JESUIT CENTRE FOR THEOLOGICAL REFLECTION

"Promoting Faith and Justice"

2007 Budget Feedback

1. Overall allocations:

- **Ministries of Health (MOH) – K1, 294 billion,**
- **Ministry Of Education (MOE) – K1, 808.4 billion**
- **Ministry of Agriculture, Food and Fisheries (MACCO) – K1, 062.9 billion (Budget speech 2007)**

These allocations including district level expenditure are encouraging. Increase in overall expenditure on education (by k 600 billion) and health (More than double k700 billion) is welcome. The issue that remains is implementation to ensure visible outcomes; more targets from MOH, MOE, and MACCO would help. Compared to allocations to the there priority ministries (MOH, MOE, and MACCO), the K1 Trillion (K1, 075, 213, 046, 089) allocation to the Ministry of Finance and National Planning (MOFNP) is not justified. This becomes worse when you compare the MOFNP allocation with that of critical ministries, such as the K72 billion allocated to the Ministry of Community (MCDSS); and the K73 billion allocated to the Ministry of Commerce Trade and Industry (MCTI), (Yellow Book pp xxi – xxx). Also poverty reduction spending is vague, non poverty reduction related spending is labeled as poverty reduction which are more of operation expenses (see section seven for examples).

a) Education

Several questions come to mind when one looks at the allocation to education; like: - What are the proportions actually spent on recruitment, rehabilitation and construction, how many schools are we talking about? How sustainable is the teacher retention program? In what ways is industry directing education in terms of what expertise needs to be built to drive industrialization and the economy in general?

b) Health

The health sector is operating below capacity in terms of health workers about half? What improvements can be cited from allocations made last year in terms of malaria prevalence, drug availability and HIV and AIDS?

c) Ministry of Agriculture, Food and Fisheries (MACCO) (see section on economic affairs and employment creation)

2. Expenditure Monitoring and Public accountability (Para 70 – 72, page 10 Budget speech):

JCTR welcomes this drive to strengthen treasury management and expenditure monitoring mechanisms. We also welcome the invitation of all stakeholders to be fully involved in the monitoring and evaluation of programmes. As well as the commitment to a range of public sector institutional reforms.

Recommendations: Because the budget format places emphasis on inputs and not outcomes and impacts, measuring its impact on society and economic activities will be difficult. The measurement of the impact of public expenditure needs to be oriented towards community based outcomes such as number of immunizations to be done, schools to be built, economic activities expanded, farmers that will benefit from a facility than limited to resource inputs and targets on inflation and GDP. Evaluating inputs is not enough. Ministries should submit outcome based performance framework to parliament that will form the basis for evaluation of the budget performance. Focus on service delivery would be supported by assessment of functioning of government institutions. The Public Sector Management Reform Programs should have completion timeline and better integrate stakeholders e.g debt management reforms. The Private Sector Development Program (PSDP), should include equally and reflect the realities of all levels of private sector in Zambia including micro, medium and large as well as those outside Lusaka.

As part of the financial management reforms, it is recommended that the 2008 budget be not presented in the traditional input format but in an outcome based format at most.

3. Fiscal and Monetary policy:

We welcome the reduction in domestic borrowing from 1.6% in 2006 to 1.2 percent in 2007. This will contribute towards reduction in inflation and interest rates. However we are concerned about the possible negative impact of the 5% inflation target on credit on the need to further lower interest rates. The reduction in the yield rate on GRZ bonds is positive as it reduces downwards the bank interest base rate; however the government needs to maintain this stability by avoidance of extra borrowings.

The minimum tax exempt for Pay as You Earn (PAYE) will enable most families to meet their food needs but not their basic needs of education and health. In addition PAYE contribution to GRZ revenue in 2006 was K2, 030 billion this year's is K2, 088 billion, the burden is still much on the 400,000 workers. Corporate Income Tax (CIT) collection is stills a fraction at K 935 billion. PAYE contributes 2.2 times what CIT contributes.

We welcome the increase in tax credits for persons with disabilities as well as the allowable pension contribution to K 60, 000 and increases in company income tax and mineral royalty taxes. We especially welcome the call to engage mining companies with development agreements to renegotiate the terms. Lack of reduction of VAT will hurt the poor as it further reduces their disposable income. The elimination of the K200 million thresholds for VAT is a welcome move as it will alleviate the unfair playing field small scale businesses have faced. Efforts to reduce arbitrariness and ambiguities in tax administration are welcome as they will reduce corruption. The reduction of input tax on petrol is a welcome move as it will reduce production and transport costs. (Budget speech, pp 18-20)

***Recommendation*:** Parliament should determine the limit of domestic borrowing by Ministry of Finance and National Planning. MOFNP should justify the proposed government borrowing and present a plan on the needs and how such borrowing may refinance itself. The government mentions that resources from debt relief provided under the MDRI and the HIPC Initiative will be directed to priority areas of agriculture, health, education and infrastructure in line with the FNDP. However government should present a list of projects, funds made available, number of targeted communities, persons and intended beneficiaries in the agriculture, health, education and infrastructure projects.

We recommend that the government should pay attention to the external sources of inflation by making sure that exports are better supported and imports are minimized where possible.

On PAYE, government should provide information on the fraction of workers who will benefit from this exemption and put in place measures to create future tax payers instead of burdening a few.

On Company tax, government should provide also information in terms of number of companies with tax concessions, revenue losses related to companies with tax concessions as they did with PAYE.

Parliament should also require these companies to make a submission to them as to when they will start paying taxes. The requirements for eligibility for VAT input refunds should be specified. However this call for formalization will work better if coupled with a number of measures such as those that reduce costs of tax compliance, needs for business registration access to credit at reasonable rate and improvement in infrastructure affecting small businesses.

Last year the budget had a deficit of K2, 982 billion, with many exemptions for investment made in the past and for the future, how does the government hope to reduce deficits or raise needed revenue to finance the 12 trillion kwacha budget when domestic revenue collection was below target by 359.1 billion in 2006?

4. Aid and Debt management policies

External Debt stock despite debt cancellation seems to be increasing steadily. In July 2006, the debt stock stood at K502 million dollars and at the end of 2006, the debt stock stood at 636 million representing a 26% increase. As of February 2007, we believe this figure is larger. The domestic debt is at 7.6 trillion, 63% of the 2007 budget, this is too high.

We welcome the statement to promote debt sustainability and reliance on grants and concessional loans. However, the estimated 1.2 % of projected 2007 GDP for Domestic borrowing (coming to K540 billion) is too high and more than what is being offered to pay towards debts to domestic suppliers of K449.5 billion. The allocation of K1.2 trillion towards domestic debt service is too low.

The K656 billion payments towards treasury bills and bonds indicate that government has to payoff quite a huge amount to government securities maturing at the same time. The commitment of 5.4 % towards overall domestic debt service is meager; K656 billion treasury bills, K 449.5 billion on suppliers, K266 billion on pensioners, (Budget speech, p 15). External debt service has reduced to 1% of the budget from about 4% in 2006, to maintain these levels calls for restricted and responsible borrowing. However figures to individual creditors are high for debt service in 2007, we owe European Investment Fund – K24 billion, China alone this year will be paid K51 billion (Yellow Book, p 1435). It would be interesting to know how productive these projects and loans will be in the long term. How the program and project loans are likely to re- pay themselves? (Yellow book, p 1435). The debt outstanding information should be provided and broken down by category and for instruments by interest rates and maturity. Why so many obligations with different maturities (12, 18, 12 months; 3, 5, 7 years) due at the same time 2007. How sufficient is the planning on use of these instruments? (Yellow book, p 1436). While we don't have any obligations to Paris club lenders we must watch our obligations from accruing also those existing ones from non Paris club and multilateral lenders. Projections of future debt service obligations should be open to all.

We are disappointed that this year's budget presentation ignored debt reform and capacity building program that was one of the debt and aid policy proposals in the 2006 budget that aimed to improve governance question in relation to debt acquisition. Debt sustainability is mentioned in the budget speech but approaches not clarified, information and justifications for the new loans have not been provided for. The reduction in debt service is a source of relief but cannot be justification enough for rampant borrowing. In 2006 the projected external loans were K1, 062 billion. This year there is an increase to K1116.9 billion. Budget support that is aid is increasing to K630 billion, what are the related conditionalities? The rise of portfolio investment and FDI is likely to increase. What safeguard mechanisms have we put in place to manage sudden pull out of external finance that is sometimes caused by external factors as a means to avoid financial crises?

Recommendation: Debt sustainability should be computed bearing in mind the revenue that remains after the human development spending and other spending. This picture should be presented to parliament and should guide the prudence of further borrowing. The current levels of new loans after debt relief initiatives should be presented and justified to parliament. Government should undertake or support efforts to audit old debts that led into the debt crisis, to ensure lesson drawing and avoidance of past mistakes.

In terms of aid, the performance targets of aid monies intended to contribute towards poverty reduction through parliament and civil society should be included in the decision-making on agreed aid related performance targets in the common performance assessment framework.

In addition, the government should be asked to speed up the reform of loan contraction and debt management that ensures the establishment of appropriate transparency and accountability measures. These include parliamentary scrutiny and approval for future loans as well as a parliamentary determination of ceiling for annual borrowings.

5. Economic affairs and employment creation

This year's budget has not seized all opportunities to create more economic activities and jobs. Its not justified that the General Public Services Function should gobble K4, 022.9 billion. This is 14 percent more than what is allocated to economic sectors combined that are supposed to be the engine of development and basis for future government tax revenues. Even when debt service obligations under GPS are excluded, the allocation to economic sectors is still 2 percentage points less than GPS.

a) Agriculture and Manufacturing

Even though the agriculture industry employs more than 80% of Zambians, the 8.8% allocation to agriculture in the budget is considerably high given that the commitment made by the African Union governments pegged allocations to agriculture at 10 % of the total budget. However this allocation is still below the commitment level and government should work towards 10 percent. Funding for strategic food reserve, fertilizer support, irrigation and livestock development should have clear targets in terms of how many farmers are being budgeted for by the programme. Other agricultural infrastructural development to benefit from the 20 billion should be specified e.g. number of storage facilities, etc. The linkages between agricultural initiatives and the agricultural colleges have not been mentioned by policy statement. Agricultural colleges should play a greater role and be better funded. It's a major source of concern that the budget does not allocate any resources to support agro processing or manufacturing.

This is despite the policy statement that government will continue to support forward and backward linkages with other sectors such as agriculture, fisheries, livestock, mining and forestry (Budget speech, # 83). Market development initiatives such as Agro-processing and product development initiatives are important to create jobs and increase incomes of farmers. Product development initiatives would also support the government's ambition to increase exportable Zambian products. On the basis of data already collected by CSO, the government can do a mapping of what Zambian enterprises are already engaged in to support expansion and enhancement of quality. We need to actively create jobs and increase quality of jobs to seriously address poverty questions. Weak support to manufacturing entails that the economy might not attain the targeted 7% GDP growth rate.

Government must provide information in terms of the number of investments that are benefiting from tax concessions currently and the estimated revenue loss. And how many projects will be affected by the new tax laws. Big Mining interests should be asked to give an indication before parliament when they will start to make profits. This might imply reducing the number of years for which they enjoy tax holidays. Small scale miners will have to be assisted in securing markets and proper pricing from commercial miners domestically and to external markets. Funding to the ZDA act should aim at looking at the special needs for small scale producers as Zambia needs to deliberately create its own private sector. On mining companies Zambia should apply the new royalty taxes to existing agreements; they can learn from other countries like Venezuela on how they did it. New mining investments should be legally guided to have Zambian co-ownership. Botswana has examples of local/international control of mining investments. The 2006 budget speech discussed the mapping done under the integrated framework to promote value chains. What happened to the value chain ideas and next steps?

i) The Multi- Facility Economic Zone (MFEZ) idea

While the idea is good, it is important that the legal framework provided does not disadvantage others who are not operating in the same zone but producing similar goods and does not compromise labour and environmental standards. What principal products will be produced in the already identified MFEZ? What type of skills will they demand? It is important that the products are identified, levels of value addition determined and linkages to other economic actors, even producers and businesses at different levels of production chains outside the MFEZ established. The MFEZ activities should be led by information of economic activities in Zambia as recorded by the CSO. The processing initiatives should seek to further develop quality and create market opportunities for products already produced by Zambia. To what extent is ministry of education and science and technology ready to meet the demands of skills in the MFEZs?

(b) Roads:

K920 billion is being spent on roads. However we need information in terms of prioritization and economic value of these roads. Government should consider special but fair contributions from industry say tourism in Livingstone that directly benefit from the rehabilitation of Livingstone airport to support maintenance.

(c) Construction

The down turn in the growth of the construction sector from 21.5% in 2005 to 9% in 2006 is worrying. This trend could be related to the shortages and irregularities that faced the cement industry that needs to be looked at. Could this be a sign of slowed growth and likely recession? What about the incentives given last year for cement products?

(d) Environmental Protection

JCTR welcomes government proposes to allocate K103.3 billion to the Environmental protection activities. However we note that the environment sector is usually a victim when it comes to re-channeling resources in the due course of the year. Particularly in 2006, disbursement to Environmental protection was below the target by over 44%. This year's allocation should be squarely met and closely monitored. It would be good to know on what areas of environmental protection is this money going to be spent on.

6. Decentralization processes:

The pace of decentralization is worrying; government is dragging its feet in creating the appropriate capacities to enable speedy and effective decentralization. Allocation of K102 billion a good start. Piecemeal Decentralization of Patents and Registration offices are also disadvantageous to businesses in other provinces by opening up of PACRO office in all districts.

Ministry of Local government

Promotion of gender equality is good: How do they want to do it are they targeting staff or Empowering men and women at local level? How?

7. Ministry of Finance and National Planning: Questions based on MOFNP section in the Yellow Book

Just why is this strategic plan for the ministry so expensive – K400 million?
Why does staff performance assessment cost money: K89 million?

Purchase of monitor vehicles 1 billion?

909 billion for international conferences under the administrative unit where as Research and development under the planning and economic management unit only gets K198 billion?

More money set aside for capacity building total under the administrative unit K510 million

It is a good thing that they have now allocated funds for economic statistics management and how different will this be from CSO work?

What are the plans for building the knowledge and negotiating capacities for officer involvement in rationalizing aid – K703 million. Does this mean that we should expect robust policy alternatives?

Poverty Reduction Programs (PRP) programs namely Harmonization/Donor coordination (802 million), Development cooperation (958 million)

Harmonization of donor requirements, multilateral development cooperation (969 billion),

Bilateral development cooperation (693 million) K3.4 billion is spent on donor related activities.

Are donors giving with one hand, taking with another (Yellow Book, pp 348 – 349).

What is involved in monitoring donor policy conditionality 116 million (Yellow Book, p 348). Is this not part of Research and Development which has already been allocated the K198 billion? External debt policy and strategy was allocated K33 million in 2006 and K230 million in 2007. What is the progress of this allocation; what was the K33 million used for in 2006? What should be in place for this allocation to be of good use? Debt strategy implementation is budgeted twice (part of K230 million and K21 million) (Yellow Book, p 356).

8. Ministry of Commerce, Trade and Industry (MCTI)

We note that the budget to the MCTI has been increased by 16 per cent compared to the 2006 allocation. We note as well government's long ambition to promote an export led growth. This ambition is heavily dependent on trade, commerce and industry. However the MCTI has continued to receive meager resources compared to other Ministries. The allocations to the MCTI have continued to account for only 0.6% of the total budget. It is difficult to see how trade will contribute meaningfully to economic growth if allocations remain below 1 percent.

A closer look at the allocations among the departments in the Ministry reveals that allocations to three of the four departments (namely Domestic Trade, Foreign Trade and Planning and Information departments) will receive fewer allocations this year than 2006. Of particular concern are reduced allocations to the Domestic sector of the Ministry. This is the department that should foster and facilitate domestic trade which in turn feeds into foreign trade.

A closer introspection of the allocations also shows that personal emoluments cover approximately 5% where as certain areas within the same MCTI such as Poverty Reduction programmes have absolutely no allocation

9. Social Protection in 2007 Budget

Total figure announced by Honorable Minister Magande – K343.5 Billion (2.9% of Budget) This is an increase from K47.5 Billion in 2006 (0.4% of Budget). In actuality, there are no real increase to actual Ministry of Community Development and Social Services (MCDSS) Social Protection Initiatives – those outlined in the FNDP. Of K343.5 Billion, 266 Billion will be allocated to dismantle pension arrears. Though it is good that government is paying pensioners, these payments are actual entitlements (domestic debt) and shouldn't be classified as social protection (most social protection initiatives are deliberate initiatives to empower the most poor and destitute). In other words, there are no real increases to the major social protection initiatives of the MCDSS, and in many cases these initiatives will suffer budget cuts!
Total MCDSS Budget for 2007 – K72 Billion (from K63 Billion in 2006)
Food Security Pack (FSP) – K10 Billion (from K15 Billion in 2006)
Micro Bankers Trust (MBT) – K350 Million (from K1.0 Billion in 2006)
Peri-Urban Self Help (PUSH) – K2.5 Billion (from K4.0 Billion in 2006)
Zambian Agency for Persons with Disabilities (ZAPD) – K4 Billion (from K6.4 Billion in 2006)
However, additional allocation of K5.0 Billion made towards Retirement Benefits for ZAPD!
Public Welfare Assistance Scheme (PWAS) – K9.3 Billion (from K10.6 Billion in 2006)

Most of these programmes already suffer from inadequate resources, so these budget cuts towards social protection initiatives may have terrible consequences on impact. This sends a signal that Government has no intention in investing in the poor in Zambia – providing micro-finance, fertilizer and seeds, food for work, welfare transfers, empowerment to the most vulnerable in society (e.g., the disabled, the HIV+, the elderly, OVCs, etc.)

However, one positive development to note is the increase in the allocation towards Street Children – K6.4 Billion in 2007 compared to K690 Million in 2006.

References

1. National Budget Address by Hon Ng'andu Magande, MP Minister of Finance and national Planning – January 2006

2. National Budget Speech by Hon Ng'andu Magande, MP, Minister of Finance and national Planning – 9th February 2007
3. Estimates of Revenues and Expenditures January 2007- December 2007. Government printers

Thank You!
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