MEMBERS OF PARLIAMENT AND CIVIL SOCIETY DIALOGUE ON THE 2008 NATIONAL BUDGET

[*Report by Ivy Mutwale - CSPR*]

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1.0 Introduction

A third world country like Zambia sadly does not have the desired resources to achieve both economic and social development. It is true that to achieve national development; it is cardinal to have a state that cares for its citizens, especially the poor. Through its policies and instruments such as the national budget, government can redistribute the resources accordingly to a more just society. Members of Parliament (MPs) are pivotal to this because they are the legitimate representatives of the people of Zambia.

It is for this reason that the Frederich-Ebert-Stiftung (FES) Foundation supported civil society in co-hosting a dialogue around the national budget. FES is a non-profit making private educational and research institution committed to the concepts and basic values of social democracy.

The three civil society organisations, Caritas Zambia, Civil Society for Poverty Reduction (CSPR) and Jesuit Center for Theological Reflection (JCTR) have over the years been vocal around the budget, conducting analyses and expenditure tracking to highlight advocacy messages of the need for social justice and ensuring that economic growth actually translates into poverty reduction. They did separate analyses of the budget which were later consolidated to highlight key issues of common concern to present to MPs. In preparation for the dialogue, the organisers also sought presentations from different stakeholders – economists, the academia and trade unions to discuss their positions on the budget.

The meeting aimed at discussing the 2008 draft budget presented by the Minister of Finance on Friday, 25th January, 2008 to Parliament under the theme: "Unlocking Resources for Economic Empowerment and Wealth Creation."The dialogue with Members of Parliament was held on Saturday, 23rd February, 2008 at the Mulungushi International Conference Center under the theme: "*Unlocking Resources for Economic Empowerment and Wealth Creation – will it deliver for the poor?*"

Altogether, eighteen MPs, five Trade Unionists and 15 civil society organisations attended the meeting.

2.0 OPENING SESSION

The facilitator, Mr. Reuben Lifuka, started the meeting by welcoming the participants. He then asked everyone present to introduce themselves and the organisations being represented.

2.1 Opening Remarks

The opening remarks were given by FES Country Director, Mr. Gerd Botterweck who started by conveying greetings from the Board of FES. He further gave a background to the foundation as well as the working principles. Some of them were as follows:

- FES is named after the first democratically elected President of Germany.
- Wide ranging activities include education and assistance to partners in developing countries in areas of social development, promotion of democracy, labour, business, science and culture.
- Strengthening of Parliamentary democracies and democratic structures and participation of the people and citizenry in the political, economic and social life of a society.
- Mr. Botterweck expressed happiness at the presence of the MPs as Parliament is the most democratic institution in Zambia.
- He said that he was glad to support civil society organisations intention to get to a dialogue with MPs on the implications of the budget. He said the outcomes of such meetings are always positive and add value to the development of Zambia.
- He called on the MPs to listen to the concerns raised in the meeting and discuss with them contributions and ideas towards the future development of Zambia.
- He noted that while Zambia had in the recent years achieved stability of major macroeconomic indicators, poverty levels are still extraordinarily high and thus the gains cannot be felt by the ordinary Zambian.

He reiterated that besides strong social partners, employers and trade unions, there is still need for a state that cares for its citizens, especially for the poor, and a state which, through its policies, can help to redistribute the resources accordingly.

2.2 Welcome Remarks

The welcome remarks were given by Father Peter J. Henriot, Executive Director of The JCTR.

Father Henriot reminded the meeting that Zambia was a rich country endowed with natural resources, but its people are poor. He stated that the economic indicators show impressive progress, the social indicators on the other hand show a picture of uneven distribution, as the majority of Zambians still live a tough life.

He said there was need to look at the situational context thus:

- The Debt challenges – what are the contraction and management schemes in place?
- The floods – what will this mean for food security? What has government put in place to mitigate the effects?
- The US$400million projected to be gained from mineral taxes – for who will this be? Will it result in actual poverty reduction? Will it serve the people's needs?
- Ensure the Bill of Rights in the new constitution has the Economic, Social and Cultural rights incorporated in it as it will ensure development.
- The 900billion surplus from last year's budget and the report from the Auditor General's Office both raise questions as to who will actually benefit from the current budget. What steps are being taken now to prevent a repeat of the past?

Fr Henriot expressed hope that the day would be worthwhile and that MPs would go with their resources unlocked for values empowerment and development creation.

2.3 Opening Remarks

Remarks were given by the Chairperson of the Estimates Committee of Parliament, Honorable Godfrey Beene.

- Hon. Beene thanked FES for the initiative to have a forum to discuss and interact with CSO in a formal manner. He said the importance of a budget is evidenced by the amount of time dedicated to it.
- Honorable Beene explained that the Estimates Committee gives oversight to issues relating to government in addition to undertaking studies. He also said it was therefore important that accurate and timely information from stakeholders to inform representatives to the expectation of the people they represent.
- He said the input was pivotal to the success of the Committee's work. He thus said it was important to better understand the needs of electorates through CSOs and other stakeholders.

3.0 PRESENTATIONS

3.1 "MACROECONOMIC, EFFICIENCY AND EQUITY ASPECTS OF THE 2008 BUDGET"

This presentation was made by an academician, Professor Venkatesh Seshamani, UNZA.

Professor Seshamani begun by stating that the observations made in his presentation were academic and that he was presenting ideas. He also stated that his views were not aligned to any party and could be tapped upon to make progress on poverty reduction. He clarified that his presentation was not focusing on specific measures as they would be taken up by subsequent presentations.

Professor Seshamani disagreed with the last statement that the majority of Zambians had a choice to make. He said on the contrary, "*the majority of Zambians have been deprived of choices and it is this deprivation that is called poverty because human development is defined as expanding the range of human choice*."

He noted that wealth creation should be seen as a means to the ultimate goal to improve the human condition. He said human development cannot occur without wealth creation but wealth creation can occur without human development.

He agreed with the budget statement that entrepreneurs would help realise the goal of becoming a middle income country. He however cautioned that vibrant entrepreneurs alone could not turn Zambia into a developed country. He said for development to take place, there would be need for different productive sources.

The Citizens Economic Empowerment (CEE) Fund should be used not only for entrepreneurial development but empower the disempowered. He said the 2008 budget seemed to have taken this into consideration.

He questioned where and how the enhanced allocations to the social and physical infrastructure will be spent. Past experience has shown that funds have not been used in the right places.

In regard to Zambia's vision 2030, he said that in his view, Zambia's vision should be to become a middle to high human development country.

Professor Seshamani went on to make observations as follows:

(I) Macroeconomics performance:

In Zambia this seemed satisfactory in 2007, but fragile. The levels of Gross International Reserves far exceeded the target. He said the focus of the MMD Government in the past 16 years has been to bring down inflation which has since reduced from double digit to single digit level. He noted that there seems to be an emerging trade off between economic growth and inflation. He observed the need for more ambitious growth rates that will generate a greater fiscal space for the government to augment its social spending and thus address poverty and contribute towards achieving the Millennium Development Goals (MDGs) even more effectively. He reiterated that resources for development were an immediate need and policies to keep inflation down or in check may militate against that objective. He thus suggested that policy should be based on rigorous research.

(II) Efficiency Aspects:

Professor Seshamani identified some simple criteria he felt would gauge the efficiency of the budget as follows:

a. Professed priorities and allocations;

b. Approved allocations and disbursements;

c. Accepted norms and allocations;

d. Time of project implementation and time of financial disbursement;

e. Fiscal year and fiscal approval – he proposed that the budget should be approved by Parliament before January to allow for a full year of implementation;

f. Disbursements should result in tangible outputs and outcomes. He emphasised a transparent monitoring and evaluation mechanism to check if what is claimed on paper is what is actually obtaining on the ground.

Professor noted that allocation to the agriculture sector had been reducing over the years, despite government's sentiments that the sector is key to the economy. He noted that the social sector allocations had increased this year, compared to last year. However, he said none of the allocations were in tandem with required norms of expenditure in the education and health sectors. Though he admitted it was not easy to do so, he said gov't should at least be seen to be making efforts.

(III) Equity Aspects:

Professor explained that this is related to distribution, that is, who would be empowered from the government spending. He noted that the adjustments in percentage of allocation could well mean a huge increase in inequality. This being the case, Professor Seshamani remarked that Zambia would then have to wait another millennium to make poverty history.

Referring to the Budget speech where the Minister was quoting preliminary results of the Living Conditions Monitoring survey that the incidence of poverty had dropped from 68% to 64% as a result of the drastic fall in poverty from 53% to 34%, Professor Seshamani stated that if this were true that urban poverty had dropped by 19%, this would be a very rare phenomenon in the developing world.

He also noted that the Minister's statement that rural poverty had increased to 80% from 78% means a huge increase in rural-urban inequality.

He concluded by saying that commitment to poverty reduction must also imply commitment to inequality reduction.

3.2 Plenary Session

3.2.1 Fr. Henriot concurred with Professor Seshamani over social expenditure. He gave an example of the social protection budget which on the outlook seemed to have gone up. He noted that the amount allocated seemed large but in the real sense three quarters of that allocation will go to paying pensioners.

3.2.2 Mr. Chilomo observed that the vision 2030 used broad based growth as a cornerstone, yet district plans that were formulated during the FNDP process seem to have been shelved. He observed that for as long as growth is concentrated along the line of rail, this will defeat the whole purpose of equity. This will in turn lead to urban migration ultimately resulting in overcrowding and sapping of social facilities.

3.2.3 Mr. Hikaumba asked Professor Seshamani if he had any recommendations around revenue measures. He noted that the current resource envelope may not adequately deal with all concerns. *What are the measures that can be put in place to ensure there is enough money to go round?*

In response to this, Professor Seshamani said that currently the major source of income was Pay As You Earn (PAYE). He said from the face of it, the thresholds introduced make good reason. However, he said comparing to the JCTR basic needs basket this was still not enough as the gain is only K25, 000.00.

3.2.4 Honorable Nkombo observed that Professor Seshamani's presentation did not touch on the cost of doing business in the country. He observed that the banking institutions have been given tax cuts but this has not correlated with interest rates. He said this would have an effect on poverty reduction because if bank rates are low, there would be more businesses, resulting in employment creation.

Professor Seshamani agreed that the cost of doing business should be explored, also in regard to making local products more competitive with the coming in of various investors.

3.2.5 In response to Honorable Nkombo's request for Fr. Henriot to comment on the biblical statement that the poor will be poorer, it was said that when Jesus was saying this, he said it as the situation was operating and not as a policy mandate.

3.2.6 Honorable Matongo noted that Members of Parliament equally do not have a say on how the budget is prepared. He attributed this to constitutional constraints. He recommended that the Constitution needs to be changed to empower Parliamentarians to make bold decisions on the final outcome of the budget. In addition, he said certain documentation such as the Economic Report of the previous year needs to be availed to MPs to enable them debate effectively. This has never been done. He described the role of Parliament as to '*legislate, debate and talk*.'

3.2.7 Honorable Matongo reiterated that the resources being unlocked have been going to the commercial banks, 35% of corporate tax was also going to the banks, "*Yet there is nothing to show for it as base rates are not coming down.*" He noted that domestic borrowing had decreased to 2.9%, exchange rates were stable, interest rates had fallen but the bank charges remained high. He noted that the banks are not passing on these huge gains to rural development. He proposed that MPs should ask the Bank Governor to reduce bank rates and ultimately reduce poverty in real terms.

3.2.8 On the Citizens Economic Empowerment Commission (CEE), Honorable Matongo observed that this would be a business. He observed that the youth fund and women's projects had been shifted to this. This would mean that women and youth would have to apply for these funds. He questioned the practicality of this for poor women and youth.

3.3 CONSOLIDATED CIVIL SOCIETY CONCERNS

This presentation was a culmination of budget analysis separately conducted by Caritas Zambia, CSPR and JCTR. It was presented by Mr. E*dmond Kangamungazi from Caritas Zambia.*

3.3.1 Macro-economic front:

Mr. Kangamungazi stated that while the recorded macro-economic growth was commended, it did not guarantee human development and poverty reduction for the country. He said that currently, the average self assessed poverty was at 95%.

- He noted that the country needs a minimum of at least 8% growth in Gross Domestic Products (GDP) if a dent in poverty is to be felt.
- Alluding to the reduced allocation to the agriculture sector, Mr. Kangamungazi said that people employed in this sector, most of who are poor, are likely to be left out from benefiting the projected growth and wealth creation. He emphasised the need to adequately cater for the less privileged through increased budgetary allocations to sectors promoting improved livelihoods.
- He commended government for the targeted 7% inflation rates. He however noted that lowering inflation at the expense of increasing unemployment levels does not net any increase in purchasing power of Zambians.
- The presentation urged the government to reduce its domestic borrowing to less than one per cent of GDP as a first step in unlocking resources for economic empowerment and wealth creation.

3.3.2 Social Sector

Mr. Kangamungazi noted that there is need for progressive realisation of social sector improvement and creation of more equitable jobs. The civil society felt that the 2008 Budget had completely neglected to address the issue of unemployment. It was felt that economic growth and wealth creation meant nothing if they did not translate to anything tangible in people’s lives.

3.3.3 Budget execution:

The following suggestions were made:

- Government needs to build capacity in Ministries for implementation of programmes and projects;
- Government should make funds available on time to facilitate timely implementation of projects, especially infrastructure development;
- The basis for public engagement should be broadened.

3.3.4 Domestic debt:

- It was felt that there is need for a clear definition of domestic debt.

3.3.5 Social Sectors:

- Civil society called on government to set targets for social sectors such as employment levels through low skill jobs. Also, government must work around improving working conditions.
- Government should reduce on expenditure on non-priority areas and concentrate on key areas like education, health, water and sanitation, disabilities and OVCs.

3.3.6 Other recommendations:

- Civil society called upon government to strengthen the fight against corruption by speeding up cases and meting out stiffer punishments, among other things.
- Emphasis should be placed on infrastructure development for faster economic growth
- The tax threshold should be increased from K600, 000 to K1, 500, 000 in order to take into account basic needs. Ministries must be able to make funds available to their constituencies in a timely and efficient manner as a way of ensuring utilisation of funds.
- Civil society also felt the need for government to harmonise and concentrate on decentralisation. It was felt that the current situation resulted in the little reflection of people’s needs in the budgets.

3.4 PRESENTATION FROM ECONOMIC ASSOCIATION OF ZAMBIA (EAZ)

This presentation was made by Mr. Isaac Ngoma, the Acting Executive Director General of EAZ who stated that the presentation was based on a submission made to the Estimates Committee.

3.4.1 Economic Performance:

The EAZ acknowledged the improvements in the country's economic performance. It was however observed that achieving faster growth in 2008 and beyond depended on more determined implementation of the main reform programs such as the Public Expenditure Management Financial Accountability (PEMFA) and Public Sector Reform Program (PSRP). Mr. Ngoma stressed that there was great need for urgency in implementing the Parliamentary Reform Programs so that government should report to Parliament and the public on progress of the reform programs.

3.4.2 Budget Execution:

Mr. Ngoma suggested that MPs' oversight must extend to scrutinising use of various funds that have been established to ensure that they have an impact on the intended beneficiaries. He said that at the same time, government should continue undertaking regular reviews of spending.

Mr. Ngoma also suggested that there should be a formalised strategy laid out to show how government will collect taxes. This strategy should also include how government intends to expand the tax base. There is also need for a modern system for civil service remuneration.

3.4.3 Theme of the Budget:

Mr. Ngoma stated that greater equity and poverty reduction should remain key objectives in addition to wealth creation and empowerment.

3.4.4 Mining Taxation:

EAZ called for clear and transparent mechanisms for mineral taxes which will outline how the proceeds will be utilised. This is to avoid a repetition of abuse as is being highlighted in the latest Auditor General's Report.

Mr. Ngoma challenged government to make both the detailed proposals and their rationale available to MPs and to the public at large.

He cautioned government to use revenue from the mines for recurrent costs such as social sectors, unless it can be demonstrated that those costs can be sustained through future revenue.

3.4.5 Expenditure proposals:

Mr. Ngoma reiterated the need to link budgets to other national plans and strategies such as the MTEF, the previous year's Economic Report and the FNDP. He said Economic Reports must be produced in time so that MPs can be able to link the past and present budgets as they debate.

Mr. Ngoma reiterated concern over the low allocations to the agriculture sector, which he observed was about 20% lower than last year's allocation. Similar concerns about the social protection budget line were raised as those raised by civil society and Fr. Henriot. He observed that well defined social protection programs can be cost effective tools for poverty reduction.

In regard to the recent flood, Mr. Ngoma proposed that external assistance should be sought. He said there must be a good allocation of funds to ensure that unforeseeable disasters are adequately addressed.

3.4.6 Debt and Aid

Mr. Ngoma welcomed the news that government has drawn up a new debt contraction strategy and encouraged that the JCTR proposal should also be considered in order to address the weaknesses in the current systems.

Page nine of his presentation had extracts from the national budget speech that he asked participants to reflect upon in light of the obtaining situation in regard to the Auditor General's Report.

3.5 PLENARY SESSION

3.5.1 Honorable Godfrey Beene noted that the budget cycle would continue being problematic for as long as the Constitution remains unchanged. He said that under the current scenario, MPs do their best to debate and make suggestions around the budget but the Executive go ahead and do as they please because the Constitution allows that. He gave a specific example on how Parliament cannot pin down the Executive on the monies still lying in the banks from last year's allocation to the Agriculture Sector.

3.5.2 Mr. Mbulu expressed regret that in the midst of unacceptable poverty levels and meager income, government still had failed to utilise K900bn of the last budget and had the audacity to call it a surplus! He asked what specific provisions in the Constitution would provide a solution to the challenges being faced, especially as implementation of the 2008 budget begins. Mr. Mbulu further challenged civil society to think of how they shall ensure that what had been presented in the meeting as recommendations would come to bear.

3.5.3 Honorable Imenda observed that there was a weakness in the current debt contraction system. He said that the Minister had the mandate to approach donors without knowledge, approval or consent of Parliament. He remarked that in such circumstances, the oversight role becomes difficult and relegates parliament to mere rubberstamps.

3.5.4 Honorable Lubinda wondered whether the prevailing situation of lack of consideration of Parliament oversight was because of the absence of or weak laws.

- He gave an example of the Financial Regulations Act which provides for the budgeting cycle and explicitly states that the financial report must be ready by September. He observed that this does not happen.
- He also said the Statutory Instrument of 1998 puts a ceiling on the total debt that government can contract, yet the government goes above these ceilings.
- The Local Government Act provides for functions of Local Authorities, yet the Minister does not consult them.
- Honorable Lubinda further cited the mining contracts as a matter that had been recommended by Parliament three years ago, yet government in the budget speech made it seem like a new idea.

Honorable Lubinda also stated that the President had issued circular asking MPs to monitor funds in their constituencies. He wondered how this would be possible if the MPs do not have the required information for effective monitoring.

Having sited all the examples, Honorable Lubinda then wondered, "*Is it a case of lack of laws or is it a matter of impunity on the part of Government*?"

Honorable Lubinda also observed that the FNDP is constantly referred to as the corner stone of Zambia's development. Yet, he noted, while the FNDP had projected a budget of K33bn for programs, government had allocated K31bn in the budget. Further, whereas the FNDP had projected K14bn for core programs, the budget had an allocation of a meager K5bn.

Honorable Lubinda concluded by stating that Zambia seems to be a country of intentions without execution. He called for MPs to begin to work towards 'putting the house in order' with the current laws, which he observed would be sufficient if followed.

3.5.5 Honorable Milupi observed that Zambia seemed to still have the one party mentality. He recommended that government structures must be overhauled to ensure that multiparty democracy enhances accountability.

Honorable Milupi also admitted the fact that the national budgets are too small because the amount of money at government disposal is too little to meet all demands. This, he said, is the reason that prudent sharing of resources is crucial. He observed that there was need to focus on growing the budget. He said to meet all demands, the current budget was supposed to have been K45trillion, yet it was K13trillion, of which he said the substantial part goes to foreign debt repayment. He recommended that:

- All other taxes within the K400bn projected to be gained from mining should have been included in the budget;
- Ensure that the substantial part of copper production is done in country so as to increase income raised from it;
- There is need to refocus on agriculture. He observed that while mining was extractive and the country could therefore eventually run out of minerals, agriculture had the potential to be sustainable since land can be used over and over.
- There is need for every action or program to be development focused.
- The review of the Constitution debate should have a focus on these issues so as to provide an opportunity for restructuring.

3.5.6 Mr. Hikaumba concurred with Honorable Milupi saying that for as long as the budget is not made bigger, talking about percentage allocation would amount to mere torture. He said that the percentage allocation would not mean much as long as the money is insufficient. On the contrary, he observed that with a big budget, even a two percent allocation would be sufficient to meet demands.

Mr. Hikaumba restated the need to increase the revenue base other than concentrate on Pay as You Earn (PAYE) as a major source of national income. He observed that income raised from PAYE was much higher than mineral royalties. He stated that this was a sign that something had gone wrong somewhere. He said the total income for workers was far below what companies are getting as profit.

Mr. Hikaumba suggested that as a way of earning more income, there is need for government to curb smuggling as a lot of tax is lost in the process.

3.5.7 Mr. Mkandawire observed that the major concern on accumulation of internal debt was mainly due to contractors of road networks doing poor works. He wondered what the responsible Officers were doing to curb this.

3.5.8 Mr. Liebental suggested that learning from Transparency International Zambia's study on "Show me the money" great impact, civil society needs to get together on a regular basis in alliance with the Estimates Committee of the National Assembly to get to the bottom of findings of that report. He encouraged the stakeholders to publicise and document similar findings in the press in order to enhance accountability. He observed that there was more impact in consolidated efforts.

3.5.9 Mr. Mulafulafu observed that the oversight role of Parliament had been weakened due to the short notice for submissions to the national budgets and lack of relevant information, among other things. He challenged Parliamentarians and other stakeholders to ensure that their submissions are taken into account. He observed that the governments had a tendency to ignore views of the citizen. "*It seems the more people talk, the thicker their skins grow*", he concluded.

3.5.10 Mr. Phiri and Mr. Fube both observed that Zambians are too passive. They said they are more reactive than pro-active and talk more than they act. They agreed that MPs have very little authority over the budget. Mr. Fube further asked who was responsible for budget tracking and urged MPs to take center stage in this.

3.5.11 Honorable Matongo reiterated that joint efforts in putting pressure were the key solution. He cited the case of Trade Unions who accepted increments of K100, 000.00 threshold and other statutory increments of salaries, yet expected MPs to debate for them. He wondered how MPs could speak for further increments when the Trade Unions themselves had agreed. Honorable Matongo stressed that MPs need aggressive civil society and trade unions in order for them to have more leverage to be aggressive in their debates. He observed that the Youth and Sport budget had not yet been discussed. He said he expected the youths to come out and speak out their demands so that MPs should also echo their voices.

3.5.12 Mr. Chilomo observed that 70% of business was in the informal sector. He also said there was need to revive the center of excellence in the public service. He further observed that he saw no logic in the current structure of government which seems to defy all laws of management. He said currently, government officials tell themselves what to do - there is no separation of powers. He said that MPs are supposed to be directors of the country in that they are supposed to tell government what to do since they represent the citizens. This would also ensure that they carry out their oversight role effectively.

3.5.13 Honorable Beene agreed with these sentiments, saying that the biggest problem was the lack of political will to discipline erring Officers. He said despite the Auditor Generals' findings, erring Officers continued in office. He challenged the different stakeholders to push government to have political will through publication of issues. Honorable Beene gave an example of the supplementary budget which is used without consent of Parliament. He contended that the presidential Plane was a large expenditure made through a supplementary budget. He observed that such spending leaves a lot of room for abuse. Honorable Lubinda added that the Provision for Supplementary expenditure requires that Parliament should approve the expenditure before government expends anything above the national budget. He restated that this was a question of lack of respect for the law.

3.5.14 In further agreement of lack of political will to consult, Mr. Mwansa from Federation of Free trade Unions (FFTUZ) shared with the meeting that the Statutory Instrument on Wages and Salaries had been passed without input from the relevant stakeholders. He said the FFTUZ only received the Instruments two days after it had been passed.

3.5.15 Honorable Shakalima observed that Trade Unionists had no zeal to refuse some aspects of government thinking. He said they are the ones who should help MPs instead of complaining that MPs do not do anything to help them. He challenged the Trade Unions "*What are you doing for yourselves when you accept government's unfair conditions and sit back and blame MPs for that*?"

3.5.16 Honorable Milupi suggested that civil society can do more to help restructure how society does things. He challenged civil society to speak out more on wrong things and teach people their civic rights and duties such as how honorable it is to pay tax. He also challenged civil society to do more in depth analyses of budget figures so as to challenge wrong or misleading assertions.

3.6 ECONOMIC REFORMS NECESSARY TO ACHIEVE UNLOCKING RESOURCES FOR ECONOMIC EMPOPWERMENT AND WEALTH CREATION

This presentation was made by *Mr. Bob Sichinga*, an economic consultant and former Member of Parliament. He started by saying that his task was to establish the basis of the theme for the 2008 National Budget.

3.6.1 As a direct response to the question raised in the title of his presentation, Mr. Sichinga said it seemed highly unlikely that resources will be unlocked based on the policies and figures in the 2008 budget.

3.6.2 Mr. Sichinga informed the meeting that the National Budget was a part of a bigger picture – the Vision 2030; the FNDP; MTEF; Financial Report. He said that the budget should be consistent with these documents as well as past budgets. However he stated that these documents are not always available to allow for efficient debate. He gave an example of the 2006 Financial Report which only came to Parliament on 12th December, 2007. He added that the Citizens Economic Empowerment (CEE) Act 13 of 2006 must also be seen to link to the national budgets and other documents. He said the national budget looked at the incomes and expenditures of a country.

3.6.3 He defined revenue as where the money comes from. In the case of Zambia he said the sources of revenue are mainly direct taxes and domestic borrowing. Mr. Sichinga said that if a country fails to produce income, then there can be no expenditure.

Currently, he observed, there is insufficient income taxation to finance development expenditure.

3.6.4 In this regard, he observed that economic affairs only take 17% of the budget which includes transport and agriculture sectors.

3.6.5 He wondered if the mining sector is giving returns commensurate with what is spent. He also stated that the projected earnings from the mining sector were not reflected as income in the budget. He reiterated that there must be no room for negotiations on the mining contracts otherwise the country may lose out.

3.6.6 He said expenditure relied on investments made in the economic sectors.

3.6.7 Mr. Sichinga said the statement by the Minister of Finance that the failure to utilise the K900bn from the last budget was fugal management was misleading. He said this failure to utilise was a reflection of inefficiency and lack of capacity.

3.6.8 In regard to effectiveness of implementation of the budget, Mr. Sichinga reminded the meeting that the current scenario shows that the budgets are approved in March, leaving only nine months of implementation instead of the ideal one year. He proposed that the dates of budget presentation must be changed. Specifically, he suggested that the budget must be presented and debated in December to allow for timely approval and implementation.

3.6.9 Mr. Sichinga contended that the budget would only be able to deliver with a complete overhaul of the current systems and procedures. He said there was need to build capacity for program implementation as well as revisit tender procedures. He gave a specific example of the projects of power deficits which was made five years ago but nothing was done about the prediction. As a result of this, he said, "*the power outages will result in low production which will ultimately affect the economy*."

3.6.10 Amongst other **recommendations**, Mr. Sichinga made the following:

- There is need to reduce recurrent expenditure and increase investment in economic sectors;
- Under the ZDA Act, it will be important to level the playing field for all. This will in turn increase the tax base. There is need for amendments of the ZDA Act of 2006 as these will have an effect on direct investments, since the CEE Act has been designed in a way that will enable it to over ride all other laws. There is therefore need to harmonise related laws.
- Colleagues in the Trade Unions need to speak out more strongly on the Employment Act
- There is need to overhaul the entire taxation regime.
- Mining companies must contribute a lot more than indicated in the budget measures at US$415million.

3.7 PLENARY SESSION

3.7.1 Mr. Hikaumba observed that the Auditor General's Report had brought out evidence of misapplication of funds. He said there was need to call for sanctions for the erring Officers for disregard of procedures. In response, Mr. Sichinga said the Public Finance Act spells out sanctions but some such as the requirement to retire imprest in two years shows too much leniency. On the matter of pensions, Mr. Hikaumba said Trade Unions had done their best to voice out their views. He restated the need to deal with outstanding debts to employees.

3.7.2 Mr. Sichinga indicated that there was a possibility to move the 120 billion allocated to the CEE to next year's budget because of detailed procedures that still needed to be undergone. He expressed hope that the CEE would be brought before Parliament soon.

3.8 LABOUR CONCERNS ON THE NATIONAL BUDGET

This paper was presented by Mr. Grayson Koyi, from the Civil Servants and Allied Workers Union of Zambia (CSAWUZ). The presentation gave a brief evaluation of policies, interventions and measures dealing with labour issues in the 2008 budget.

Mr. Koyi noted that the budget was uninspiring to the labour sector.

He noted that economic growth has not translated into significant reduction in poverty.

He also shared that in general, poverty levels in most of the critical income dimensions increased during the 1990s even though it has assumed a downward trend between 1998 and 2006.

He said formal sector employment in Zambia is at 495, 784 while the active labour force is around 4.1 million. Only 12% of the active labour force is employed.

Specifically, Mr. Koyi made the following observations to the 2008 budget:

- Employment promotion in the context of poverty reduction should have been placed as an explicit issue as opposed to being a residual issue.
- There is need for a more direct approach to employment promotion. There should be clear targets which will ensure monitoring.
- The tax regime should link to poverty reduction, vis a vis the basic needs basket. This will offer meaningful relief to workers. In addition, the tax base should be broadened to ensure equity.
- The 8% of GDP allocation to wages is still low despite the large proportion to expenditures. Only a small proportion goes to conditions of service for people implementing government policy.

Mr. Koyi concluded that while the clearance of pension arrears, recruitment and raised allocation towards retention was a welcome move, the overall treatment of labour in the budget was inadequate.

3.9 PLENARY SESSION

3.9.1 Honorable Milupi asked what the Trade Unions felt needs to be done about the employment figures that seem to be underplayed in Zambia. In response, Mr. Koyi said there was need to have a mechanism to inform policies on employment issues in the country. Mr. Hikaumba added that the decent work country program talks about issues discussed in the meeting. He said there was need to have retention schemes through better salaries which would in turn add value to products. He also suggested demand driven training for policy makers. He said there was need to find out to what extent unemployment was being rated. In this regard he emphasised the need for proper statistics for unemployment viv a vis formal employment and informal employment.

3.9.2 Honorable Milupi said the Ministry of Labour is not regulating who is coming into the country who gives local employees peanuts while paying themselves hefty salaries. He suggested that trade Unions should force the Ministry of Labour to evaluate the system of equal work for equal value so as to ensure equitable pay. He suggested advocacy for a Job Evaluation Unit. He stated that the problems being faced in the employment sector in regard to employment creation may have a negative impact on the economy in future unless government is willing to do something about it.

4.0 CLOSING SESSION

4.1 The facilitator invited those participants who had last words to speak in the closing session.

4.1.1 Honorable Hachipuka raised a question on whether the much referred to K400bn to be earned from mining really exists. Further he asked if this money will help in reducing poverty. In response, Honorable Shakalima said that this may have been a political statement and the money may never come. He urged that Zambians will have to unite and fight to realise that money. He contended that the money was not put in the budget because the government was afraid that they may not be paid. He urged the meeting to be prepared for a vicious fight. Honorable Matongo said that an alternative to putting the money in the budget would be to divide the money amongst constituencies to clean up infrastructure.

4.1.2 Honorable Milupi said that the official reason given by government was that if included in the budget, inflation would be affected. The view of the Estimates Committee was that the money should be part of the budget, except the part of the windfall. He expressed worry that not including the amount in the budget is sending a wrong message that government may or may not implement it.

4.1.3 Honorable Sichinga reiterated that the agriculture sector is crucial to alleviating rural poverty. He observed that the allocation to the sector for 2008 can only cater for 200, 000 peasant farmers out of the approximated 800, 000 in the country. He urged MPs to debate this and ensure an increment, especially for vulnerable but viable farmers.

4.1.4 Honorable Milupi asked what GDP would be if Zambia were to become a middle income country. He said knowing this would enable the country to work backwards to indicate what figures to work with. In response, Professor Seshamani said the World Bank has classifications of countries. He said the cut off point may be 6, 000dollars to be a middle income country, based on the concept of per capita income.

4.1.5 Fr. Pete Henriot observed the challenge that while there were a lot of MPs in the meeting, none of them were from the ruling party. To this effect, he made the following suggestions:

- As soon as possible, documents from the meeting are distributed to all MPs, especially to the Minister of Finance;
- Circulate a summary of the proceedings as widely as possible, as soon as possible.

Mr. Hikaumba concurred with this suggestion, saying that ministers must have representation in meetings of this nature as it will make it easy for them to understand different points of view.

4.1.6 Mr. Fube restated the need for a mechanism to monitor activity based costing through to execution of the budget. He also repeated the need for harmonisation of the different policy documents that have a bearing on the national budgets.

4.1.7 Mr. Mubanga said the Constitution was the corner stone of all reform. He said members of the NCC, most of who are MPs, must understand that the outcome of the constitution will have an impact on future generations.

4.2 CLOSING REMARKS

In closing, the FES Director, Mr. Botterweck said he had gained a lot from the discussions. He hoped the same for all participants. He pledged to make information from the meeting available to all MPs, the minster of Finance and to the wider audience as soon as possible. He expressed hope that all had profited from the deliberations. He was optimistic that a similar meeting would be held next year.

With these remarks, the meeting was officially closed.

Appendix I

KEY ISSUES FROM MPS AND CIVIL SOCIETY DIALOGUE ON THE 2008 NATIONAL BUDGET

1. There is need for accurate and timely information from key stakeholders such as private sector, civil society and trade unions to inform Members of Parliament so that they adequately debate issues to the expectations of the people they represent. These stakeholders need to speak out more and widely publicise on issues of advocacy in public interest, so that MPs are able to debate with more backing.

2. The 900bn that government failed to utilise in the last budget and findings from the Auditor General's Report raise questions on who really benefits from the budgets. In the same light, procurement procedures need to be revisited to ensure that allocations to the budget are utilised in a timely manner. The Budget should be presented and approved by Parliament by December to allow for debate and a full year of implementation. This may avoid failure to utilise funds.

3. Members of Parliament do not have much power over how the budget is prepared. This is attributed to the Constitution. Their role is limited to representation, legislation and oversight. On the other hand, laws are in place but are overlooked by government. It was questioned whether this was just an issue of impunity and respect for the Law. It was observed that MP's oversight must extend to scrutinizing use of various funds that have been established to ensure they have an impact on the beneficiaries. In addition, there is need to link the budget to past budgets, the Fifth National Development Plan (FNDP), Medium Term Expenditure Framework (MTEF) and the economic reports, among other documents. In addition, MPs would need the previous year's Economic Report to enable them effectively debate the contents of the budget. This is never provided in time.

4. In the macro-economic sector, there seems to be an emerging trade off between economic growth and inflation. It was noted that the 2007 economic achievements were satisfactory but seemed fragile. The focus on growth is questionable. It was observed that vibrant entrepreneurs alone cannot turn Zambia into a developed country. The issue of equity relates to distribution of resources. Who will be empowered by government spending? The adjustment in percentages could entail a huge increase in inequality.

5. Allocation to the Agriculture Sector continues to be low despite constant sentiments by government that the sector is key to national development. In addition, government failed to pay suppliers for input. This will result in a decrease in agriculture output this year. It was noted that there was no statement made to address the effects that may arise from the decreased allocations, especially considering the current floods that have

destroyed crops. The current allocation can only support 200, 000 peasant farmers out of the 800, 000 in Zambia. MPs agreed to debate around this issue to ensure an increment.

6. On the face of it, revenue measures seem to be making good sense, but at close range, the increase of threshold from K500, 000.00 to K600, 000.00 only represents an increase of K25, 000 which is not much relief to improve livelihoods. The threshold must be linked to the basic needs basket conducted by JCTR to make it more realistic. It is unfair that PAYE is more than mineral royalties. It was also observed that the tax bands had actually been reduced. For example, the tax band to pay 35% had reduced from K5m to K4m. this meant that workers would be paying more. Government needs to expand its sources of income in order to make the budget bigger. Otherwise percentages of allocation will not mean anything for as long as the money is little.

7. The resources being unlocked have been going to the Commercial Banks, yet base rates are not coming down. Commercial Banks are refusing to draw the interest rates because they feel it is too high. This is not unlocking resources for development.

8. Civil Society felt that government should show more commitment to social targets such as water and sanitation, education and health. While it is not easy to adhere to norms for expenditure in key sectors like education and health due to budget constraints, there must be evidence of efforts being made towards that.

9. Government should be encouraged to deal with the matter of revisiting mining contracts without fear or favor. They should also ensure that the gains are equitably distributed to benefit the poor Zambians. Clear and transparent mechanisms should be put in place for mineral taxes, to show how the proceeds will be used. This will avoid repetition of abuse of funds as is currently being portrayed in the Auditor General's Report.

10. The allocation to social protection seems like an increase, but in the real sense, three quarters of that allocation goes to payment of pensioners while only one quarter goes to the vulnerable group. It was felt that this was a misrepresentation.

11. It was noted that Labour organisations needed to be stronger if the expected Parliamentarians to speak on their behalf. This was in light of the fact that the trade unions have accepted unfair increments, making it difficult for MPs to debate on the issue.

12. There is need for more direct interventions in regard to employment creation. Also, the percentages of unemployment seemed misrepresented as it also represented those in the informal sector. There is also need to put in place strategies for retention of workers

through better salaries and conditions of service. There is also need to produce demand driven training for policy makers.

13. The 400bn projected to be realised from mineral royalties has not been reflected in the budget. This revenue base would have been enough to sustain the expenditure. Government feared that putting this amount in the budget would affect inflation. It was also noted that there was the option of government dividing this money amongst the constituencies once it had been realised. The meeting was worried that this may send a message of uncertainty as to whether government was serious about implementing their plans or not.

APPENDIX II

List of Attendance

MEMBERS OF PARLIAMENT PRESENT			
No.	**Name**	**Gender**	**Select Committee**
1	Hon. G. Beene – Chairperson	M	Estimates
2.	Honorable David Matongo	M	Reform and modernisation
3	Hon. Given Lubinda	M	Economics Affair and Labour
4.	Hon. J M Limata	F	Delegated Legislation and Estimates
5	Hon. Batuke Imenda	M	Estimates
6.	Hon. C. L. Milupi	M	Public accounts
7.	Hon. L.P Msichili	M	Public Accounts
8.	Hon. P. Sichamba	M	Public Accounts
9	Hon. D. M. Syakalima	M	Communications, Transport, Works and Supply
10	Hon. Faustina B. Sinyangwe	F	Education, Science and Technology
11	Hon. Elizabeth K. Chitika	F	National Security and Foreign Affairs
12	Hon. F. R Tembo	M	Estimates
13.	Hon. Garry G. Nkombo	M	Education, Science and Technology
14	Hon. Marjory M. Masiye	M	Estimates
15	Hon. M. Habeenzu	M	Health, Community Development and Social Welfare
16	Hon. E Banda	F	Public Accounts and Communications Transport, Works and Supply
17	Hon. Emmanuel M. Hachipuka	M	Public Accounts and Communications
18	Hon. A. Mwamba	F	
19.	Claire Musonda	F	Committee Clerk

CIVIL SOCIETY PARTICIPANTS			
No.	**Name**	**Gender**	**Organisation**
1.	Mr. Robert Liebenthal	M	Economics Association of Zambia, 3rd Floor, Kulima Tower Building, P.O Box 380006, Lusaka. Tel: +260-211-225305, Fax: 260-211-225305 E-mail: eazambia@coppernet.zm
2.	Carren Angora	F	Zambia Land Alliance, Tel: +260-211-222432; Fax: +260-211-236232 E-mail: land@coppernet.zm
3.	Mildred Syabeenzu	F	National Youth Constitutional Assembly
4.	Mary Nakazwe	F	Non- Governmental Organisations Coordinating Council
5.	Kabilika Eugene	M	Caritas Zambia, plot BRT 6, Kapingila House – Kabulonga Road, P.O Box 31965, Lusaka. Tel: +260-211-261789/ 260980, Fax: +260-211-260950
6.	Philip Chilomo	M	Zambia Business Forum, Plot No. 4 United Nations Street, P.O Box 37202, Lusaka. Tel: +260-211-257166 E-mail: secretariat@zbf.org.zm
7.	Juliet Ilunga Chanda	F	Christian Council of Zambia, P.O box 30315, Lusaka. Tel: +260-1-229551/ 235132
8.	Mulenga Fube	M	Youth Constitutional Coordinating Committee, Private Bag RW 37X, Lusaka
9.	Leonard C. Hikaumba (President)	M	Zambia Congress of Trade Unions (ZCTU), P.O Box 31146, Lusaka
10.	Sam A Phiri (1st Deputy President)	M	Zambia Congress of Trade Unions (ZCTU), P.O Box 31146, Lusaka
11.	Rayford Mbulu (President)	M	Mineworkers Union of Zambia (MUZ), P.O Box 20448, Kitwe
12.	Ian R. Mkandawire (Deputy Secretary General, Finance and Business Administration)	M	Zambia Congress of Trade Unions (ZCTU), P.O Box 20652, Kitwe Tel: +260-212-224681; 099-818813; Fax: 260-212-228284 E-mail: zctu@kitwe.microlink.zm
13.	Lyson Mando (National Executive Secretary)	M	Federation of Free Trade Unions of Zambia (FFTUZ) Woodgate House, 1st Floor, P.O Box 34739, Lusaka Tel: +260-211-220484
14.	Mulenga Kabiti	M	MISA Zambia P.O Box 32295, Lusaka

			Tel: _260-211-292096/7 E-mail: info@misazambia.org.zm
15.	Chris Pain	M	GTZ Lusaka Office – Economic Support Program Plot 6469, Kariba Road, Kalundu, Private Bag RW 37X, Lusaka Tel: +260-211-291918/19/20; Fax: +260-211-291946
16.	Lorraine Mupeta	F	GTZ Lusaka Office – Economic Support Program Plot 6469, Kariba Road, Kalundu, Private Bag RW 37X, Lusaka Tel: +260-211-291918/19/20; Fax: +260-211-291946
17.	Emmanuel Zulu	M	Caritas Zambia, plot BRT 6, Kapingila House – Kabulonga Road, P.O Box 31965, Lusaka. Tel: +260-211-261789/ 260980, Fax: +260-211-260950
18.	Albert Mutale	M	Zambia Land Alliance, Tel: +260-211-222432; Fax: +260-211-236232 E-mail: land@coppernet.zm
19	Saul Banda	M	Civil Society for Poverty Reduction (CSPR), Private Bag E891, Post net Number 302, Lusaka.
20.	Sam Mulafulafu	M	Caritas Zambia, plot BRT 6, Kapingila House – Kabulonga Road, P.O Box 31965, Lusaka. Tel: +260-211-261789/ 260980, Fax: +260-211-260950
MEDIA			
1.	Helen Hambuba	F	Zambia National Broadcasting Corporation (ZNBC), P.O Box 50015, Lusaka
2.	Chansa Mayani	F	Zambia National Broadcasting Corporation (ZNBC), P.O Box 50015, Lusaka
3.	Gilbert Miti	M	Zambia National Broadcasting Corporation (ZNBC), P.O Box 50015, Lusaka
4.	Doreen Nawa	F	Times of Zambia, Lusaka
5.	Mutuna Chanda	M	The Post Newspapers 36 Bwinjimfumu Road, Rhodes Park, Private Bag E352, Lusaka
6.	Stephen Kata	M	Business Weekly
7.	Mulenga Kabiti	M	MISA Zambia, P.O Box 32295, Lusaka Tel: +260-211-292096/7; 294285/6

			E-mail: info@misazambia.org.zm
Resource persons			
8.	Mr. Reuben Lifuka	M	**Facilitator** – Dialogue Africa, Suite 2, Plot 1311, Lubu Road, P.O Box 31447, Lusaka
9.	Gerd Botterweck	M	**Seminar Staff** – Frederich Ebert Stiftung, P.O Box 30554, Lusaka
10.	Florence Kolala	F	**Seminar Staff** – Frederich Ebert Stiftung, P.O Box 30554, Lusaka
11.	Kathy B. Sikombe	F	**Seminar Staff** – Frederich Ebert Stiftung, P.O Box 30554, Lusaka
12.	Ivy Mutwale	F	**Rapporteur** – Civil Society for Poverty Reduction (CSPR), Private Bag E891, Post net Number 302, Lusaka. E-mail: ivy@cspr.org.zm
13.	Fr. Pete Henriot	M	**Presenter** – Jesuit Center for Theological Reflection (JCTR), P.O Box 37774, Lusaka. phenriot@jesuits.org.zm
14.	Edmond Kangamungazi	M	**Presenter** - Caritas Zambia, plot BRT 6, Kapingila House – Kabulonga Road, P.O Box 31965, Lusaka. Tel: +260-211-261789/ 260980, Fax: +260-211-260950
15.	Isaac Ngoma	M	**Presenter** - Economics Association of Zambia, P.O Box 38006, Lusaka
16.	Professor Ventakesh Seshamani	M	**Presenter** - University of Zambia, P.O Box 32379, Zambia
17.	Robert Sichinga	M	**Presenter** - C/O Zambia Business Forum, Plot No. 4, United Nations Street, P.O Box 37202, Lusaka
18.	Grayson Koyi	M	**Presenter** - C/O ZCTU, P.O Box 31145, Lusaka

APPENDIX III

PROGRAM

SATURDAY, 23 FEBRUARY 2008

08.30 Hours: Arrival and Registration

09.00 - 09.20Hours: Official Opening - FES Resident Director - **Gerd Botterweck**

JCTR Director -**Fr. Pete Henriot**

09.20 - 09.50 Hours: "Macroeconomic, Efficiency and Equity Aspects of the 2008 Budget"- ***by*** **Prof. Venkatesh Seshamani, UNZA**

09.50 - 10.10 Hours: Open Discussion

10.10 - 10.30 Hours: **Tea Break**

10.30 - 11.45 Hours: Presentations **on 2008 Budget Concerns by:**

Civil Society Organisations Consolidated

Input- Edmond kangamungazi, Caritas Zambia

- Clarifications & Questions by Moderator, ***Rueben Lifuka***

- Civil Society - **EAZ, Isaac Ngoma**

11.45 **-** 13.00 Hours: Open Discussions

13.00 - 14.00 Hours: **Lunch**

14.0014.30Hours: "Economic Reforms Necessary to Achieve Unlocking Resources for Economic Empowerment and Wealth Creation" by: Bob Sichinga, Economic Consultant

14.30 - 15.30 Hours: **Trade Unions** by Grayson Koyi, CSUZ
14.31

15.30 - 16.00 Hours: **Tea Break**

16.00 - 17.00 Hours: Open Discussions / Key Points, Final Discussions

17.00 Hours: **C L O S U R E**

APPENDIX V

CONSOLIDATED ANALYSIS OF THE 2008 NATIONAL BUDGET

JCTR

INTRODUCTION

This document outlines the 2008 National Budget analysis prepared by the Caritas Zambia, Civil Society for Poverty Reduction (CSPR) and Jesuits Center for Theological Reflection (JCTR)

It is our aim therefore to critically analyze the budget and examine what options it has for the poor. As Civil Society, we belief that every prospective national budget be viewed in light of whether it protects or undermines the dignity of the human person and realizing that all people have the right to participate in the economy of a given country.
Context in which the 2008 Budget was presented

The year 2008 marks three years after the attainment of the Heavily Indebted Poor Countries and the Multilateral Debt relief Initiative (MDRI) which significantly reduced Zambia's external debt to US$1.8 billion in 2006 from 7.1 billion at the end of 2004. This year is also the mid-point of Zambia's Fifth National Development Plan which was launched in 2006 and intended to be implemented up to 2010. 2008, is also somehow the midpoint for the Millennium Development Goals (MDGs) to be met by 2015.

Zambia's macro-economic indicators reveal that there has been steady growth recorded at an average of over 4 percent in the last 5 years while inflation has also been below 10 percent in the last two years. While this favourable macro-economic outlook is necessary for the improvement of economic and human development; in itself, it does not guarantee human development and poverty reduction.

The Lack of tangible benefits accruing to many Zambians is evident by the increase in rural poverty from 78 percent to 80 percent (LCMS 2006). Of Zambia's 11.7 million people, 7,612,472 or 65 % are in rural areas. Notwithstanding the recent pronouncements that urban poverty reduced to 34 % in 2006 from 53 % in 2004, currently 97 % of Zambians in rural areas perceive themselves as poor while 92 % in urban areas perceive themselves as poor (World Bank vulnerability study, 2007). This brings the average of self-assessed poverty to 95 %.

BASIS OF OUR COMMENT ON THE NATIONAL BUDGET

Traditionally, national budgets are a single most important tool reflecting the performance of several critical economic and social functions. They facilitate the allocation of resources, provision of basic social services, amelioration of income and wealth disparities, stabilization of prices, and generation of economic growth and employment.

National Budgets reflect the vision of the economic and social development of a government and more generally the values of a given society. They also reflect the choices that governments make to realize their social and economic agenda.

SPECIFIC MEASURES

Below we present some of the policy measures that have been announced and briefly comment on their implications.

MACROECONOMIC TARGETS FOR 2008

The following targets were set out in Paragraph 68 of the 2008 National Budget;

1. Achieve real GDP growth of at least 7 percent;
2. Bring down end-year inflation to no more than 7 percent;
3. Limit domestic borrowing to 1.2 percent of GDP; and
4. Maintain the coverage of gross international reserves at no less than 3.6 months of import cover.

GDP growth of at least 7 percent

It should be emphasized that Economic growth is a necessary condition for poverty reduction (***A minimum of at least 8% is needed if we are to attain the MDGs***).This study done by JCTR and CSPR IN 2005 dubbed" costing of the MDGs clearly substantiates this demand. This is needed not only to reduce income poverty, but also to reach the other MDGs and trends indicate that countries with the greatest progress in poverty reduction are those with the strongest economic growth rates. In as much as the budget tries to be realistic, a target of 7% falls short of the recommended percentage for a meaning dent on poverty. This poses a lot of questions on the focus of the budget on why it is aiming for a low target of 7%.

It is also important to reflect on whether the increased GDP recorded in the past four years has trickled to the general citizenry. In view of the high unemployment levels and increased rural poverty, it is imperative to question who is creating this wealth and where it is going. Whilst the FNDP singles out the Agriculture sector as its major driver, the reduction by 5.8% (800.5m) from 8.8% (1064.8) comparing the 2007 and 2008 budgetary allocation as indicated in paragraph 101 of the 2008 National Budget, is disproportionate to this aspiration. . This is the sector that employs the majority of the population most of them marginalized. These people are therefore likely to be left out from benefiting the projected growth and wealth creation. The call to adequately cater for the less privileged through increased budgetary allocation to sectors promoting improved livelihoods of the poor can therefore not be overemphasized.

Bring down end-year inflation to no more than 7 percent;

The government aims to reduce inflation from 9% to 7%. This is really desirable as far as macroeconomic stability is concerned. Lower inflation is expected to lead to reduction in interest rates, which could encourage long term borrowing for investment. We commend the government for aiming for low inflation as high inflation tend to be indirect taxes on incomes, consequently reducing the value of the incomes of the poor in particular.

However the desirability of low inflation depends also on the cost of achieving the so much talked about inflation that the government has achieved. The government has been aiming at reducing inflation to as low as 5% but the question to ask is what development policy objectives does this target intend to achieve? Reducing inflation has a cost to society and what is the cost that is acceptable to society- what are they sacrificing- is it the high rate of unemployment? Or is it the high levels of inequality?

We believe that lowering inflation at the expense of increasing unemployment levels does not net any increase in purchasing power of Zambians. An inflation rate of 7% means nothing to the unemployed since they earn no money to spend. Reducing inflation under the current conditions would therefore be meaningless to an unemployed Zambian, no matter what the price level is.

Limit domestic borrowing to 1.2 percent of GDP

The government wants to maintain its domestic borrowing to 1.2% of GDP. This is inconsistent with the FNDP's proposal of reducing domestic government borrowing to less than 1.0 percent of GDP from 2008 onwards,. Furthermore, this is not commensurate with the theme, 'unlocking resources' since the government is insisting in continuing to borrow.

The government ought to realize that the increase in domestic borrowing tends to crowd out the private sector investment that we have been trying to encourage in the recent past. Certainly, private investment is essential for ensuring not only economic growth but also sustainable development and poverty reduction. The private sector helps to increase the productive capacity of an economy, drives job creation, brings innovation and new technologies, and boosts income growth. This can only be promoted if the government reduces its domestic borrowing **NOT** increasing it or maintaining it at its high levels. This has also considerable effect on the interest rates that we have been trying so hard to reduce.

We urge the government to reduce its domestic borrowing to less than 1 percent of GDP as a first step in 'Unlocking Resources for Economic Empowerment and Wealth Creation'

Social Targets

As much as setting macroeconomic targets for the budget is important, **the government needs to set targets for the social sectors (e.g water and sanitation facilities, education, health etc).** There is need for progressive realization of social sector improvement and more equitable creation of employment should be created. The country is now facing an employment crisis with barely 500,000 people in formal employment and more than 3.5 million people looking for jobs, most of them college and university graduates. It is regrettable that the 2008 budget completely ignores the issue of employment.

Therefore, empowering people with jobs that ensure sustainable livelihoods to individuals and their families is one of the best and effective ways of unlocking the resources, otherwise the other macroeconomics targets become meaningless if they do not translate to anything in people's lives.

BUDGET EXECUTION

It is a good gesture that the government intends to build capacities of Ministries, Provinces and other spending agencies to evaluate and implement capital projects on time (paragraph 71). **The government really needs to build capacity in ministries in implementing programmes and projects, which has been seen to be lacking**. Even the practice of having to wait for the funds to be transferred to the Banks for programmes and projects needs to be discouraged. As per tender regulations, ministries should start the procurement procedures based on the allocation in the budget. **However, government should make funds available on time to facilitate timely implementation of projects especially infrastructure development.** Lack of tender plans and timely release of funding retards development in most constituencies.

We also take note that in the 2007 budget, paragraph 70, the Minister promised improvements in budget execution through monthly and quarterly reports from Ministries, Provinces and Spending Agencies (MPSAs) which were never shared with the public posing doubts as to whether they were actually produced. These measures and reports were also in part intended to "widen stakeholder involvement in budget implementation and give an opportunity to all stakeholders to be fully involved in the monitoring and evaluation of programmes". Without public scrutiny of reports from MPSAs and with bureaucratic structures which do not readily and easily provide information to interested stakeholders it is therefore imperative that the Ministry of Finance and Ministry of Information broaden the basis for public engagement.

DEBT AND AID POLICIES

In paragraph 29 of the 2007 national budget, it was indicated that the domestic debt stock was estimated to be at K7, 687 billion but in paragraph 25 of the 2008 budget preliminary figures show that the stock of domestic debt and other public liabilities declined by 7.1 percent to an estimated K8, 885.5 billion in 2007. This is a contradiction. The domestic debt actually increased by 26.02% in 2007 and by 45.66% compared to the 2006 domestic debt which was standing at K6, 100.0 billion!!!

The domestic debt has been cumulatively increasing and is largely owed to local contractors and suppliers whose income is crucial to maintaining employment. Utmost urgency should be paid to this issue and It is worrying to note that the government keeps on ignoring this issue and our worry is that we are falling into a vicious cycle of domestic borrowing to service that debt. This is a crisis that the government needs to work on and give it its utmost urgency that it deserves unlike the way they are underplaying it. ***The government should resolve this crisis***.

Critical analysis also reveals that the bulk of the arrears are owed to commercial banks road developers, mostly foreign owned thus questioning if these is really 'domestic debt'. ***The definition of domestic debt will therefore need to be clarified***. Government also borrows from the public (treasury bills) and benefits of workers.

ECONOMIC SECTORS

Mining

We commend the government for changing the fiscal regime to match the current trends in the mining industry. This will also help in the much needed financing of development of the social programmes. This could not have come at a better time in the sense that it has the potential of removing the dangers of overdependence on donor support to some extent. While this support will continue to be important and duly appreciated, we believe that the new fiscal regime will be an important stepping stone to embark on a deliberate programme of weaning the economy from kind of dependence which has often left it vulnerable.
The revision to the mining tax regime is a progressive step in ensuring that corporate institutions make higher contributions to the revenue side of the budget. We hope that the additional US 415 million to be generated from taxes on mining firms would be spread across social and economic sectors to improve service delivery and increase capital investments necessary for integral human development.

For the people of Zambia to share in the benefits of increased world market prices of their national assets it is essential the new tax regime be introduced noting that the current situation is inequitable, unacceptable and inconsistent with the principles of the constitution and the Government of Zambia has a sacred responsibility towards the people of Zambia whom it represents. We applaud the GRZ for its determination and its stance on the new tax regime and we urge the government officials not to compromise its current position. It will also be prudent for the government to remain alive to the fact that low taxes were only a small part of the huge challenges facing the mining sector. As the summarized by Fraser and Lungu (2006), these include!) inadequate regulation, illegal operations, umpunity Casualisation of the workforce,3) Deepening pensioner poverty,$)Lack of linkages to local business and5)failure to protect the social infrastructure.

SOCIAL SECTORS

Education

The governments' intention to hire additional 5,000 teachers is a welcome move (Paragraph 112). We just hope the government will be more practical and not just mention figures to please the masses. We also welcome they intension of wanting to intensify the retention of teacher's initiatives, expand the provision of education materials and the construction of classrooms and teachers houses in rural areas especially.

As much as we want to hire teachers, **they government needs to be mindful of the quality of education being offered by the schools so as to improve the quality of schooling in general**.

The table below shows a comparison of the budget and the FNDP

Item	2007 (ZMK' billion)	2008 (ZMK' billion)
National Budget	K12,042.4	13,761.4

Total National Education budget.	K1,808.4	2,118.5
% of total Budget	15.00%	15.4%
FNDP Absolute amounts	1,998	2,205
% FNDP of total Budget	17.1	17.8
Cairo Protocol	20%	20%

The national budget has in absolute amounts increased by 14% compared to the 2007 national budget. However, the Education budget has in absolute amounts increased only by 17.15% (which is ZMK310.1 billion) compared to 2007. Comparing the last two national budgets and the FNDP we realize that we have been allocating less to this sector than what we had projected. This questions the ability of the government and its commitment in wanting to improve the standard of education in Zambia and also the welfare of the teachers!!! .

The government needs to focus on improving conditions for recruitments and developing retention schemes. The commitment to improving housing for teachers should be carried through as this would add to the success of the recruitment and retention process. The government needs to also see the importance of improved personnel emoluments for social service providers. That is in order to improve morale of workers and improve the retention of trained staff.

The 2008 budget does not provide any support for Community schools opposed to the 2007 budget in which they received assistance in excess of k163 million. The role played by community schools is already appreciated by the Ministry of Education and their enrolment is only second to government institutions.

If resources are really to be unlocked, education is key and **more budgetary allocation should be channeled to this sector**. Therefore, education should not be seen as consumption but investment! The projected budget allocation to the education sector won't be enough if we truly want to create a society where human life has equal worth and where every child has an equal opportunity to succeed, we must improve the quality of our schools. This will not happen on its own. We need concerted action to make things change.

Health

We commend the government for realizing that the health sector is in need of more personnel, thus its intention in paragraph 115 to recruit 1,700 workers. This will at least help the health institutions respond adequately to the increasing demand of their services especially in this day and age of HIV/AIDS.

In paragraph 115 the government increased total expenditure on health as a share of the total budget which is projected to scale up by 0.7% (less compared to the MTEF 2008-2010 paragraph 75 which proposed an increase of 1.18 percentage points). In actual fact there is no real increment to the health sector. Will K292.6billion (0.7%) be able to pay for the salaries of the new recruits and the old employees at the same time, maintaining them plus procurement of essential drugs and provision of infrastructure and equipment development that the health sector so desperately needs??!!!

Broadly speaking, this budget outlay covered DHMT activities at District level in terms of personal Emoluments [Salaries and Wages, [36%]; Health care at District hospital levels and Disease prevention and Health promotion in the district, [22%]; and District Health System Administration / Management – [9%]. At Provincial level, the allocation covers General Hospitals [17%]; Health Worker Training Institutions – [3%] and the Provincial Health Offices – [13%] –.These allocations have been adhered to for all provinces, except in Lusaka Province where we do not have a General hospital.

In as much as the we appreciate that Principles of fairness have been followed, such that well-off and/or urban provinces have less allocations per person than in rural provinces [which are generally disadvantaged in terms of both development and disease burden (more illnesses and deaths in rural and poor provinces)

But this apparent fairness is merely deceptive if we take into account allocations to Central hospitals and other allocations from central level, which are targeted at general hospital. It will follow from this that since there is generally lack of transport and a broken down referral system, most people that used the facilities at General and Central hospitals are local residents. This fact changes the factors to consider for per capita allocation and the picture changes to unfairness – in that the urban and better off provinces now have bigger allocations to a person for health than residents in rural and poorer provinces

The population is increasing, it is not constant, and health demand is also increasing. The health sector is desperately in need of real monetary budget increase which will be able to cushion the shortage of health workers, improve the provision of quality health care and services in the midst of the HIV/AIDS, malaria, TB scares. The commitment of the government towards this sector leaves much to be desired. The government needs to put more effort to this sector improvement.

Social Protection

Civil Society would like to commend the government for its willingness to dismantle ALL the pension arrears, Paragraph 117 in the 2008 budget. As such, allocation has increased by 68.2% i.e. from K343.5 billion (2007) to K577.7 billion (2008). K435.9 billion will be for the complete payment of pension arrears and meeting the current obligations to the Public Service Pension Fund while the balance of K141.8 billion will go towards other social protection programmes.

This simply means that the government will in actual fact allocate K141.8 Billion to policies and practices that protect and promote the livelihoods and welfare of people suffering from critical levels of poverty and deprivation, and/or people who are vulnerable to risks and shocks." **Surely is this enough?**!!!!! **The government should not consider spending under social**

protection as a luxury, they government should increase its spending to this sector by at least 30% looking at the numbers of people that are vulnerable and also realising that more than 47% of the population are living in abject poverty.

The allocation of the budget to other social protection programmes is not sufficient to cover effective delivery of the Ministry of Community Development and Social Services (MCDSS). We can therefore conclude that the 2008 Budget has neglected and does not offer an effective path through which the various issues affecting the aged, vulnerable women, orphaned and vulnerable children including street children, can be addressed

We urge the government to put sustainable measures that will ensure that the government does not accumulate the pension arrears again.

REVENUE MEASURES

Direct taxes

PAY –AS –YOU -EARN

The 2008 national budget should be concerned with inequality and equity because it can mitigate against the achievements of economic growth and a lot of research showed that there tends to be a negative relation between the prevailing inequality and subsequent economic growth. This means that that high inequality especially in a low income-country like Zambia can have disastrous consequences for poverty, hunger, malnutrition and mortality. The country's objectives of maintaining the Millennium Developmental Goals (MDG's) or of making poverty history can never be achieved as long as high inequality and hence lack of equity – remains a major issue which 2008 national budget adequately ignores.

This is especially reflected in the income tax. The 2008 budget has increased the tax credit from K500, 000 to K600, 000.

We feel that the budget has failed to relate the cost of living to the tax exemption that has been provided for. The Tax credit of 20 percent increase is very insignificant considering the high prices of commodities- e.g. electricity tariffs and fuel was increased recently. Going by the Jesuit Centre for Theological Reflection (JCTR) data which shows the cost of living using the cost of essential food items and essential but non-food items for a family of six in Zambia, the statistics of poor people could be higher. The December 2007 Basic Needs Basket (BNB) shows that, for a family of six in Lusaka to have adequate food, it needs about K569, 500 (this is less cost of essentials but non foods items including housing, electricity, water etc). This means that a minimum wage/income per month should be at least K 569,500 which is just enough to meet the food aspect. In this regard we feel that a tax credit of K 600,000 per month is a mockery considering the high cost of living in Zambia today. **The threshold should be increased to not less K 1, 500,000.**

The 2008 budget has not taken the equity aspect on board. For example let's consider individual A and B whose earning is K1, 500,000 and K2, 500,000 per annum. The difference between the two incomes is K1, 000,000.

One of the objectives of taxation is by narrowing the difference of incomes. The net incomes difference in 2007 between the two would have been K710,000 and now in 2008, the net income difference is K716,750. The net incomes would have significantly increased but the inequality in their net incomes compared to 2008 and 2007 would have also risen. This is worrying and **we urge the government to effect changes in the tax credit and tax bands as to make the rate structure of the income tax more progressive so as to avoid causing huge disparities in the already highly disparate personal income distribution**.

CUSTOMS AND EXCISE

The Government reduction of customs duty on musical equipment in order to promote the music industry is a welcome gesture (paragraph 129). This will help in the expansion and improvement of the industry.

We also commend the government imposing an export levy of 15 percent on export of copper concentrates paragraph 132, this will help in the industry to concentrate not only on raw material export and this is also expected to generate employment opportunities.

- **Value Added Tax**

We commend the government for reducing tax from 17.5% to 16% effective 1st April. **However the government should consider reducing VAT proportionately to the GDP growth so that Zambians get the benefits of having a positive and higher GDP. We also feel that it would have been more meaningful if it was effective the day the budget speech was announced.**

It is now common knowledge that the tax changes have generated much heated debate and opposition within the labour movement and the public in general. For people to see the benefits of a progressive tax system, government needs to control its tendency to spend excessively on such things as vehicles, travel and sitting allowances at the expense of declining resources in health, education, infrastructure and social welfare for the core poor. **Government needs to check its record of poor accountability, lack of transparency, misappropriation of funds and blatant corruption that go unpunished.**

Non-Tax Revenues

There are a variety of revenue-generating measures that have been put forward by government such as lifting the waiver on visa fees under tour packages, revise the fees payable under the Passport and Citizenship Act and revision of the road user fees payable under the road traffic (paragraph 139-142).

The government should realise that the success of such measures at generating revenue depend on the related fees being modest and reasonable to reduce the incentive for evasion, while the capacity of relevant institutions to process the necessary documentation and handle the finances is also important.

Often times these institutions will lack administrative capacity and financial, accounting and internal control mechanisms for effective accountability prior to having such a great responsibility thrust upon them. Consequently, the high fees charged by government do not automatically translate into higher revenues because of a variety of intervening factors. **We urge the government to resolve these issues if we are going to raise the revenues projected in the 2008 national budget.**

CONCLUSIONS AND RECOMMENDATIONS

The government needs to improve its implementation capacity that is noticeably very low otherwise the objectives and goals set under the FNDP will be a pipe dream. It has been noticed that the line ministries start the procurement procedures only after the funds asked for from the treasury has reached their respective commercial banks thus contributing to low implementation levels in terms of implementation. The ministries should be starting the procurement process before the funds have been sent otherwise we will continue seeing the increase of programmes and projects not implemented or partly implemented. This surmounts to a strong case for making increased use of service delivery surveys and tracking surveys to give fast, cheap feedback on how Government funds are actually used, and what the population thinks of services.

If public expenditure is to serve the interests of the poor people, political will is a must!! There is need to confront difficult choices and it is inevitable and necessary, but not sufficient- there is also the aspect of political courage. Choices and decisions need to be made that will align public expenditure to make it more effective and efficient; macro-economic and budget stability is a must, and budget systems that turn policy analysis into actual cash releases to implement the intended policies need to be in existent. This has to be accompanied with reforms that bring the incentives facing those required to implement expenditure programmes that are stipulated in the national budgets and policy documents/ National development programmes e.g. The Firth National Development Plan (FNDP).

1. As we try to attain the macroeconomic objectives we hope that the government will also look at setting targets for the social sector- it should include targets like employment levels realizing that the levels of unemployment is turning into an economic crisis, we need to generate more low skilled jobs in our quest for higher growth thus also having a growth that means something to the ordinary people. We need to generate more low skilled jobs in our quest for higher growth thus also having a growth that means something to the ordinary people

2. We support the government's efforts in the war against corruption and abuse of offices. However, we feel more can be done especially in speeding up cases and meting out stiffer punishment to deter others. The Auditor General's reports show that billions of public resources are ending up in pockets of a few greedy people. Most of these people

are custodians, such as accountants, or leaders, such as heads of government departments. These are people who may have higher education and been trained in ethics. There is need to research on the selfishness that is being exhibited by professional. May be there is also need to have ubuntu or patriotism courses included in the school syllabus.

3. Spending on Agriculture should be scaled up to reflect the recent challenges facing the agriculture sector in view of the floods which have affected most parts of the country. Agriculture spending should also be commensurate with the demographic dynamics and the poverty levels in rural areas

4. For faster economic growth, infrastructure is important hence emphasis should be placed on its development

5. The government needs to improve the working conditions of public servants to act as incentives and motivation for efficiency, develop clear objectives and performance standards for each line ministry, strengthen the monitoring and evaluation of the public sector reform program and as well making sure that the budget implementation, monitoring and reporting are systematic rather than ad hoc. This will equally encourage the much-needed economic growth.

6. Government should exercise strong control on its expenditures by reducing non-priority expenditures. Key areas like health, education, water and sanitation, orphans and vulnerable children issues including disability issues must take priority in the Poverty Reduction Programme

7. The government should increase the allocation to the Heath sector to not less than 13% of the total budget and the government should increase the allocation for rural housing for medical staff. This will encourage medical staff to work in rural areas, as they will be assured of having accommodation.

8. The government should embark on hospital revitalization programmes, as an infrastructure programmes with a clear budget line in the national budget

9. The government should increase the threshold from K600, 000 to K1,500,000

10. Government to harmonize and concentrate on the decentralization process so that the budget process and the budget itself are reflective of the local communities and not the opinion of the people in power. Government should consult the people in the rural and urban communities rather than subjecting the people to the priorities that are not workable or which do not trickle down to the communities and people in the streets.

11. The budget needs to focus on the major strategic choices facing allocations between departments rather than detailed costing of outputs and activities. This will require strengthening of central planning/budget departments, enabling them to question officials on how their budget proposals relate to Government policy, and to advise Cabinet on budget allocations.

12. There is a strong case for simplifying the budget, giving managers increased discretion to allocate budgets as they see fit, but holding them accountable for achieving their outputs. It was pointed out that the government takes a lot of time in releasing funds for implementation of projects and for infrastructure development. The inability of Ministries to make funds available to their constituencies in good time results in retarding development in the communities.

We thank you for the confidence you have shown in us and It is our hope that your work and our input will help to move the country forward.

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APPENDIX VI

ECONOMICS ASSOCIATION OF ZAMBIA

PAPER ON THE

2008 BUDGET PRESENTED AT THE MPS AND CIVIL SOCIETY DIALOGUE AT MULUNGUSHI INTERNATIONAL CONFERENCE CENTRE ON SATURDAY,23 FEBRUARY,2008

BY ISAAC NGOMA-ACTING DIRECTOR GENERAL EAZ

1. The presentation is organised as follows:

a. Economic performance in 2007 and prospects for 2008

b. Budget execution

c. Theme of the budget
d. Mining taxation
e. Revenue measures
f. Expenditure proposals
g. Debt and aid
h. Conclusion & Recommendation

Economic performance in 2007 and prospects for 2008

2. The Minister of Finance reported satisfactory GDP growth of about 6% in 2007, with end-year inflation at less than 10%. As we predicted in our memorandum to this Committee last year, the inflation target of 5% was not met. While the improved economic performance of recent years has been maintained, poverty remains high especially in the rural areas. It is doubtful whether growth at 6% is sufficient to reduce poverty.

3. Moreover, preliminary data for the composition of growth in 2007 indicate that most of the growth was in construction, transport and communications, with below-average growth in agriculture, tourism and mining. It is unlikely that overall economic growth can be sustained on the basis of construction, transport and communications alone. The relatively slow growth in agriculture, one of the pillars of the FNDP and a sector likely to have a significant effect on job creation and therefore poverty reduction, is cause for concern.

4. For 2008, GDP growth and inflation are both targeted at 7%. While the Association strongly supports the aim of higher growth and lower inflation, both targets may be jeopardised by the recent flooding as well as the power outages. With about 9 weeks to go before the end of the rains, the flooding is likely to intensify and could assume the proportions of a national disaster, if it has not done so already. Not only will this pose a major threat to livelihoods in many parts of the country, it may cause large falls in agricultural output and require extensive rehabilitation of infrastructure. It is understood that the power outages have already had a significant impact on mining production. With major new mining projects expected to come on stream during 2008, mining output can be expected to rise, provided that sufficient power can be made available, which may be difficult in view of the current shortages.

5. In addition, the international economic and financial environment is more uncertain this year than it has been for some time past. In particular, fears of a recession in the US have if anything intensified in the past week or so, despite a large fiscal stimulus package having been proposed by the US Administration and a 1.25% cut in interest rates by the Federal Reserve. Global economic growth forecasts by the IMF and others have been revised downwards, and even China and India, which have been experiencing growth in excess of 10% in recent years, are expecting slightly lower growth. This could impact on mineral prices. In addition, oil and grain prices internationally seem likely to remain high, which could impact adversely on Zambia's terms of trade and on domestic inflation.

6. While the recent improvements in the country's economic performance, especially the progress in stabilising the economy, must be acknowledged, there is no room for complacency. At this juncture, it would appear that even maintaining last year's economic performance will require additional effort.

7. The Association's view is that **achieving faster growth in 2008 and beyond depend on more determined implementation of the main reform programmes – PEMFA, PSD, FSDP and PSRP – which the Government has launched, and that the efforts to mobilise resources for investment, especially in the private sector, should be redoubled**. We note that the Minister of Finance bemoans the slow pace of implementation of these reform programmes, (para 94 of the Speech), but does not report in any detail on their progress, especially on what has constrained their progress. This despite the relatively detailed commitments he made in last year's budget speech with respect to PEMFA, (see Annex 1). **We call upon Government to report regularly to the National Assembly and to the public at large on the progress of these reform programmes.**

8. The Association believes that the recent problems in the power sector may in part reflect a lukewarm attitude in the Government towards reform in general and the mobilisation of private investment in particular. The looming power deficit in Zambia and in the region has been expected for several years, but action has been held up by Government's reluctance to reform the power sector in such a way as to encourage independent power generation and distribution (unbundling). Indeed, by absorbing Kariba North Bank into ZESCO, the Government moved in the opposite direction. Yet the magnitude and urgency of the power investment programme cannot be matched without substantial private investment.

Budget execution

9. The fact that less than 90% of the approved budget was spent in 2007, is of huge concern. The Minister's statement as to why this has happened (para. 58 of the Budget speech) is unclear: "This was, in part, a reflection of capacity constraints within spending agencies and contractors in the private sector, delayed procurement and structural factors associated with the Budget cycle". The Association considers such under spending unacceptable at a time when the need for infrastructure and social programmes has never been greater. The statements in the Minister's speech about budget execution in 2008 need further clarification (para. 72), and appear to amount only to exhortation to the National Assembly to approve the Estimates by the end of February 2008. Without a serious analysis of the causes of poor execution last year, it is hard to believe that, on its own, this would make much difference. **As last year, the Association urges that the Government undertakes regular reviews of such spending, and that Parliament exercises the necessary oversight.**

10. **The Association suggests the scrutiny of the use of various funds that have been established in past years, such as the Youth Fund and the Tourism Fund**. A substantial allocation has been made for the empowerment fund, but the experience with these special funds in the past has not been carefully examined, and it would be desirable to examine the experience more closely before adding more of them, laudable though their aims may be. In addition, the Citizens Economic Empowerment Fund appears to overlap with the mandate of the ZDA.

11. An important component of Government spending is personal emoluments, i.e. public service salaries and allowances. These have not so far been reported separately for 2007, but in the past they have hovered around 8% of GDP, a relatively high figure by international standards**. While the EAZ strongly supports restoring civil service remuneration to appropriate levels, it is concerned at the silence in the Minister's speech on the PSRP and pay reform, in particular the shifting of allowances into basic pay and the introduction of performance-related remuneration for civil servants.** The EAZ believes that much of the underperformance of the budget in 2007 and the capacity constraints in the Government can be attributed to the absence of a modern system for civil service remuneration.

Theme of the Budget

12. The theme "Unlocking Resources for Economic Empowerment and Wealth Creation" leaves open the question: Empowerment for whom? Wealth Creation for whom? The EAZ is concerned that the Vision 2030 and FNDP emphasis on poverty reduction seems to have been set aside, though allocations for education and health in the budget have increased.

13. During 2007, the EAZ ran a seminar series on Equity and Development, motivated by Zambia's continuing high poverty levels and relatively unequal income distribution. The broad conclusion of those seminars is that both poverty reduction and growth can be attained by policies aimed at expanding employment and improving service delivery. **The EAZ believes that, while empowerment and wealth creation are valid objectives, greater equity and poverty reduction should remain key objectives also**.

14. The Association submits that the accountability for key Government policies and programmes is still limited. The theme of last year's budget was "From Stability to Improved Service Delivery", but little has been said, and little evidence presented, on whether services have improved or not. For example, the Association is not aware of any public expenditure reviews having been undertaken, as promised by the Minister last year, and as recommended to this Committee by the Association last year, yet in countries like Tanzania and Uganda, these are important tools for analysing the effectiveness of public expenditure, determining the constraints on effective service delivery, and achieving consensus around the way forward.

Mining Taxation

15. The Association welcomes the measures announced by the President and the Minister to increase the share of mining revenue accruing to the Government, especially the windfall taxes. In fact, the Association recommended exactly this form of taxation in its submission to the parliamentary Committee in 2007, and its submission to the Committee on Economics and Labour in 2006.

16. In para. 147 of his Budget speech, the Minister has outlined the main features of the proposed new mining tax regime. On the face of it, the proposed measures are in line with best practice, specifically the application of a both a variable profits tax and a windfall tax related to prices, and the use of a reference price instead of average revenues declared by the mining companies. However, the detailed proposals have not yet been made available, and **the Association recommends that**

Government makes both the detailed proposals and their rationale available to the appropriate Committee of the National Assembly and to the public at large for scrutiny.

17. In addition, while the proposed new mining tax regime is supported in principle, it is also important to understand the impact it is likely to have on existing and new mining investment, and other possible consequences. The new taxes may reduce the post-tax return on new investment, and could also impact on the financing of such investment, if the mining companies were expecting part of such finance to come from retained earnings. **We encourage Members of Parliament to obtain more information on these issues.**

18. In para. 83 of the Budget Speech, the Minister stated that "the additional revenues arising from the new mining tax regime will be set aside and a **clear and transparent mechanism** for their utilisation will be established". The Association strongly supports the idea of treating such windfall gains separately from other revenues.

19.

20. In this context, it should be noted that the additional revenue expected from the new mining tax regime, US$ 415 million, (about K1.6 trillion), is equal to about 16.0% of domestic revenue, 11.5% of total proposed expenditure or about 3.1% of GDP. The way this revenue is applied will therefore have important macroeconomic effects. For example, it could provoke a further appreciation of the Kwacha and pose challenges for monetary policy.

21. **The "clear and transparent mechanism" for utilising these revenues needs to be tabled as soon as possible.** The Minister did not state when the new regime comes into force, but assuming that it is legislated as part of the Finance Act, the revenue could start to flow by April this year. As noted earlier, this may coincide with the need for emergency funding caused by the floods, especially restoration of essential infrastructure. In the Association's view, this would be an appropriate use for such funding, (see also para. 28 below).

22. **The EAZ would advise caution in the use of such revenues for additional recurrent costs of Government, such as those in the social sectors, unless it can be demonstrated that those costs can be sustained, through future revenues**.

Revenue measures

23. The EAZ welcomes the tax reductions proposed by the Minister, especially raising the PAYE threshold and reducing VAT. While we understand the Minister's desire to be cautious about reducing taxes further, given the uncertainties in the economic situation alluded to earlier, we also note that Zambia's ratio of tax to GDP is high relative to other countries in the region, and that several tax rates, notably corporate income tax remain higher than elsewhere. Lower corporate income tax, standardised across sectors, coupled with lower interest rates, would encourage the higher private investment

needed to produce higher rates of economic growth. **We concur with the Government's view that the strategy should be to broaden the tax base, but would have preferred a clear statement about how this is to be done**. It should also be noted that the faster the economy grows, the larger the tax base, and the more scope there is for tax reductions in the future.

Expenditure proposals

24. The EAZ has not yet had the opportunity to review the Yellow Book. Indeed, without the reviews of past public spending that are referred to above, it is not clear how much meaning can be attached to expenditure allocations. For example, the amount of K1.1 trillion proposed for roads in 2008 cannot be appraised in the absence of (a) an analysis of spending in the roads sector in earlier years, (b) a breakdown of the FNDP multi-year target for roads expenditure, and (c) a detailed roads investment, rehabilitation and maintenance programme, properly prioritised and costed and with calculated rates of return. The same would apply to other sectors. **The EAZ urges Government to introduce a Budget or National Economic Management cycle that would permit stakeholders and Parliament to understand better the relationship between performance, the FNDP, the MTEF and the annual budget.**

25. **The EAZ is concerned about the low allocation to agriculture, which is about 20% lower than in 2007.** This may well be justified in the near term by a failure to spend what was allocated in 2007, but given the importance of the sector in both diversification and poverty reduction, it is unacceptable that this be allowed to continue.

26. **For similar reasons, the Association is concerned that the allocation to social protection, while higher than in 2007, is largely absorbed by the reduction, (indeed the long-overdue elimination), of pension arrears.** Well-designed social protection programmes, including cash transfers and employment programmes can be important tools for cost-effective poverty reduction.

27. Similarly, the Association is concerned by the silence in the Budget speech on the issue of decentralisation. While acknowledging that there are capacity limitations at the level of local councils, decentralisation is important for accountable and efficient delivery of many services and infrastructure. **The Association urges Government to report clearly where its decentralisation policies stand and to accelerate their implementation.**

28. Finally, the Association notes that emergency expenditures arising from the floods are likely to be large and urgent. It considers that **there is a strong case for extra budgetary financing for these requirements, and that external assistance should be sought for this, given that the needs involve not only finance but logistics and expertise. We note that the frequency and extent of natural disasters in Zambia seems to be growing and urge Government to strengthen the capacity of the Disaster Management Unit for the longer term**.

Debt and Aid

29. The EAZ welcomes the statement by the Minister (paras 73 and 74) that Government has now developed a new debt strategy and that it plans to consolidate the legal framework governing debt contraction and management. It looks forward to these proposals being made public, and **draws attention to the proposals that have also been made by the JCTR to address weaknesses in the present system and in the exercise of parliamentary oversight**. The introduction of an Aid management policy (para 75) aimed at improving coordination and reducing transaction costs is welcome.

30. The relevance of the figure for external debt of the private sector (US$980.7 million) is not immediately clear, since no obligation on the part of the Government is implied, unless these debts have been guaranteed by the Government, EAZ urges Parliamentarians to seek clarification.

31. The share of the budget financed externally (grants plus external financing of the deficit) appears to be 24%, slightly below 2007, without allowing for the mining tax windfall. The Association considers the reduction in aid dependence to be a long-term objective, which should be secondary in the short term to increasing investment, meeting the MDGs and improving the overall efficiency of public expenditure, (including aid). **We hope that the Government is not turning away external assistance that could help meet these objectives for the sake of a short-term reduction in the share of the budget financed by aid.**

Conclusion & Recommendations

32. The Association considers that progress has been made in stabilising the economy and producing consistently higher rates of growth than have been experienced since the 1960s. This is an important achievement. While it is true that the benefits of this growth have not yet made major inroads on poverty, the available evidence suggests that there has been some decline in urban poverty. More importantly, the Association believes that, despite a mixed outlook in the short term due to floods, power sector constraints and the uncertain international environment, the foundations for greater economic stability and faster growth have been laid.

33. The EAZ considers that both faster economic growth and greater equity can be achieved in Zambia through a greater sense of urgency in implementing existing reform programmes and in stimulating much higher investment levels, especially in the private sector. Specifically, the Association recommends:

a. That Government reports regularly to the National Assembly and to the public at large on the progress of the PEMFA, PSD, FSDP and PSRP reform programmes.

b. That the Government undertakes annual reviews of public expenditure, and that Parliament exercises the necessary oversight appropriate sectoral committees

c. That appropriate Parliamentary Committees scrutinise the use of various funds that have been established in past years, such as the Youth Fund and the Tourism Fund

d. That Government makes both the detailed proposals for mining taxation and their rationale available to the appropriate Committee of the National Assembly and to the public at large for scrutiny.

e. That Mps obtain more information on the impact of the mining tax reforms on mining sector investment.

f. That the Government brings forward proposals for the "clear and transparent mechanism" for the use of the proceeds of the new mineral taxes.

g. That the Government brings forward a clear strategy on how it will broaden the tax base.

h. The budget must reflect the priorities as set out in the FNDP and Vision 2030 by increasing funding and keeping focus on the diversification of the Agriculture Sector

i. That Government introduces a Budget or National Economic Management cycle that would permit stakeholders and Parliament to understand better the relationship between budgetary performance, the FNDP, the MTEF and the annual budget.

j. That extrabudgetary financing for emergency requirements arising from the flooding be looked into, and that external assistance should be sought for this, given that the needs involve not only finance but logistics and expertise.

k. That Government strengthen the capacity of the Disaster Management Unit in early warning and preventive systems for anticipating and managing possible disasters.

l. That Government considers the proposals that have been made by the JCTR and others to address weaknesses in the present system of debt contraction and management, and in the exercise of parliamentary oversight.

Lusaka,23 February 2008

ANNEX 1

EXTRACT FROM THE 2007 BUDGET SPEECH

BUDGET EXECUTION

70 Mr. Speaker, to enhance budget execution in 2007, the Government will strengthen treasury management and expenditure monitoring systems. My Ministry will take the following actions:

(a) advise Ministries, Provinces and Spending Agencies (MPSAs) to request for funds as and when they are required;

(b) inform MPSAs of the resources to be disbursed for them to adequately prepare to implement their respective programmes;

(c) require all MPSAs to prepare monthly reports on the utilisation of public funds;

(d) consolidate reports from MPSAs on the utilisation of resources and disseminate them to the general public;

(e) publish the release of resources by the Treasury to developmental programmes on a quarterly and in certain cases, monthly basis; and

(f) undertake periodic and detailed public expenditure reviews.