

Analysis of 2011 Budget

Financing for 2011

Jesuit Center for Theological Reflection

(JCTR)

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[For more information contact: Jesuit Center for Theological Reflection Debt, Aid and Trade Programme, 3813 Martin Mwamba Road, Olympia, P.O. Box 37774, Lusaka 10101 Zambia, Tel: +260-211-290410; Fax: +260-211-290759 Email: debtjctr@jesuit.org.zm; Website: www.jctr.org.zm]

Introduction

1. 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 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.
2. The expenditure side of the national budget attracts the most attention but it is important to note that any budget needs to state where the resources that are to be spent will come from. Civil society therefore values this opportunity to engage on the revenue side of the budget.

Budget 2011

3. The 2011 National Budget presented to Parliament on 08 October 2010 by Minister of Finance and National Planning Situmbeko Musokotwane, under the theme - "A people's budget, from a people's government." The theme simply declares a state of being and falls short of expressing the Zambian people's aspirations for development, reduced poverty, equitable growth and sustainability, as a budget should. We propose "Growth with equity: investing in the dignity of the people".

Government Revenue for 2011

4. The Minister proposed a K20.5 trillion budget for 2011. Government expects to raise approximately K16 trillion in revenue domestically. K15, 230.1billion will be raised from taxes, K539 billion will come from non-tax revenues, and K1,587.7 billion will come as budget and project support grants from Cooperating Partners (CPs). In addition, K1, 219.8billion will be borrowed domestically and K1, 960.8billion will be sourced externally. (Paragraph149)

Taxation

5. Economies across the world depend on resources collected from both direct taxes (income tax and company tax) and indirect taxes (value added tax (VAT), excise and customs duties) to finance government activities. No government can be sustained without mechanisms for generating domestic revenue. Taxation as a source of government revenue in Zambia is reported to have performed well up to target in the last few years. As at end-September 2010, domestic revenues had performed well, and are now expected to over perform by 12 percent by the end of the year. This performance is attributed to higher collections under income and VAT arising from the collection of tax arrears. (Paragraph 42). Whilst this is a welcome development, attention still needs to continue to be raised to the fact that the tax burden distribution is heavily skewed towards direct taxes. Particularly troubling is the disproportionate burden that continues to fall on individuals working in the formal employment sector.

Pay As You Earn (PAYE) is yet again expected to be the largest contributor to tax revenue in 2011 at K3, 710.6 billion more than company tax at K1, 337.1 billion and mining tax at K1, 858.4 billion.

6. The 2011 budget has seen revision of income taxes allowing for an increase in the PAYE threshold from K800, 000 to K1, 000, 000 and adjustment in the tax bands. This is a good commendable move as it responds to the need for the working poor to at least be able to meet the cost of food as the JCTR Basic Needs Basket (BNB) for September 2010 shows that a family of 6 in Lusaka needs approximately K867, 000 every month for food alone. This must however not be enough because there is still more scope for further reduction in PAYE and introduction of tax incentives for savings, stock investments, pension savings, mortgage and infrastructure development bonds because the BNB in its entirety is approximately K2,850,000 for food and non-food items. The high cost of essential non-food items inhibits households from experiencing much relief.
7. The Ministry of Finance has yet again ignored calls to show clear policy direction as to how government intends to collect tax from the informal sector because this sector is clearly making profit to warrant taxation, judging by GDP growth and the contribution of the informal sector to this. 83 percent of Zambians work in the informal economy - 56 percent of which is based in the urban areas – and pay no taxes at all (LCMS, 2004). Yet the 2011 budget is mute on how it will capture revenue from this large part of the Zambian economy. Informal sector workers represent the vast majority of workers in Zambia and yet they escape the tax net. We recommend that the government endeavours to collect the much needed tax from this sector. A starting point could be to tax them through their associations. This is not a new phenomenon, it is currently being used with success in a few African countries like Ghana.
8. Domestic VAT continues to under-perform. Government's ineffective revenue policy and inefficient collection practice is preventing it from maximising the resources that can be collected from VAT. The VAT base has been eroding. It has reduced from a rate of 20 percent in 1995 to 16 percent in 2009. This could be largely attributed to inefficient and incomprehensive ways of VAT collection. Many basic measures to ensure maximisation of monies collected through VAT are not adhered to by many commercial entities and there is no notable commitment to enforce them. There is still a large section of business that goes on with no record of sale because of the lack of simple measures such as cash registers, this affects how much money can be collected by the Zambia Revenue Authority (ZRA).
9. We continue to see a proliferation of tax exemptions to companies. It is our hope that the 2011 budget will reverse some of these. The exemptions are facilitated by Section 89 of the Customs and Excise Act, which gives the minister powers to grant exemptions without recourse to parliament. However, there are a number of exemptions that should be considered for elimination, such as some exemption of the

mines from certain import duties. There is no sufficient evidence to prove the real value of the tax exemptions to the increase in Foreign Direct Investment (FDI) that Zambia is witnessing. While tax incentives to foreign investors have the potential to promote investment, these incentives tend to deprive the Government of essential resources for delivering to the public social services promised in the national development plan. Government should instead sharpen our investment policies to put emphasis on resident investors so that we can retain and increase the investment capacities in the country.

10. The increase by 50 percent for the motor vehicle license fee expected to raise K40.7 billion to contribute to the cost of road maintenance is justified and it is our hope that this will be accounted for properly and put to the stated good use. It is however vexing that the performance of the carbon tax introduced this year as an environmental protection and revenue measure has not been highlighted. We encourage the government to make this information public.
11. An excise duty of 10 percent has been introduced on plastic bags to curb pollution and mitigate the impact of shopping plastics on the environment. This is a welcome and long overdue move that begins to make a statement about Zambia's commitment to protecting the environment. We do however hope that in its implementation this tax does not become an additional hidden cost to the price of consumer goods which may affect the poor negatively. We therefore recommend that shops be compelled to begin giving plastics to shoppers at a small fee in order to encourage them to carry shopping bags and minimise littering, as is the case in countries like South Africa.
12. Zambia's economy is still very dependent on the mining sector. The Minister of Finance reports that Copper output will exceed 720,000 metric tons this year, the highest production since 1973 and the price per metric ton is predicted to hit an all time high in 2011. The average price of copper on the international market has reached a record high of US \$7,202 per metric ton between January and September this year (Paragraph 9). The price has actually more than doubled since the start of 2009 and reached as high as \$8,241 a ton on 07 October 2010 in London. Goldman and Sachs (September 2010) has predicted that the price of copper may go as high as US\$ 11,000 per metric ton by end of 2011. The windfall tax is meant to capture significant tax revenue during high mineral price periods, hence this time is more opportune than ever to introduce it. The explanation that such a tax would lead to the mines going bankrupt and closing down is not reasonable because it is only when the mining company's revenue becomes twice the cost of production that the windfall is effected at graduated levels. Hence, we add our voice to the many Zambians calling for a revisiting and reintroduction of the mining windfall tax.

13. We continue to encourage Government to eliminate tax leakages, especially in relation to company taxes, and to broaden the tax base to encompass foreign as well as domestic businesses and higher earning informal-sector workers

Non-Tax revenue

14. Non-tax revenue refers to all revenue other than taxes accruing to Government through its Ministries, Departments and Agencies. This is expected to contribute a paltry K539 billion in 2011. This is one source of government revenue that is not being harnessed sufficiently. It has great ability to contribute significantly to the national budget than it is currently doing. It unfortunately does not feature as a priority source for government.

15. Non- tax revenue is proven to provide alternative sources of revenue for government in countries where it is being effectively collected. It widens the resource envelop and can be used to selectively collect from the rich to help redistribute resources (promoting equity). The 2011 budget however, does not show extensive effort at raising revenue from non tax means. There must be strong enforcement to improve accountability for fees, levies and penalties paid. Currently, issuing of receipts to people paying traffic fines and other penalties does not seem to be standard practice. As such, there is no record of these payments and a lot of Government revenue continues to be lost.

16. We recommend that there be 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 for and added to our national basket of resources. This will help ensure that license fees, levies and fines that must be collected are actually collected; currently there is no coordinated way of ensuring this happens. For example, the hotels and lodges licenses.

External Financing

Development Assistance/Aid

17. Donors have reduced their contributions to the national budget for 2011 by half. They have pledged 7.7 percent, in 2010 they offered 14.5 percent. In real terms the value of the aid has only reduced marginally. Zambia is edging towards middle income status, evidenced by the income per capita which is very close to the US\$1,000 mark. This means that we can expect further reductions to development assistance from cooperating partners in subsequent years. The question that begs to be answered is whether the 2011 budget and the MTEF have allocated resources in a way that ensures investments in the productive sectors of the economy to put Zambia on a development trajectory ready for exit from aid.

18. Receipts from our Cooperating Partners in 2010 have so far underperformed by 36.8 percent (Paragraph 43). As a result, total borrowing is now expected to reach 3.3 percent of GDP by the end of the year, against an initial projection of 2.5 percent. (Paragraph 45). This is by all means not a good sign as far as concerns to avoid a debt trap are concerned.

Loans

19. Domestic borrowing is expected to drop and be limited to no more than 1.4 percent of GDP in order not to crowd out private investment (Paragraph 75) we hope this target can be complied to. This is from a target of 2 percent in 2010. This is a well intentioned target but still falls short of meeting the FNDP target of domestic borrowing below 1 percent of GDP.

20. The government intends to increase external financing to 2 percent of GDP. The intention is to receive about US\$400million in concessional and non-concessional loan disbursements during 2011. The Minister says in paragraph 77 that, keeping debt within sustainable levels remains critical for macroeconomic stability and that government intends to borrow and spend the borrowed resources wisely. We laude this acknowledgement of the need for sustainability. But it is unfortunate that the Budget speech avoids any mention of the debt management framework which was promised in the budget speech of 2008. The continued non-commitment to putting in place a legal debt management framework is worrying. It is unsafe to continue to rely on human caution in the loan contraction process.

21. The need for a legal and participatory framework to guide loan contraction and assure debt sustainability continues to be even more relevant. Zambia has a bad history of indebtedness with difficulty managing and paying back external debts that have been previously contracted largely because of the lack of a legal framework guiding the process. This is particularly important and urgent now because of; the reducing amount of aid flows; the strong relations that have been established between Zambia and emerging donors such as China and India that have high propensity to give loans without many hurdles and Zambia's historically witnessed high appetite for loans. The Minister states in paragraph 47 that total expenditure in 2010 is now expected to be 8 percent higher than budgeted, at K17,853.3 billion. This will be financed by K15, 653.3 billion in domestic resources, and K2, 200 billion in external grants and loans. The prudence of the person who is Minister of Finance alone cannot be relied on as the control measure to ensure debt sustainability. The Zambian "government must be one of laws and not of men".

22. Government has allocated K5, 855.5 billion or 28.5 percent of the budget to the general public services, of this K1, 665.3 billion will be used to service domestic and external debt (Paragraph105). The amount for domestic service falls far below the actual domestic debt the government has so far accumulated.

Hence, these amounts in debt service have the potential to raise substantially over time and compromise expenditure in the social sectors especially if the apparent appetite to borrow is not subjected to public scrutiny through the participation of parliament in loan contraction.

Growth Targets in 2011

23. Zambia's economy is expected to grow by 6.4 percent in 2011. The 6.4 percent growth target is unambitious and below the minimum of 8 – 10 percent that countries like Zambia require to see meaningful impact on development. Additionally this retrogresses from the 6.6 percent growth projected for 2010.
24. The manufacturing sector has been emphasized as one sector that is intended to be harnessed in order to bring about growth. For instance, the introduction of customs duty of 15 percent on cold-rolled coils, and 25 percent on deformed bars and galvanised cold-rolled coils in order to encourage local value addition. These are good initiatives that however will only be viable if coupled with strong commitment to “Buy Zambian”. This entails improving local investor opportunities, access to technology and quality control.
25. Studies show that countries that experienced economic growth and trade liberalisation achieved absolute poverty reduction but experienced increased inequality. This is becoming true for Zambia. Inequality is embedded in the Zambian national economic system as the 2006 living conditions monitoring survey shows that 50 percent of the population only claims 15 percent of total national income, while 10 percent of the population claims 48 percent of total national income. This gap is likely to have grown given the economic growth that Zambia is currently enjoying. This growing inequality needs to begin to be dismantled through wealth redistribution and creation of employment and other opportunities for all Zambians.
26. The 2011 budget shows no firm efforts at employment creation. The Government of Zambia must create more jobs and opportunities through incentives for value addition in all sectors for exportation. There is still little discussion about value addition to agricultural produce, such as the many fruits that go to waste each year.
27. End-year inflation target for 2011 is 7 percent from a target of 8 percent by the end of 2010. Given that annual inflation measured 7.7 percent in September 2010 this is a practical target it however remains unclear what the policy goal of even lower inflation rates each year is.

Some Grey areas in 2011 Budget

28. The Minister in his speech makes no mention of poverty despite the continued high levels and very low rates of human development as indicated in the Human Development Index (HDI) and the poor record

of progress towards the Millennium Development Goals (MDGs). The Minister makes this colourful statement, *"Government will remain focused on what we have all worked so hard for - to improve the quality of life for our people in every corner of this country,"... "What does this mean? It means that every boy and girl must have access to quality education. But this is not enough. Every hard working farmer must find a fair market for his or her produce. "Every home must have clean water. But this is not enough. Every mother must be able to deliver her children safely and that her children should be vaccinated. But this is not enough. For these services to be accessible every home in every village and town must be connected to an all weather road"* (Paragraph 4).

29. The statement is acknowledgement that that infrastructure development in Zambia has lagged behind and needs to be prioritized. It does on the one hand raise fears that the attention to infrastructure may cloud the human development and poverty reduction needs. This fear may very well be justified by the expenditure pattern of the MTEF which shows heavy inclination of expenditure towards infrastructure. This follows from the priority that the draft Sixth National Development Plan (SNDP) seems to suggest. It is worth noting that whilst infrastructure development is extremely important it must not be mistaken for human development.
30. The health sector's share of the budget is 9 percent. There has been increased allocation of domestic resources to the health sector by 30.1 percent, allocated K1, 772.9 billion to the sector compared to K1, 362.5 billion in 2010 (Paragraph 136). This despite being a direct response to the donors withholding of funds to the health sector following the scandal of 2009, is a welcome development. It is however, hoped that more domestic resources could be redirected to the crucial sector of health. So that primary health care is assured by having health care for Zambians is in the hands of the Zambians themselves
31. Social protection activities in 2011 have been allocated 3 percent of the budget which is a total of K547.5 billion. Of this amount, K358.6 billion has been allocated to the Public Service Pension Fund. A total of K42.7 billion has been allocated to the Social Cash Transfer Programme being piloted by the Government in collaboration with its Cooperating Partners (Paragraph 146). We demand that the routine payment of pensions must be separated from the social protection budget as it creates the impression that increases are being made to social protection.
32. K244.6 billion has been allocated for the general elections next year, understandably so. It is however, surprising that the constitution got no mention. There is no specified allocation to the process of enactment of the new Constitution or is this amount under "legislation"? Must we infer that it is not priority in the medium term and the Zambia people should not expect its completion and implementation in 2011?

33. Government intends to reduce administration expenditure from 32 percent in 2010 to 28 percent for 2011, in order to realign expenditure away from administration towards investment in the economic and social service delivery. Civil society hopes this will translate in visible reductions in the fleet of luxury vehicles for government minimize expenditure on VIP houses for officials and reduce the size of government delegations that travel to conferences and official visits as well as presidential trips.
34. We strongly feel more than K43 billion should have been allocated towards Agriculture to facilitate an irrigation dependent type of farming because of the vulnerability that comes with the rain fed Agriculture.

Conclusion

35. Ultimately we ask the question, does the 2011 national budget address the plight of the poor majority in Zambia? The answer is illusive but as one prominent Zambian say it seems; "The poor have lost again."
36. Development is a right for the people of Zambia and the Government has definite obligations under human rights law to maximize resources to be applied toward the development of this country. The success of the Government of Zambia's revenue and expenditure policies are inevitably linked to the promotion of human rights and the dignity of the people and the pursuit of the goals contained in the National Development Plan and the Millenium Development Goals whose deadline is only 5 years away.