan

**1.14 MINING SECTOR**

In the 2012 budget, no clear policy was given on the mining sector. However, there is need to give a select framework of what to expect from this sector.

Page 152 of the yellow book	Programme: 1133 Policy Formulation and Development		
	Activities		
	Formulation of Mineral and metal trading regulation	50,000,000.00	20,000,000.00
	Repeal and replace the Gold Traders Act	50,000,000.00	-
	Review of Mining Policy	50,000,000.00	77,365,000.00

The above activities have repeatedly appeared in the budget from 2010 and they are still appearing in 2012 except for the Gold Trader Act. We wish to recognize the importance of these items as they form the framework of mining in the country and they show the road map of government commitment to making the mining sector fruitful. However, our concern is that we have not seen the products or results so far? (at least, from Caritas Zambia).

We need to relook and harmonize our mining taxation system and legislation. This is an important initiative to widen the tax base and improve equity that has embodied in the proposed amendments.

In as much as we appreciate governments' decision on the revision of the mineral royalty there is need to guarantee that this tax will be guaranteed revenue and that all mining firms will pay with effect of 1<sup>st</sup> April 2012 regardless of previous mining agreements. We also recommend government for treating hedging as a separate activity from mining.

We recommend the government to take the following specific steps:

- a) Introduce a windfall tax to be triggered at different price levels for different base metals. For copper, the windfall tax should be 25 percent at the copper price of US \$2.50 per pound but below US \$3.00 per pound, 50 percent at price for the next 50 cents increase in price and 75 percent for price above US \$3.50 per pound.
- b) Capital allowance (depreciation of capital equipment) should be reduced from 100 percent to 25 percent per year.
- c) To have a uniform taxing system for mines by undertaking a mine audit to set a bench mark of operating costs.

In addition, Zambia has much potential wealth in the area of gemstone mining, though the sector has remained unregulated. There is need for government to put in place measures that will promote domestic gemstone miners and ensure that reasonable revenue is raised from the mining of gemstones.

We congratulate government for increasing the allocation to the Extractive Industry Transparency Initiative (EITI) by 273% compared to last year allocation. However, we wish to request government to have an energized commitment to its implementation as well. Further, not to only focus on meeting the international requirements but also improving on the transparency and accountability of the extractives sector in the country.

The Small-Scale Mining sector if given adequate recognition has potential of creating employment which the mining sector has not elaborated how this will be done or achieved. For instance, the 2012 budget has increased budgetary allocation to Small-Scale Miner Advisory Services by 1222.25% as compared to 2011 and yet the development of Small-Scale mines still remains the same as in 2011.

We recommend that the cadaster unit should fully operationalize and that have up to date information of the mining licenses awarded so as to ascertain the mining activities occurring in the country as they have an almost 50% funding increment as compared to 2011.

## 1.15 AGRICULTURE

Agriculture is another key sector in Zambia's economy as over 80% of Zambia's labour force is dependent on agriculture production. We are delighted to note that Agriculture will be a key strategic focus area in 2012. The allocation to the Agriculture sector in 2012 is K1, 698.00 billion, 6.13% of the total budget for 2012.

The reduction of corporate tax from 15% to 10% will contribute to the growth of the sector; such a policy direction is highly commendable. We would like to commend government's efforts to support the vulnerable in our communities through the Food Security Pack with an allocation of K25billion.

The figure below highlights Agriculture sub-sector allocations;

	2011 Allocation	% of total Agric allocation	2012 Allocation	% of total Agric allocation
<i>FISP</i>	485.00	39.38	500.00	29.45
<i>Crop Marketing</i>	150.00	12.18	300.00	17.67
<i>Food security Pack</i>	15	3.1	25	5
<i>Fisheries</i>	6.74	1.39	6.79	1.36
<i>Irrigation</i>	0.37	0.25	21.57	7.19
veterinary	31.65	2.57	36.25	2.13
food and nutrition	0.1	0.02	0.24	0.01

Civil Society is concerned that **K1,698.00 billion** allocated to the agricultural sector only constitutes about 6.13% of the total budget and yet Zambia committed itself to fund more than 10% of the total budget to agriculture at the 2003 Maputo Declaration and the Comprehensive African Agriculture Development Programme (CAADP)

It is our concern that K500 billion which is approximately 29.4% of the budget allocated to the agricultural sector has been channeled towards Farmer Input Support Programme (FISP) which is largely maize production oriented.

We note again as civil society the lack of government commitment to revamp the fisheries sector which is diminishing in Zambia. The allocation of K6.79billion to fisheries is little to revamp our fisheries sector. Currently fish stock levels have steadily been eroding and one of the causes is wrong fishing gear. We urge the government to find ways of developing an industry to manufacture fishing nets as there are rare making fishermen to resort to wrong fishing gear. Sensitizing and monitoring during fish burn is critical. As it is, the allocation is insufficient to address the challenges of the fisheries sectors.

In his speech to Parliament His Excellency the President said *“Many of our people in Western, Southern, Luapula and Northern provinces depend on fish farming for their livelihood. My Government notes with grave concern the rapid depletion of the fish stock and species in our rivers and lakes thereby depriving many of our local people of their source of livelihood”*. This part of the speech gives high hopes of redeeming the sector and unlocks the potential for the development of the nation.

However, the budget for 2012 fisheries leaves out key important Aquaculture development activities that may make it difficult to make pronouncements in economic performance translate into substantial reduction in poverty indicators in our communities all over the country as stated in The President’s Speech. The much needed Aquaculture infrastructure development that commanded a high percentage of the budget has been removed leaving less chance for Aquaculture in pro-poor rural areas that depend on Aquaculture for livelihood to have high hopes for better standard of living through Aquaculture.

Commercial fish production can be enhanced by demonstrating and teaching fish farmers to make local feed through establishing such units at all GRZ fish farms, this budget line has been removed rendering lower chances for Aquaculture intensification as piloted by an FAO project.

It will be difficult to implement the intended developmental targets for Aquaculture development as reflected in the Aquaculture development plan and in the PF manifesto that conforms very well with the Aquaculture development strategy. Aquaculture which is supposed to be dominated by Zambians will remain dominated by foreign investors

The allocation of **K21.19 billion** for irrigation seems to be very inconsiderable in the wake of climate change era. More so it is expected of a government that has been collecting carbon tax to allocate more resources to irrigations projects, constructions of dams and training for small scale farmers.

In the case of good weather forecast we would expect even better maize harvest in 2012 than in 2011. The K300 billion allocation to crop marketing amounts to ineffective planning. We propose to this effect that allocations to the FRA be removed from the Agriculture section of the budget as they seem to distract from urgently needed initiatives to benefit the sector.

Despite bumper harvests, malnutrition in Zambia is on the higher side 45% (National Food and Nutrition Commission). The allocation of K0.24Billion to the food and nutrition is very insignificant to begin addressing malnutrition.

## **1.16 FREEDOM OF INFORMATION**

The Freedom of Information Act and recognition of the role that a free media can play in informing the public thereby encouraging accountability of public actions is cardinal for a democratic society. All economic decisions are supposed to be disclosed to the public. The Letters of Development Policy, loan agreements with the donors (PRGF, contracts, development agreements, etc), quarterly budgetary reports, quarterly pro-poor expenditures, economic policies and performance, to cite few, are supposed to be available on the web and open to scrutiny.

The lack of openness has comprised the governance framework which has resulted in suspicion in transparency and accountability in the use of public funds, certainty and predictability in the economic policies. Zambia needs the information Act and the government needs to commit to it.

Thus a clear road map will be helpful for relevant stakeholder participation.

## **1.17 STATISTICS**

Current statistics remain a challenge in Zambia. The availability of reliable and timely economic, demographic, and social statistics is essential for good policy analysis and formulation of development programmes, and for an informed public debate about outcomes and priorities. A lot is desired in that area in the country.

As is the case in many countries, the Zambian's economy and society has changed more rapidly than its statistical systems. The government should urgently set as a priority to strengthen its statistics capturing system.

There is need for government to clearly mention the National Plan basis of their current proposed planned expenditure and future plans to assess the progress being made.

## **Part 2**

### **Social Sectors**

## 2.1 HEALTH

A healthy population is critical to improved production and productivity, therefore it is important to deliver quality health care to ensure sustainability of the nation's human capital base required for sustainable economic growth. The major challenges facing the health sector in Zambia is the slow progress in improving the indicators related to maternal health, child health, and morbidity and mortality caused by communicable diseases. There are also cardinal aspects of the of "Millennium Development Goals" (MDGs). Although, the coverage has improved over recent years, there still remain a lot of challenges. The required /projected number of frontline health workers (doctors, medical licentiates, clinical officers, nurses and midwives) in 2010 was 39,360; however, there is 17,168 as of March 2010. The MMD government planned and budgeted to employ 1,700 by end of 2011. By implication there should be 18,868 Health workers. When you add the planned 2500 in 2012, the total is 21,368. This means that there is still a shortage of 17,992 health workers. Considering the gaps in personnel highlighted, it will take the government more than 7 years (if not more) to reach the recommended staff levels. It is important to note that the figure of health workers to be employed has significantly improved from that of 2011.

**K2,579.90 billion** allocation to the health sector is **9.31%** of the total budget. Though this is a significant increment it falls below the Abuja commitment to fund 15% of the total budget allocation to health. We encourage to be promised that progressive the government shall move towards the Abuja commitments. We are happy from the speech that the government is well aware of the magnitude and depth of the problem.

We commend government's removal of user fees as the move is likely to increase access to health care. We note however that in the case of delay or government inability to send funds for health provision, health centers will be crippled as these sometimes survived on user fees when government never sent money.

We feel we cannot continue to allocate less than 10% to this sector if meaningful human development and the attainment of Millennium Development Goals on health are to be

achieved. It is also important to note that by virtue of being party to the International Covenant on Economic, Social and Cultural Rights, Zambia is under an obligation to devote the maximum available resources to progressively achieve the highest attainable standard of physical and mental health for its population. With such marginal increases in priority for the health sector in the respective budget lines, as CSOs we would like to express our concern that Zambia is currently fulfilling its binding human rights obligations under the right to health.

## **2.2 SOCIAL PROTECTION**

Social protection is a poverty reduction strategy that promotes human development, social equity and human rights. According to the Zambia Social Protection Strategy (2005) it is estimated that Low capacity Households form 20% of the total households in Zambia, incapacitated households are estimated at around 10% of total households and Child headed households are approximately 1 % of all households. In terms of disability, Zambia uses the World Health Organization (WHO) estimates which put it at 10% of the total population being disabled.

In view of the actual budget allocations over the past few years, social protection expenditure has decreased in terms of the percent of the budget. In 2008 Social Protection received 4.19% of the budget where as in 2009 it only received 2.93% of the budget, in 2010 even less at 2.48% of the budget and in 2011 further reduced to 2.67%. The 2012 allocation of 655.6 to Social Protection is 2.37 % of the total budget. Our concern is the 65% poor people of Zambia who are continuously hardest hit by every day challenges.

The allocation of K655.6 billion to Social Protection sector of which K474.2 (72.3%) is channeled to pensions alone. We are concerned that this paints a glamorous yet artificial picture of government's support towards social protection programs. We fill that having public service pensions which are contributory and statutory under the bracket of social protection does not show true commitment to non contributory social protection programs. We therefore recommend that in future budgets the government move public service pensions to a more appropriate expenditure line such as public service expenditure.

We are grateful that the government is showing commitment to the Joint Financing agreement signed with Cooperating Partners for scaling up Social Cash Transfers. However, we are worried that the SCT still remains largely donor funded. For example in the 2012

budget of the total K55.5 **Billion allocation** to Social Protection, K44Billion will be donor funded while government will fund 11.5billion.

The allocation is not in line with government's scaling up Social Cash Transfers to other districts. We urge the government to be more proactive in the scale up of the social safe nets in the interest of the vulnerable groups that have been affected by the social and economic crises and inequality. The current dependence on donors driving the social cash transfers is worrying.

We are concerned that this is a very low percentage targeting over two thirds (65%) of the Zambian population living in poverty does not show government's commitment to Social Protection.

Zambia is under an obligation to progressively realize the right to social security for its citizens by virtue of its being party to the International Covenant on Economic, Social and Cultural Rights (ICESCR, Zambia has been party since 1984). [Relevant articles: 2 and 9]. This obligation should be reflected in the budget, e.g. by allocating the maximum available resources to progressively fulfilling the right to social security.

## **2.3 EDUCATION AND SKILLS DEVELOPMENT**

The 2012 makes important pronouncements which includes

- Educating children is an important prerequisite for long-term growth and reducing inequality.
- Currently, there is minimal early childhood education, poor quality primary and secondary education, dilapidated infrastructure and limited access to vocational and tertiary education.
- The government will strive towards the attainment of high quality, universally accessible and development oriented education for all. In particular, greater emphasis will be placed on early childhood education, as it is a critical requirement for the social and intellectual growth of our children.
- In this regard increase the sector's allocation by 26.7 percent to K4,850.5 billion in 2012.
- Out of this amount, K796.4 billion has been set aside for various infrastructure projects including construction of more than 2,000 additional classroom blocks.
- Provided K126.0 billion to upgrade Chalimbana and Palabana colleges into universities and commence works on a new university at Lubwa Mission.

- In addition, the Government will undertake a net recruitment of 5,000 teachers and update the curriculum to improve the quality and relevance of education to bridge the nation's skills gap.
- In the area of skills development, the Government will scale up youth skill development programmes through the construction of nine, and rehabilitation of 12 Technical Training Institutes. This is aimed at empowering our youths and making them active participants in the development of the country.

#### OUR ANALYSIS

<b>2011 Budget by Functional Classification, K' Billion</b>				
	<b>Allocation 2011</b>	<b>Allocation 2012</b>	<b>% of budget Exp 2011</b>	<b>% of Govt exp 2012</b>
Function and Sub-Function Allocation				
General Public Services	5,855.50	8,304.80	28.51%	29.98%
Executive	708.90	856.10	3.45%	3.09%
o/w Grants to Local authorities	146.20	257.10	0.71%	0.93%
Constituency Development Fund	108.00	120.10	0.53%	0.43%
Legislation	423.30	594.70	2.06%	2.15%
General Government Services	4,478.50	7,400.50	21.81%	26.72%
o/w Domestic Debt Interest	1,170.70	1,650.10	5.70%	5.96%
External Debt	494.60	1,416.80	2.41%	5.12%
Compensation and Awards	169.60	200.00	0.83%	0.72%
Elections	244.60		1.19%	0.00%
Centralised Administrative Services	244.80	362.50	1.19%	1.31%
Defence	1,485.80	1,648.50	7.23%	5.95%
Public Order and Safety	919.00	1,017.40	4.47%	3.67%
Economic Affairs	5,252.00	8,120.00	25.57%	29.32%
General Economic, Commercial, and Labour	248.90	266.10	1.21%	0.96%
o/w Empowerment Funds	76.00	40.00	0.37%	0.14%
Agriculture, Forestry and Fishing	1,231.60	1,698.00	6.00%	6.13%

o/w Farmer Input Support Programme	485.00	500.00	2.36%	1.81%
Strategic Food Reserve	150.00	300.00	0.73%	1.08%
Food Security Pack	15.00	25.00	0.07%	0.09%
Fuel and Energy	355.80	1,369.70	1.73%	4.95%
Kafue Gorge Power station		864.00		3.12%
o/w Rural Electrification Programme	314.30	437.10	1.53%	1.58%
<b>Transport</b>	<b>3,312.00</b>	<b>4,658.80</b>	<b>16.13%</b>	<b>16.82%</b>
o/w Roads	3,098.00	4,481.00	15.08%	16.18%
<b>Communication</b>	15.90	39.00	0.08%	0.14%
<b>Tourism</b>	<b>63.30</b>	<b>52.60</b>	<b>0.31%</b>	<b>0.19%</b>
<b>Environmental Protection</b>	<b>121.30</b>	<b>31.80</b>	<b>0.59%</b>	<b>0.11%</b>
Housing and Community Amenities	646.60	352.90	3.15%	1.27%
o/w Water Supply and Sanitation	555.00	150.30	2.70%	0.54%
<b>Health</b>	<b>1,772.90</b>	<b>2,579.90</b>	<b>8.63%</b>	<b>9.31%</b>
o/w Infrastructure Development	152.40	389.30	0.74%	1.41%
<b>Recreation, Culture and Religion</b>	108.00	136.90	0.53%	0.49%
<b>Education</b>	<b>3,828.80</b>	<b>4,850.50</b>	<b>18.64%</b>	<b>17.51%</b>
o/w Infrastructure Development	444.20	796.40	2.16%	2.88%
<b>Social Protection</b>	<b>547.50</b>	<b>655.60</b>	<b>2.67%</b>	<b>2.37%</b>
o/w Public Service Pension Fund	358.60	474.20	1.75%	1.71%
<b>Social Cash Transfer</b>	<b>42.70</b>	<b>55.00</b>	<b>0.21%</b>	<b>0.20%</b>
<b>Grand Total</b>	<b>20,537.40</b>	<b>27,698.20</b>	<b>100.00%</b>	<b>100.00%</b>

Government commitment to the education sector has reduced from 18.64% to 17.51% (2012). Compared to last years budget, the sector has been allocated less than it was last year. This also includes the infrastructure development.

It is worth noting that the decrease of the education budget in relation to the total national budget is a negative development. These allocations show non-affirmative strides towards the recommended 20% in the Cairo Protocol. It is below our expectation.

While the quantitative measure of education expressed through ‘years of schooling’ is important, the elements of quality measured by the levels of literacy, numeracy and general cognitive development should not be ignored. This is even more so after the latest alarming rates of child health by the Zambia Demographic Health Survey, which revealed that 45% of the Zambian children are stunted, a sign of unbalanced and in most cases inadequate diets. To assure that children are able to access quality education, more allocation should be made towards school health and nutrition, particularly scaling up the school feeding programmes. Among other things, successful implementation of school nutrition programmes improves attendance and the cognitive development of children. These are essential elements for the future of the country’s economic potential. Proper investment in formal education, skills development and health increases the potential of generating opportunities for growth, development of people and eradication of poverty.

We are worried on the absence of a vibrant national employment policy, we urge the Government to immediately devote additional resources to technical, vocational and entrepreneurship training (TEVET), which provides a limited number of beneficiaries with an avenue to escape extreme poverty.

Caritas Zambia is disappointed that the appropriations for the Ministry of Education has reduced from 2,777,571,070 Kwacha (18.18 percent of the total budget) in 2009 to 3,250,450,878,876 Kwacha (19.44 percent of the total budget) in 2010, 18% in 2011 now 17% of the total budget<sup>1</sup> This is also taking into account the concern that basic education remains prohibitively expensive for many Zambian children who cannot afford the tuition, exam, construction, and uniform fees associated with purportedly “free” primary education. We regret that funding for Grants for Free Basic Education remained stagnant from 2009 to 2012,<sup>2</sup> and that primary education is still not compulsory under Zambian law. We also are troubled that funding for university education merger increases (pg 775) from 2009 to 2012.<sup>3</sup> We remind the Government of its legal obligation to ensure that basic education is compulsory and free in practice, and to progressively expand access to secondary and university education. Furthermore, in line with the legal prohibition against education-related discrimination, we **urge the Government to take affirmative measures to ensure that marginalized children including girls, children living in geographically remote areas, children affected by HIV and AIDS, and children with disabilities enjoy their fundamental right to receive an**

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<sup>1</sup> 2010 Yellow Book page 940

<sup>2</sup> 2010 Yellow Book pages 677, 695, 733, 759, 798, 825, 856, 881, and 906.

<sup>3</sup> 2010 Yellow Book page 666

education. In the future, we call on the Government to dedicate an independent budget line to providing educational support to these marginalized groups of children to ensure that they are not unintentionally excluded from Zambia's classrooms.

## **2.4 Conclusion**

We need to move from the traditional mode of only limiting ourselves to macroeconomic targets but now the government needs to start including social targets indicators in the budget. At the moment the government makes no mention of what has been achieved in the last financial year with regards to social sectors; however we are meant to believe that the indicators are met by accident as there is no projection of targets.

We commend government for putting in place a monitoring and evaluation committee at district level to monitor the use of funds although we feel these committees may face some challenge due to lack of a legal frame work to govern them.

As CSOs we actively undertake budget tracking and expenditure monitoring in different parts of Zambia, our work however is made difficult due to challenges of accessing expenditure information from public workers. We would like to appeal to relevant authorities to enhance transparency in the administration of public funds. Furthermore, we recommend for the full involvement of Members of Parliament at the earliest planning stage and at local level of constituency and district. We would also like to see district budgets captured in the budget.

## **Part 3**

### **Financing for 2012 Budget**

### 3.1 BUDGET ANALYSIS

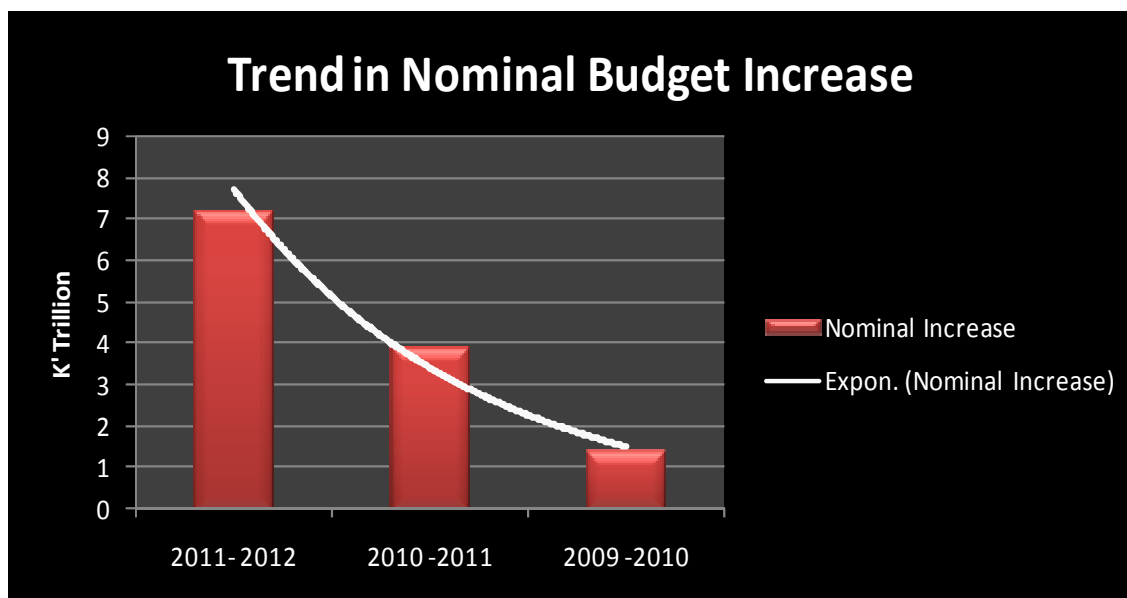
The budget being an important tool for delivering development, JCTR takes the analysis of this document seriously. The State budget is the most concrete declaration of a government's national priorities as it expresses government's commitment to its policies and the level of prioritization of these policies. Budget analysis is therefore crucial in evaluating government's commitment to its policies. It is the only way allocation and distribution of scarce resources can be enhanced.

### 3.2 Government Revenue for 2012

While much of the analysis of the budget focuses on the expenditure side, JCTR wishes to focus its analysis on the sources of revenue that will finance the budget.

The Minister of Finance in his budget speech has proposed K27.7 trillion of which K19.98 trillion or 72.1% will be raised domestically. K1.9 trillion or 6.8 % will be financed by grants from Co-operating Partners, while K4.5 trillion or 16.3% and K1.3 trillion or 4.8% will be externally and internally borrowed respectively. The rate at which the 2012 budget has been increased is relatively higher than the increase in previous years, almost double the 2011 increase. This is a good proposal for it will speed up the rate of development.

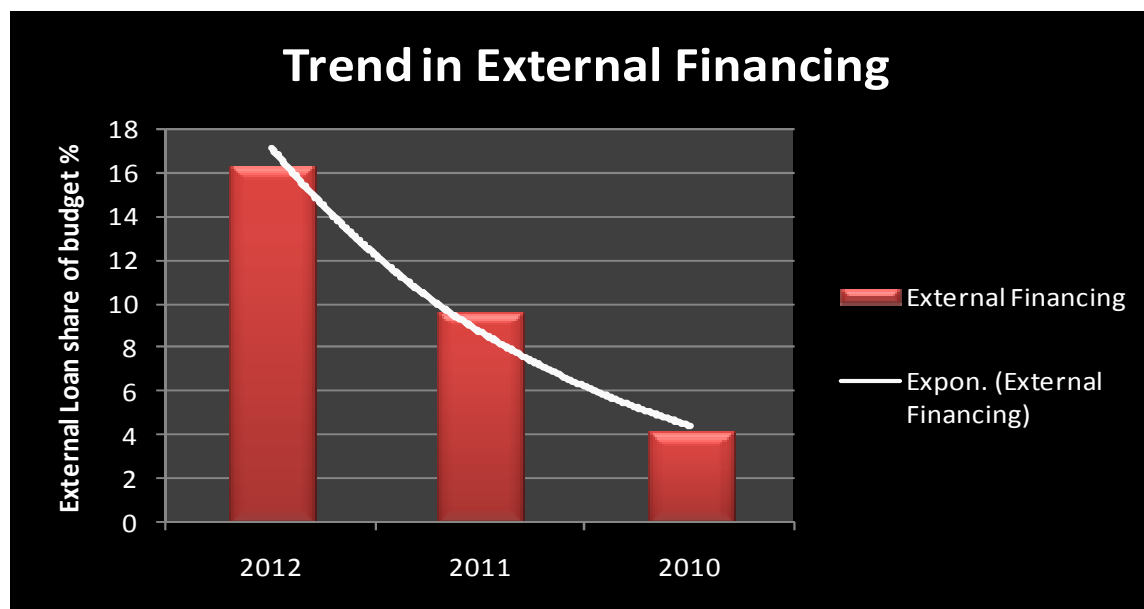
Graph 1: Trend in Nominal Increase of the Budget



However, the source of revenue to finance the budget remains the source of concern to JCTR. The 2012 budget will be financed more from externally borrowed resources than in the

previous three budgets. The 2012 external financing is almost double that of the 2011 component. This will exacerbate the debt levels of the country especially that the 2011 budget will be financed with borrowed money to the tune of 18.8% higher than the budget.

**Graph 2: Trend in nominal increase of external financing**



### 3.3 DOMESTIC REVENUE

There have been calls in the country to increase domestic resource mobilization so that the budget could be entirely financed from domestic resources. While there has been an improvement in the share of budget being financed from domestic resources in the past few years, JCTR notes that there has been a reduction in the current budget from 76.8% in 2011 to 72.1% in 2012. This is not right, we are supposed to be going forward and not backwards especially that we have an opportunity to collect more taxes from sector that are currently not optimally contributing to government coffers such as the mines and the informal sector.

#### 1. Taxation

Principally, a State's budget is entirely supposed to be financed from tax revenues. Tax revenues however are rarely sufficient to finance the budget in full for most countries including developed ones. Governments therefore tend to rely on other sources.

The Minister of Finance reported in his 2012 budget presentation that domestic revenues in 2011 are expected to over perform by 23.2% at the end of 2011 (Paragraph 22)

compared to 12% in 2010. This is commendable. However, it should be noted that this performance is largely attributed to payment of mining tax arrears arising from the windfall tax and improved tax administration. This performance may also reflect that revenue targets are understated and therefore Parliament should set more realistic targets for Zambia Revenue Authority.

This good performance is unlikely to be repeated in 2012 even with the increase in mineral royalty tax in 2012 as the increase will be offset by the PAYE relief given to workers in formal employment. The Minister's compensating measures for concessions given to employees who indeed for a long time have borne disproportionate burden of tax and deserved a significant relief are not enough. As a result, tax revenues contribution to the budget has fallen in 2012 from 74.2% to 69.6%. Windfall tax would have generated additional revenue and should be revisited.

### **3.4 CONCESSION MEASURES**

#### **2. Pay As You Earn (PAYE)**

The 2012 budget has seen an unprecedented upward revision of the PAYE threshold from current K1, 000, 000 to K2, 000, 000 per month and adjusting the other tax brackets thereby giving workers the tax relief they have always cried for. This proposal will allow more people in formal employment to afford more than just the cost of basic needs food items which according to the Basic Needs Basket of the JCTR stands at K820, 300 for a family of six as at end of September 2011 for Lusaka. The overall Basic Needs Basket however stands at K2, 904, 900 which includes the cost of non food items at K2, 084, 600. We however urge government to eventually equate PAYE threshold the Basic Needs Basket to enable people to afford basic food and non basic food items.

This concessionary effort on the part of government however is commendable. The K1.0 trillion disposable incomes that this measure is expected to create will increase demand for goods and services and in return spur more economic activities and further growth of the economy. It should however be noted that only the 500,000 people who are in formal employment will enjoy this relief while over 4.5 million people in the labor will not. It is also worth noting that PAYE has remained a significant contributor to the budget in 2012, contributing K 4.2 trillion compared to K3.3 trillion company tax revenues and K1.9 trillion mineral royalty tax revenues and therefore there is room for further relief to employees.

#### **3. Abolition of the 40% upper corporate tax for banks**

While the intention of this measure is to facilitate low borrowing costs through lower lending interest, there is no guarantee that banks will proportionately reduce lending interest rate. Banks in Zambia have always exhibited insatiable appetite for making abnormal profits by maintaining high interest rates. There are internal practices within banks that have contributed to high interest rates such as internal lending at almost 0% which should have been addressed. Ordinary borrowers have continued to subsidise bank staff borrowing. The 40% tax was meant to collect more taxes from those banks making supernormal profits.

The best the Minister of Finance could have done was to increase the threshold profit liable to this tax rate from K250 million to may be K500 million. Otherwise, if banks do not proportionately lower interest rate in response to this tax incentive, government would lose tax revenue while the cost of borrowing will remain the same.

#### **4. Agriculture Corporate Tax**

While the proposed reduction in agriculture corporate tax is intended for a good reason; increased investment and productivity, it should be realised that the sector has enjoyed for a very long time very low corporation tax (more than half the standard corporate tax rate) but has not experienced the desired levels of investment. It is therefore doubtful that a marginal decrease of 5% will generate the expected levels of investment. More over this move will only benefit commercial farmers who pay corporation tax and not the many peasant farmers who do not pay tax. This move also defeats government's desire of standardizing corporation tax. Having too many tax rates and tax types makes tax administration and compliance a challenge.

### **3.5 COMPENSATING MEASURES**

#### **Direct Taxes**

##### **1. Mineral Royalty Tax**

The proposed upward adjustment of mineral royalty tax from 3% in 2011 to 6% in 2012 is a welcome and long overdue measure even though the rate of 6% is comparatively lower than what the region is charging such as Botswana with mineral royalty that ranges from 3% to 10%.

More should be done to collect optimal tax revenues from the mining sector. For example, corporation tax for mining companies should have been adjusted upwards from 30% to the standard 35%. The Minister of Finance has proposed to reduced corporation tax for

banks from 40% to 35% partly to standardize corporation tax. In the same spirit, he should have proposed to increase corporation tax for the mining sector.

## **2. Hedging and Normal Mining Income**

While hedging is a normal business practice that enables companies to protect their businesses against adverse price movements by selling their products at predetermined price, it has led to loss of tax revenues to government particularly in the mining sector. The predetermined metal prices at which mining companies have been selling their metal products have been lower than the obtaining high international metal prices which have disadvantaged government in terms of government revenue.

The proposed measure to separate income arising from hedging activities from core mining activities for income tax purposes will ensure that government maximises tax revenues from high metal prices as it collects tax revenue based on the obtaining high metal prices. These two measures alone in the mining sector are expected to raise almost K1 trillion (K980 billion – Paragraph 96) and even much more if metal prices increase beyond the current levels.

However, it should be realised that this proposal has a downside of it in that if metal prices fall below the hedging prices, then tax revenues from the mines will decline.

## **3. Non Resident Commission**

Mining companies engage a lot of foreigners in their transactions especially that much of these transactions are done outside the country. A lot of revenue is lost through these transactions as the commission paid out to such people is not taxed. The proposal therefore to treat commission paid to non residents in the 2012 budget to have the source in Zambia and be liable to withholding tax of 15% is a welcome proposal. K24 billion that this measure is expected to result in is no small amount (Paragraph 96).

Government should however have given heed to our tax proposal to treat dividends paid to foreigners to be deemed to have a source in Zambia and liable to withholding tax. This could have brought in more money into government coffers.

## **4. VAT**

While we applaud Government for the proposal to remove copper and cobalt concentrates from Value Added Tax deferment scheme as it will generate K6.9 billion, note that VAT has continued to perform poorly. We therefore urge you Members of Parliament to query government on how they intend to improve the performance of VAT. Compliance has

remained a major problem and yet no measures have been put in place to address this problem.

## **5. Customs and Excise**

The proposal to extend export duty to the export of other minerals other than copper and cobalt is a very welcome measure but not the reduction of duty from 15% to 10%. This proposal would have brought in more money to the treasury than the projected K70 billion (Paragraph 100) had the 15% maintained. The Minister of Finance seems to be getting from the mines with one hand but giving back with the other hand.

The Minister should have also reintroduced 15% customs duty on heavy fuel for mines which was removed at the height of the financial crisis. Since the financial crisis is behind us and the price of metals has recovered, there is no need to keep this concession.

## **6. House Keeping Measures**

The proposal to amend the income tax so as to harmonize the fiscal year and the charge year and to amend the Customs and Excise and the Value Added Tax Act to update and strengthen provisions and remove ambiguities will enhance tax administration and increase revenue collection.

## **7. Incentives and the ZDA Act**

The proposal to remove section 58 of the Zambia Development Act, CAP 69 of the laws of Zambia is another progressive development on the revenue side of the 2012 budget. The provision in its current form empowers the Minister of Finance to give additional incentives to new investment of not less than US \$10 million. The proliferation of tax incentives has led to loss of tax revenue in the country and therefore this proposal could not have come at a better time than now when the need for enhanced domestic resource mobilization is needed in the wake of faltering foreign financing.

Other legislations that govern tax exemptions should have also been reviewed. Government should go a step further to enhance the capacity of tax incentive granting agencies such as ZDA in conducting cost benefit analysis before these incentives have been granted. Finally, Parliament should have oversight on all the incentives by approving all tax incentives to avoid loss of tax revenue through indiscriminate awarding of tax incentives.

### **3.6 OTHER SOURCES OF FINANCING**

#### **1. Non tax revenue**

Non tax revenue refers to all income accruing to government other than taxes such as fees and fines. As a share of budget, non tax revenue target for 2012 has remained the same as that of 2011, 2.6% (Paragraph 87). This does not reflect well on government's commitments to mobilizing domestic resources. The ratio has actually declined by half compared to 2010 budget (4.3%). There must be enhanced enforced mechanisms in collecting this revenue and it is hoped measures being introduced such as issuance of tickets on spot for road traffic fines will help.

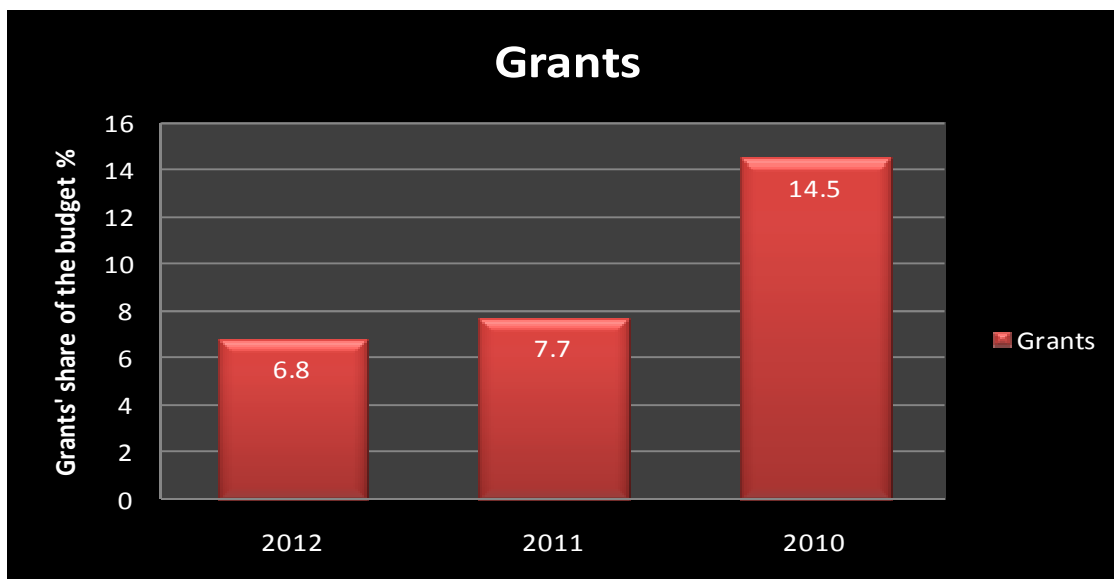
We therefore reiterate our call and recommendation for a strong non-tax revenue agency or department which coordinates and enforces all non tax revenue measures in the country. This will ensure that resources accessed through such means can be tracked, properly accounted and ultimately augment our national resources.

## **2. Development Assistance/ Aid**

Development aid pledges as a share of budget has continued declining from 14.5% in 2010, to 7.7% in 2011 and 6.8% in 2012. Worse still, not all pledges are received at the end of the year thus development aid sometimes underperforms. As at end of September 2011, only 50.9% (Paragraph 23) of development aid had been received. This is a stark reminder to government that the country cannot continue relying on aid and should thus find more reliable alternative domestic revenue mobilization mechanisms other than borrowing. Government should also effectively address factors that have led to some donors withdraw aid to Zambia such as corruption.

With the country's new lower middle income status, more reduction in grants from cooperating partners must be expected.

### **Figure 3: Trend in Grants**



### 3. Loans

#### i. Domestic Borrowing

Government has proposed to limit domestic borrowing to 1.3% of GDP or 4.8% of the budget (Paragraph 33), 0.1 percentage point lower than the SNDP projection for 2012. This is commendable especially if government can stick to the limit. The negative consequences of over borrowing domestically are apparent such as crowding out the private sector and increasing domestic lending rate. Government will be defeating its well intentioned efforts of further reducing lending interest rates if it borrows beyond the ceiling.

#### ii. External Financing

Government has earmarked to limit external borrowing to 3% of GDP. While this projection is in line with the SNDP, it should be noted that this is a sharp increase in external financing compared to 2011 and has debt burden implications especially in light of increased borrowing in 2011 necessitated by over expenditure of 18.8% of 2011 budget which will be financed by borrowing. Government should therefore endeavour, as it has promised, to invest this money in productive investments that will generate resources to repay the loans. Government's intention to consider concessional loans as the first option is also applauded. The fact that debt levels for the country are still sustainable (8.2%) and the country has earned a B+ sovereign credit rating is no license to borrow non-concessional loans. The US \$500 million that government intends to borrow from the

open market through issuance of bonds must therefore be used for projects with highest economic and social returns.

### **iii. Debt Policy**

The proposal by Government to enhance transparent and accountability in the acquisition and use of loans by way of strengthening Parliamentary oversight is long overdue and could not have come at a better time than this when government is proposing to exponentially increase external loans. There is urgent need for reforming the legal provisions that guides loan contraction and management if debt sustainability of the country has to be maintained and avoid another debt trap. JCTR has on several occasions appealed to government to quickly strengthen the existing legal framework in order to manage debt resources more effectively to no avail.

The pronouncement of legal review of public finance management should be applauded to ensure transparency, accountability and participation as well as the planned introduction of the planning and budget bill. This should be accompanied by the completion of the Decentralization Policy.

## **Conclusion**

While we applaud government for the significant increase in the budget and sector allocations, we want to caution government about the increase in foreign financing. Government has almost doubled 2011's foreign financing share of the budget. This borrowing must be accompanied by effective utilization of borrowed resources which can only be ensured by effective parliamentary oversight and review of existing public financial management legal framework to ensure transparency and accountability. We therefore earnestly appeal to you honourable members of parliamentary to prevail over the executive and ensure that caution is ensured in the manner resources are mobilized externally.

We also appeal to you to ensure that government gives a categorical statement on how tax revenues will be effectively collected from the informal sector. While we have the legal provision on the informal sector taxation, the sector's contribution has remained dismally low and the Minister of Finance conveniently opted to remain mute on this subject in his speech.

We therefore appeal to you honourable members of Parliament to take into account things that we have highlighted into account as you consider the 2012 budget for approval. We cannot let this opportunity pass of increasing domestic financing of our budget by giving more concessions like we have seen to the mines.