

THE JESUIT CENTRE FOR THEOLOGICAL REFLECTION (JCTR) POST BUDGET ANALYSIS

Introduction

The 2009 National Budget based on the theme “enhancing growth through competitiveness and diversification” was presented on January 30, 2009 by the Minister of Finance and National Planning. Key changes were made to the economic and social sectors, monetary and fiscal policies and overall tax regime. Many Zambians are anxious to see how the impact the budget will have on majority of poor Zambia and those at the verge of impoverishment. The 2009 budget comes at a time when the Zambia economy is passing through remarkably a critical phase resulting from the acute turbulent in the financial market of external economy. To tide over this phase, exceptionally bold and inventive measures need to be put in place and one sure way of doing this is through the national budget.

This analysis therefore examines government’s commitments and priorities that have been outlined in 2009 budget and accesses how the new measures will enhance human capacity and reduce the ever rising poverty levels in the country.

Poverty levels in Zambia

As we analyse the budget, it is important to briefly bring in context the prevailing poverty situation in the country. The Central Statistical Office (CSO) Living Conditions Monitoring Survey for 2006 indicates that poverty levels in the country reduced only by 6% from 70% during a 15 year period between 1991 and 2006. Statistics show that the number of people living below the poverty datum line is huge and needs urgent attention. We are informed that although the above figures give as the number of people living below the poverty line, the depth and severity of this poverty alarming. Inequality in the distribution of national resources has compounded the poverty situation in the country. The 2004 Living Conditions Monitoring Survey reveals that half of the population claims only 15% of national income while 10% of the population claims 48%.

Social Sector Analysis

Education

The education and skills development sector plays an important role in the formation and accumulation of human capital. They provide skills that drive economic and social development as well as equality of opportunities for individuals to participate in local and national development.

In cognizant of this fact, it is observed that the allocations to the Ministry have been steadily rising from 15% in 2007 to 15.4% in 2008 and now 17.2% in 2009. However, we further observe that these allocations have been falling short of the FNDP targets of 17.1% for 2007, 17.8% for 2008 and 19.5% for the year 2009. In addition, the Zambia government is signatory to the Cairo Protocol where it committed that it would allocate 20% of its annual resources to the Education sector but has not lived up to this commitment.

The 2009 budget like the 2008 has set aside resources to recruit 5000 teachers for both basic and high schools. It is surprising that with the same of number to be recruited and deployed in 2009 as

was in the 2008 budget, funding for settling in allowance has been reduced from K1, 401 billion to K 840 million. Giving absolute figures on teacher recruitment is not enough, we need to investigate the gap between the exact number of teachers needed and the current number of recruitment. This will help establish whether the current recruitments are sufficient or not to meet existing demand.

The issue of retention schemes has been touched in the budget and funds have been allocated to the cause. One point to note in the funds earmarked for retention is that resources for this budget line will be provided by the European Union and the Swedish IDA. Considering that these economies of these agencies have not been spared by the global economic downturn, it is important that government shares contingency measures that are in place to ensure retention of teachers is achieved.

Another notable change is the reduction in retention schemes funds for both provincial staff and rural head teachers. Retention package for provincial staff has reduced from K733.8 million to K440.3 million and from K3.0 billion to K1.8 billion.

The 2007 annual FNDP progress report indicates that the Pupil/ Teacher Ratio for grades 1 to 4 stood at 75, a reduction from 76.6 in 2006. This trend reveals that more effort needs to be invested in teacher education and retention to improve the quality of education. One factor directly linked to motivation for both teachers and pupils is the availability of learning and teaching aids. It is worrisome to note that the 2009 budget has considerably reduced allocations for the purchase of educational materials. Allocations for purchase of education materials for colleges have reduced from K 10.8 billion to K 2.79 billion from K48.1 billion to K 12.7 billion for high schools and from K249.4 million to K193.9 million for basic schools. It is important to note that quality education without education materials cannot be attained.

The K 200 billion increase for infrastructure development of high schools is a welcome move. As CSOs we are aware that progress in construction jobs has usually been stifled by unnecessary bureaucracy in the tendering procedure. Our recommendation is that tender processes should be curtailed and made more efficient to optimize results in infrastructure development.

Health

Allocation to the health sector has tremendously increased from 11.4% to 13% of the overall 2009 budget. We recognize this allocation is almost in line with the FNDP projections of 13.2% for Health in 2009. However, similar to Education sector, Zambia is a signatory to the Abuja Declaration where they pledge to allocate at least 15% of National Budget allocations to Health. The question we ask is that, do our representatives at international meetings find it difficult to challenge these declarations or is there anything wrong with our country priorities that we fail to live up to these commitments?

We further note that in the 2008 budget, allocations for retaining health personnel was set at K62.6 billion. In the course the year, a supplementary budget of K50.0 billion was approved. With this expenditure in 2008, we wonder how realistic an allocation of K58.0 billion in 2009 will be to ensure health staff is satisfactorily motivated.

Another issue of concern is the huge increase in the allocations to International Specialized Treatment as opposed to Local Specialized Treatment. Allocations for International Specialized Treatment increased from K6.2 billion in 2008 to K8.4 billion and K1.2 billion and K1.26 billion for Local Specialized Treatment. The question is how many people will benefit from this budget line? Writing from accessibility of international specialized treatment by the 64% poor Zambians. We note

with concern that allocations to the purchase of drugs and medical supplies for district health centres has reduced from the expended K67.0 billion in the 2008 budget to K50.7 billion.

Water and Sanitation

Access to clean water and sanitation continues to be a major problem especially in urban areas. Over 40% of the Zambian population has no access to safe water. An amount of K10 billion has been earmarked for improvement of drainage systems in Lusaka. Our view is that this amount is good enough only if the implementation of this activity is going to be participatory.

Social Protection

Allocations to the sector in this year's budget have reduced when compared to the 2008 budget. The sector has been allocated K 374.2 billion (2%) from K577.7 billion (4.2%). It is further observed that the bulk of this year's allocation to social protection will go to dismantling pension arrears as opposed other neglected social groups like the aged, people with disabilities, street children and the list goes on. These groups constitute the poorest of the poor in our societies.

At the same time, social safety net programmes such as the Food Security Pack has been allocated K10 billion, Public Welfare Assistance K6.7 billion and street children K 4 billion. Considering that these programmes are pivotal in cushioning harsh experiences of poverty, the budget allocations are insignificant.

Other Sectors

Agriculture

Basically, allocation to the agriculture sector has increased by 37.0 percent to K 1, 096.3 billion. We note that government has continued to focus on agriculture as a critical development area in order to reduce poverty and food insecurity. Considering that there was an approval of a K 567 billion supplementary budget, the allocation to the sector shot up from K786.6 billion to K 1.35 trillion. This then means that the allocation to the 2009 budget has in real terms reduced by about 20%.

It is important to note that the bulk (K307 billion) of the supplementary allocation to the sector went to procurement and distribution of inputs under the Fertiliser Support programme, raising the total allocation in 2008 to K 488.5 billion. Other budget lines that benefited from the supplementary budget were, Laboratory seed testing K300 million, Enforcement of fish ban K200 million and a sensitisation workshop for field staff under community action plans – K200 million in addition to the initial K320 million.

We observe that in 2008 crop production reduced by 7 % and overall contribution of agriculture to GDP by 4 %. The poor performance was attributed to high cost of inputs, limited access to credit, inputs and extension services, inadequate infrastructure, poor livestock management, weakness in the Fertilizer Support Programme, and failure to attract adequate private investment in the sector. The continued substantial allocation to the Fertilizer Support Programme (FSP) in agriculture sector is worrisome. From inception programme strictly, only a few small scale but viable farmers have benefited from it. We commend the government for realizing that FSP has not performed as expected. The fraud nature in the distribution of the FSP input is not incentivising especially to small scale farmers.

Pay As You Earn

The exempt threshold in PAYE has continued to be meaningless trend of the 2008 of increasing by K100, 000 to K 700,000. It should however be noted that if people will afford decent standard of living, there is need for this figure to be raised even further. The JCTR Basic needs basket for January was K2.1 million. This shows how much an average family of six was spending a month. Such practical instruments can be used to arrive at tax exemption thresholds the will protect people's purchasing power.

External Debt status

It is disheartening to spot persistent inconsistencies in servicing external debts that we owe both Multilateral and Bilateral creditors. The Minister of Finance and National Planning in his budget address stated that our foreign debt stock stands at US \$ 1, 095.5 million as at end December 2008. The budget speech further states that we borrowed a total of US \$ 132 million in 2008 and that the debt stock as at end 2007 stood at K 1, 054.5 million. Simple mathematical computations of these figures show external debt stock as at end 2008 cannot be K1, 095.5 million but K1, 186.5 million if we borrowed K132 million in 2008 and debt stock in 2007 was K1, 054.5 million.

Recommendations

- The K2 billion increase allocated to international specialized treatment should be reallocated for the purchase of hospital equipment that is desperately needed to serve many ailing lives at the University Teaching hospital and other major hospitals in the country.
- The pronouncement by the Minister of Finance that Ministries, Departments and spending agencies will be expected to prepare progress booklets should not be treated as usual announced. These booklets should be made accessible to the public to enhance accountability and help curtail the misuse of taxpayers' resources.
- The government should use indexation technique in the computation of PAYE bands in order to sufficiently protect the purchasing power of the public. Brazil used this method for close to thirty years during a period of high inflation.
- Budget allocations to social protection should be responsive to the prevalence rates of vulnerability. Meaning that support to these sectors should be predictable and sustainable in order to holistically reduce poverty levels in the medium and long term.
- Enhancement in the utilization of public resources should be coupled with good policies such as the debt management strategy that has been proposed by the JCTR as well as other policy reforms that key stakeholders have recommended. We are aware that the debt management strategy that has been in draft form for too long now is established. With prevailing economic recession, it is likely that our government will increasing borrow externally to bridge the fiscal deficit. The strategy will also help reduce irregularities in debt services that we observe year in and out.

Conclusion

The allocation of resources is reasonably good except for several lines that have been pointed out and of course other lines not mentioned in the above analysis. However, as many people have suggested and recommended, allocations are just figures but what does the trick is implementation. Let there be

responsibility, transparency, accountability and participation in the utilisation of resources and implementation of the 2009 planned activities. It is immoral and unethical for people mandated to be in control of taxpayers' money to use the resources to serve their own interests. We want to see, in the implementation of the 2009 National Budget, a civil service that upholds a moral and honest society that opposes fraud, corruption and a culture of self-enrichment.

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