

ZAMBIA CONGRESS OF TRADE UNIONS



**REPORT OF THE ZCTU POST-BUDGET WORKSHOP HELD ON
13 FEBRUARY 2009 AT LUSAKA HOTEL**

1.0 Introduction

On 13 February 2009, the Zambia Congress of Trade Unions (ZCTU) held a Post Budget workshop. The workshop was held to analyze the national budget allocations and identify how much of the labour movement's pre-budget proposals were taken into consideration and included in the 2009 national budget. The workshop brought together trade union leaders from national unions affiliated to ZCTU, selected members of the ZCTU Executive Board and Women's Committee. The broad objective of the workshop was to analyze the national budget and develop a collective position on 2009 national budget. The specific objectives are;

- Explore the content of the national budget with the trade union leadership and assess how much of the trade union input has been incorporated;
- Analyze the impact of the national budget and its impact on the economy and workers; and
- Arrive at a collective trade union position to inform follow-up actions and responses

At the end of the workshop it is expected that the trade unions will adopt a common position on actions and responses to the 2009 national budget. In this view, ZCTU held this workshop in consideration that the 2009 budget had been presented and will undergo further debate in Parliament after which it would be approved.

Before introducing the workshop objectives, it was preceded by speeches from the representative of FES Mrs. Kathy Sikombe, ZCTU Acting Secretary General Mr. Ian Mkandawire, and the Guest of Honour, Minister of Finance and National Planning Dr. Situmbeko Msokotwane. Later, Mr. Grayson Koyi gave a critical analysis of the economic situation that informed the 2009 budget process and later the participants deliberated on issues concerning trade union input into the national budget. Later the workshop was closed after remarks from the President of ZCTU Mr. Leonard Hikaumba.

2.0 Workshop Introduction by Mr. Austin Muneku

Mr. Muneku welcomed all the participants to the workshop and apologized for the late commencement of deliberations. He stated that this was due to a change in the programme where the President of ZCTU and the Minister of Finance and National Planning could not manage to come to the workshop in the morning as earlier planned due to other commitments. In this regard, he suggested that the workshop proceeds even before the official opening that would follow later in the day. Mr. Muneku later introduced Mr. Grayson Koyi to present his paper.

3.0 A Critical Analysis of the 2009 Budget and its Implications on the National Economy and Workers: by Grayson Koyi

3.1 Introduction

In reference to the 2009 National Budget presented on 30th January whose theme was **Enhancing Growth through Competitiveness and Diversification**, Mr Koyi stated that the budget placed special emphasis on agricultural development, tourism infrastructure and, arguably the manufacturing sector. He mentioned that the 2009 budget was prepared against a backdrop of several external and domestic challenges that occurred in 2008, which had significant impact on the Zambian economy. These challenges include increased oil prices, increased cost of food and fertilizer and broadly the collapse of major global financial markets in America and Europe as a result of the credit crisis that created a recessionary environment during the final part of 2008.

As regards to Zambia, he said the economy was affected by reduced copper prices, and the change in investor sentiment that led to exchange rate volatility. The falling copper prices led to the depreciation of the local currency against the dollar. He said that this may further deepen the current account deficit.

3.2 Overview of the Macro-economic performance

Giving an overview of the Zambian economy, Mr. Koyi observed that GDP growth at 5.8 % for the year 2008 indicated a dampening effect because it was lower than that for 2007 at 6.3%. He attributed the dampening effect to the movements in domestic and external economic factors that posed threats to the stability of the Zambian economy. As such, he considered that the 2009 budget could have been tailored towards addressing four fundamental challenges. Mr. Koyi observed that one of the areas of attention for the budget was to ensure the domestic economy remains resolute along the path of recent growth and macroeconomic stability. The other focus as observed by Mr. Koyi was to enhance external competitiveness and also increase the rate of diversification of the economy. Broadly, Mr. Koyi further observed that the 2009 budget focuses on safeguarding the delivery of vital services to the citizens.

3.3 Macro-economic Policy objectives

Regarding the macro-economic objectives, Mr. Koyi stated that the 2009 budget aimed to achieve real GDP growth of 5 percent, lower inflation to 10 percent and limit domestic borrowing to 1.8 percent of GDP. As concerns the 5% GDP growth target, he noted that though consistent with the Medium Term Expenditure Framework (MTEF) target, it falls short of the FNDP target of at least 7% growth per annum for the period 2006-2011. However, he also observed that under the current macroeconomic environment, the 5% target growth is realistic and achievable though not adequate to reduce poverty levels. He noted that the economy must grow at a minimum rate of 8% to ensure significant reduction in poverty levels as some studies indicate. On this basis, he argued contended that a growth target of 5% is not consistent with the goal to reduce poverty in Zambia.

As regards the 10% inflation target, Mr. Koyi observed that even when it is not consistent with the FNDP target of restricting inflation to a single digit figure, a 10 % inflation target seems realistic even though under current circumstances may not be easy to achieve. However, he observed that it could slide downwards due to the increase in the price of food grain and petroleum products in addition to increased electricity tariffs and the exchange rate volatility.

Mr. Koyi further observed that government is aiming to increase domestic borrowing from 1.4 % of GDP in 2008 to 1.8 % of GDP in 2009. However, he noted that this may have the effect of crowding out domestic investment, spark inflation if financed by printing money or may lead to increased taxes on workers. As such, he called for prudent borrowing on the part of government.

He further observed that the Budget acknowledges that export receipts are likely to be lower than in previous years. He said this may adversely affect the country's Balance of Payments (BOP) and remains a potential source of instability in 2009. In regard to external debt, he noted a significant reduction from US\$7.2 billion to US\$0.5 billion. Nevertheless, Mr. Koyi observed that in a space of about two years, external debt has risen to about US\$1.0 billion at the end of 2008. In view of this, he said Zambia risks falling into another debt trap if external debt contraction is not well managed.

3.4 Macroeconomic framework: *Geared for Job creation?*

In analyzing whether the current macro-economic framework is geared for job creation, Mr. Koyi observes that evidence suggests a lack of clear cut employment policy at the macro-level. He contended that the macroeconomic policy framework in the 2009 budget, MTEF and FNDP all assume employment growth will result from faster growth. However, he noted that the past trend shows employment growth has been unresponsive to economic growth. As such, he underscored the need to re-think the approach to employment promotion in Zambia, especially in the context of 'jobless growth' and prioritize the employment objective.

3.5 Competitiveness

On competitiveness, he said the budget has defined it in terms of reducing the cost of doing business. Within this context, he observed that the budget has identified some factors that make the cost of doing business in Zambia high. These factors included the cumbersome licensing and regulatory framework, poor infrastructure and high transport and communication costs. Although Mr. Koyi welcomed competitiveness, he asserted that it must not weigh so much on reducing the cost of doing business at the expense of human development and sustainable use of natural resources. As such, he contended that competitiveness must be defined in terms of the productivity with which a nation utilizes its human and natural resources.

3.5.1 Competitiveness and Manufacturing

In line with competitiveness and manufacturing, Mr Koyi noted that the 2009 budget has prompted the establishment of MFEZs and industrial parks and extended a number of incentives for this purpose. He further noted that the budget has committed to enhancing reforms relating to the cost and conduct of business in Zambia. Much as he supported the establishment of MFEZs, he cautioned against a selective and discriminatory implementation model on a sectoral or geographical basis that favours particular companies or investors. He noted that ad hoc incentives negotiated with particular investors risk producing complex, fragmented and incoherent regulations, as well as opening the door to corruption. When this is the case, he noted that the goal of national competitiveness can be undermined which, therefore, calls for a very elaborate regulatory framework for the operation of MFEZs.

3.5.2 Competitiveness and Labour

With regard to competitiveness and labour, Mr. Koyi noted that reducing the cost of doing business is of course necessary, but far from being sufficient. He argued that sufficiency must consist in both promoting an enabling environment for wealth creation at the micro level and ensuring that the wealth so created is used to support higher wages and thus higher productivity. In this view, he argued that the cost of doing business must be balanced against reasonable wages for meeting the cost of living and thus higher productivity and national competitiveness.

3.5.3 Competitiveness and the Rural poor

As concerns competitiveness and the rural poor, Mr Koyi stated that it requires providing sustained agricultural productivity growth anchored on: Subsidised interest rates and credit facilities to small scale farmers; timely supply of agricultural inputs; development of appropriate technology and investment in crop science; adequate information to small scale farmers through extension services; infrastructure development in form of feeder roads, dams and supply of energy, training and security; and appropriate institutions in terms of financing and marketing agricultural products with government playing a significant role. Mr. Koyi noted that the 2009 budget has acted to address these areas in a significant way where the allocation to the agricultural sector has increased by 37.0 percent. He said this was encouraging even though it was just 7.2% of the total budget and thus fell short of the Maputo declaration of allocating 10% of national budget to agricultural development. He further observed that a lot remains to be done to put the rural economy on a competitive footing even though the 2009 budget has made a very encouraging step.

3.6 Drive for Diversification

On efforts to diversify, Mr. Koyi stated that the diversification of the economy in the budget 2009 essentially means a move away from copper and cobalt mining to agriculture, tourism and to a lesser extent manufacturing. He noted that the move the

budget makes to diversify within agriculture is to be welcomed. In this regard, he welcomed the move towards increased emphasis on livestock development, including the creation of at least one disease free livestock zone.

However, he observed that diversification within agriculture is still biased towards beef and maize production; In this regard, noted that the budget is silent on a strategy for developing other crops, tubers, tree crops, other livestock and fish.

3.7 Social Sector

In line with the FNDP, Mr Koyi stated that the 2009 budget has placed special emphasis on health, education and water and sanitation. He welcomed this with consideration that the allocation to the health sector increased by 12.9% to cater for among others, procurement of essential drugs and medical supplies, recruitment of 1,970 health staff and improvement of health infrastructure. In addition, he observed that the allocation to the education sector also increased by 24 percent to cater for increased access, recruitment of 5,000 teachers, development of school infrastructure and skills development in general.

3.8 Fiscal Framework

3.8.1 Personal Income Tax

With regard to the fiscal changes, Mr. Koyi focussed on Personal Income Tax concessions that were of concern to labour. These included the PAYE exempt threshold that was raised from K600,000 to K700,000. It also included the Tax credit applicable to differently-abled persons that was raised from K600,000 to K900,000 per annum. Mr. Koyi also observed the increased exempt threshold for terminal benefits from K20 million to K25 million and also the increased allowable pension contribution from K135,000 per month to K155,000 per month. He further stated that gratuity beyond the exempt threshold under PAYE will be taxed at a flat rate of 25 percent.

However, Mr. Koyi noted that the tax credit was insignificant and that it should have been raised to a level equivalent to the cost of a Basic Need basket at about K1,800,000. He contended that the tax exempt threshold must be linked to an objective poverty line criterion. As such, he noted that greater relief to workers was constrained due to insignificant tax relief. He added that the budget also failed to broaden the personal income tax base observing that only the formally employed constituting 12 percent of the labour force are paying PAYE compared to 88 percent of the workers who are in informal employment. Mr. Koyi also considered it unfair that an employee who gets K4,100,000 per month should be taxed at the same rate of 35 percent as one receiving K20,000,000 per month. In view of this, he observed that PAYE should be varied to ensure equity and progressiveness.

3.8.2 Fiscal framework: expenditure

As regards the overall expenditure pattern, Mr. Koyi observed some structural problems in that the ratio of current to capital expenditure suggests a more consumption oriented budget. He also expressed concern on the continued high expenditure on defence especially that other allocations such as social expenditure had reduced from the previous year. Mr. Koyi further noted that the distribution criteria within the General public services need to be re-evaluated to ensure that more resources go towards actual delivery of public services instead of being possibly locked at the top.

In conclusion, Mr. Koyi said the 2009 budget is meant to enhance growth through competitiveness and diversification. However, he noted that positive economic growth is not assured and should continue to be closely monitored. Likewise, he said the budget represents only a first step towards improved service delivery, which in turn will depend on long-term improvements in public expenditure management. Otherwise, he said the 2009 budget provides a basis for hope and for optimism that even in the midst of a global crisis Zambia can stand its own. He ended by stating that the solution to Zambia's development lies in the Zambians as a people and the resources that which our wonderful country had to offer.

4.0 Plenary Discussion

Participants were invited to ask questions based on Mr. Koyi's presentation. The following were the questions.

4.1 Questions from Participants

1. A concern was raised out of the observation that only 12% of the labour force, mainly in formal employment, contribute to PAYE. In this regard, a question was directed towards understanding why government has failed to broaden the tax base to the informal sector as has always been advocated by the labour movement.
2. It was also observed that in the 2009 national budget, the allocation towards the education sector increased by 24% from the previous budget. However, the concern was that the focus in education was towards achieving Universal Primary Education (Basic Education) and the Millennium Development Goals (MDGs) in general with less attention given to higher education that can bring about higher productivity. In this regard, one of the participants wanted to know if it is possible to break the total allocation to education into sub-sectoral allocations.
3. Another participant wanted to know how best the labour movement can monitor the b urged especially towards universities so that the disbursements can be verified and timely action be taken when necessary.

4.2 Responses by Mr. Grayson Koyi

As regards allocations towards education, Mr. Koyi stated that there is no equity in terms of allocations towards the sub-sectors because the focus is more on Basic Education which receives substantial allocations while high school and higher education allocations are relatively lower. He stated that the thinking that informs the emphasis on basic education is that once one has completed grade nine (9), the furtherance of that person's education can be complemented through private provision. Further, he stated that it is expected of the scholar that upon completing basic education, he/she would have acquired life skills to be able to apply them in life. He, however, noted that some previous study indicates that higher education used to receive relatively higher funding than is the case at present. The change in emphasis to basic education is the main reason for comparatively low funding towards higher education.

As regards government's reluctance to broaden the tax base, Mr. Koyi acknowledged efforts from the labour movement in lobbying government to consider broadening the tax base. He stated that one of the reasons could be because broadening the tax base might cost government more than the tax revenue collected from additional tax sources. He added that when the cost of collecting a tax is more than the revenue realized from the tax, the government would be better off not collecting the tax. He suggested that the way to go round this challenge is mapping out all potential revenue sources in the informal sector such as gemstone mining and earmark potential sources of revenue. He also gave the option of sub-contracting tax collectors on behalf of ZRA who would have the incentive to collect the tax on behalf of government.

Concerning how to monitor the budget performance, Mr. Koyi stated that the labour movement can monitor the budget through budget tracking. He said this can be done using different approaches depending on the disbursement and the nature of the budget expenditure. Specifically, he said allocations to the University of Zambia can be tracked by identifying how much has been allocated for the year and later observe where the expenditures have been placed. For allocations in the education sector, he said expenditures can be tracked from allocations towards schools and identify if funds have been disbursed and how the schools expenditures were placed.

4.3 Questions from Participants

1. One of the participants wanted to know how unions can strike a balance between the intended objectives of reducing the cost of doing business and be competitive while at the same time ensuring that workers demands are addressed.
2. Another participant was concerned with the collapse of the mines and how this would constrain government's ability to collect targeted levels of domestic revenue. The participant was particularly concerned with how government would manage to keep the domestic and external debt within manageable levels in the face of reduced domestic tax revenue.

3. One other participant wanted to know how government expenditure can be monitored from the point of release in view that most often budgetary funds may not be disbursed while intended programmes had not been implemented.

4.4 Responses from Mr. Grayson Koyi

In responding to the question on expenditure monitoring, Mr. Koyi acknowledged the need to improve budget execution considering that most often programmes are not implemented due to non release of budgeted funds. In this regard, he stated that ZCTU, at macro level, can seek audience with Ministry of Finance and National Planning so as to establish the reasons for non-disbursement of funds allocated to some programmes. At sector level, he said individual unions, such as public service unions, can seek audience with their respective ministries to understand the challenges causing failure to disburse funds.

As regards concerns on maintaining the levels of debt within manageable levels, Mr. Koyi noted that borrowing is not bad if it is within government's ability to pay back based on expected income. In this regard, he observed that there should be an optimal balance to ensure that the levels of both domestic and external debt are within manageable levels. He also cautioned against borrowing for consumption where the resources from debt receipts are not applied in such a manner that they would generate more resources to be able to ease the burden of repaying debt.

Coming to the concern on government's objective to reduce the cost of doing business and attain competitiveness whilst ensuring that workers' needs are addressed, Mr. Koyi noted that bargaining at the time of a global economic crisis would be very challenging. He argued that according to economic theory, there is a point of equilibrium, the marginal product, upon which an optimal and equilibrium wage can be determined. As such, he further contended that to argue that higher wages work against competitiveness would be assuming a "zero-sum game". In this case, he challenged employers and workers to adopt a spirit of give and take and find a middle way to ensure that the interests of both employers and workers are taken into consideration.

4.5 Questions from Participants

1. One participant wanted to know what the "Maputo Declaration" was and if it was possible to hold government accountable for flouting the declaration.
2. Another participant contended that the reduction in the non taxable pension was not adequate and that it could be more appropriate if the tax on pensions is removed altogether.
3. One other participant wondered why PAYE is higher than corporate tax.

4.6 Responses from Mr. Grayson Koyi

On the issue concerning pension's tax, Mr. Koyi stated that pension is considered as an income and the law provides for all incomes to be taxed. In this case, the labour movement needs to lobby with the government for a zero rate on pension tax.

Regarding the concerns why PAYE is higher than corporate tax, Mr. Koyi said one of the reasons is that not all companies pay corporate tax. He revealed that some findings of his previous study show that the number of registered companies is less than the number for unregistered companies. In addition, he stated that there is a high prevalence of tax evasion and under-declaring of sales.

As concerns whether government can be held accountable to the Maputo Declaration in particular, Mr. Koyi acknowledged that declarations are international norms and member states to which a particular declaration applies are bound to uphold its recommendations. However, he argued that there are other competing interests among sectors within an economy that may need equal attention but may not have declaratory targets. He added that declarations set benchmarks or targets which governments must attain currently or within a targeted period of time. As such, he urged the labour movement to lobby on such issues where government has committed itself to uphold.

4.7 Questions from Participants

1. One of the participants wanted to know if the FSP is premised on a justified economic focus or is motivated by political expediency. The concern was on whether the programme is sustainable in view that government allocated about K30 billion in the 2009 national budget to NCZ while allocating a huge sum of K435 billion for the importation of fertilizer.
3. Another participant wanted to know how the unions can best position themselves against the global economic crisis which employers would use as an excuse for failing to meet workers demands.

4.8 Responses from Mr. Grayson Koyi

In responding to the concerns on collective bargaining in the face of the credit crunch, Mr. Koyi stated that it must be realized that the global economic crisis affects each company differently. As such, he suggested that workers must try to identify how any given company is affected by the exchange rate volatility to ascertain the impact the financial crisis may have on the company. He also advised that companies can make industrial accords where they can trade off with the employers on some demands in consideration of other demands. In a broader perspective, Mr. Koyi said that the global economic crisis is an economic problem that requires optimal options with an open minded approach towards negotiations. He later invited the President of ZCTU, Mr. Leonard Hikaumba to explain issues concerning the FSP.

4.9 President of ZCTU, Mr. Leonard Hikaumba

The President of ZCTU acknowledged that the objectives of the FSP were premised on sound economic policy. However, he noted that the way the programme is implemented is not in a manner that will help meet the intended objectives. He stated that inputs have always been delivered late and that underhand methods characterize the distribution process. The President cited the example of a case in Western Province where a former Permanent Secretary directed a District Agricultural Officer to release fertilizer without following procedure. Consequently, small scale farmers who were duly registered to benefit from the programme were denied fertilizer because the Permanent Secretary collected that which was meant for small scale farmers. He added that those privileged, like the Permanent Secretary, re-sell the fertilizer at a higher price to their benefit. The President further noted that some of the fertilizer is smuggled into neighboring countries.

Regarding the politicization of the FSP, Mr. Hikaumba stated that the political aspect is strongly attached to the possibility of one benefiting from the programme. As concerns the marketing of maize by FRA, the President said that some farmers have not yet been paid their money. Consequently, he stated that farmers have opted to sell their produce to private buyers at very low prices. The President also stated that NCZ must be revamped because the fertilizer imported from outside is costly and expensive.

5.0 Assessing Trade Union input into the 2009 National Budget by Mr. Austin Muneku

Mr. Muneku guided the workshop on the proposed inputs into the 2009 National Budget. He highlighted proposals on Pension funds, the minimum taxable threshold, tax concessions, mineral loyalty taxes, windfall taxes, and other expenditure measures such as personal emoluments. He also guided the participants on proposals towards different sectors including Mining, Energy, Tourism, Manufacturing and all other sectors such as Health and Education. After a brief overview of the proposals, Mr. Muneku challenged the participants to interrogate the 2009 National Budget and identify pre-budget proposals that were considered in the 2009 budget and those that were thrown away. He later requested Mrs. Agnes Mumba to chair and moderate the proceedings.

The Chairperson advised the participants to compare the 2008 budget with that for 2009 and observe issues of concern to labour that have been considered for 2009. After a brief study of the 2009 budget, one participant observed that most of the issues raised in the proposals were not taken on board by the 2009 budget. In this view, he wondered whether it is necessary to continue with submitting proposals when government does not consider ZCTU demands. Arising from this, the workshop generally agreed to change and adopt more effective lobbying strategies. Some of the participants acknowledged that some demands such as demands on not taxing Pension could have been met halfway, a sign that government does consider some of the proposals. The workshop further proposed that ZCTU should have a seat on the government budget review team. It was also suggested that before submitting proposals, ZCTU should try, where possible, to

harmonize demands with other sectors so as to embrace competing interests from other sectors.

One of the participants observed that one of the weaknesses contributing to non-consideration of proposals is because ZCTU only represents about 500,000 workers in the formal sector leaving out about 4,500,000 workers in the informal sector. In view of this, it was considered that the strength of ZCTU lies in organizing the majority workers in the informal sector.

6.0 Opening Remarks

6.1 Welcoming Remarks by Ngula

In his remarks, Mr Ngula stated that in consideration of the limited time remaining and the Minister's tight schedule, he would simply introduce the high table. He informed the Minister that ZCTU was a big labour union with 31 affiliates represented by the members who were present at the workshop. He advised the Minister of Finance and National Planning to expect questions from participants concerning the budget and challenges facing workers in Zambia. At this point, he introduced the high table and called on the FES representative, Mrs. Kathy Sikombe, to give her remarks.

6.2 Remarks from Kathy Sikombe, FES Representative

In her remarks, Mrs. Sikombe expressed appreciation that the Minister found time out of his tight programme to attend the ZCTU Post Budget workshop. On behalf of the country director for FES who was away, she said FES enjoys the working relationship that exists with ZCTU. She further said that FES has been working with ZCTU on various programmes and that the Post Budget workshop was one among other programmes that FES collaborated with ZCTU. She stated that this particular workshop provided ZCTU the opportunity to analyze the national budget and identify how much of the budget directly addresses the challenges facing workers. She ended by emphasizing that FES attaches great importance to such activities and urged the Minister to provide answers to the issues that will be raised by the participants.

6.3 Speech by the Acting Secretary General of ZCTU Mr. Ian Mkandawire

In his speech, the Acting Secretary General expressed his appreciation for having been accorded the privilege to address fellow leaders in the labour movement on the occasion of the opening ceremony of the 2009 post budget workshop. He underscored the importance of the post budget workshop on the calendar year of the Zambia Congress of Trade Unions. He said the event accorded the trade union movement the opportunity to review and analyze the national budget and assess its policy implications on workers, economy and society at large with the aim of developing appropriate union response and actions.

The Acting Secretary General further said the national budget is an important instrument that informs government's socio-economic policy for a particular year and as such reminded trade unions of the duty to interrogate the budget. Furthermore, he observed that every year trade unions meet to prepare collective and combined inputs towards the budget formulation process and therefore considered it fair to closely scrutinize the budget and assess how much of labour input into the budget making process has been taken on board.

He later thanked FES for the continued support to various union activities on socio-economic policy and other related issues aimed at building the capacity in the labour movement in Zambia. Particularly, he thanked the FES Resident Representative Gerd Botterwick for his total commitment and personal interest to the cause of the labour movement and ensuring that the labour movement in Zambia remained strong, free and active.

As concerns the national budget, he stated that before the presentation on 30 January 2009, ZCTU and its affiliates as key stakeholders, made submissions to government for consideration and inclusion into the 2009 national budget. He said the submissions contained a number of proposals and policy measures reflecting the aspirations and interests of the labour movement and generally all vulnerable groups in society. However, he observed that a quick glance at the 2009 budget gives the impression that it is neither a peoples nor workers budget. He stated that a number of labour proposals submitted during the budget formulation process have largely been ignored. Instead, he generally observed that the 2009 budget appeared to favour big business. In particular, he mentioned the mining companies which unceremoniously had their windfall tax withdrawn in addition to other concessions.

The Acting Secretary General reminded the delegates that the Zambian economy was coming from a background of reduced GDP growth of 5.8% against 6.3% in 2008, higher end year inflation of 16.3% against the target inflation of 7% and a significant depreciation of the Kwacha of 27.3% against the US dollar. He attributed the economic challenges to the effects of high oil and food prices that characterized the economy by mid 2008.

Despite these challenges, the Acting Secretary General observed that Zambia recorded a favourable budget deficit which at the close of 2008 stood at 2.7 percent of GDP and below the projected deficit of 3.0 per cent. However, he further noted that the average commercial bank lending rate increased rising to 26.9 percent, from 24.4 percent in 2007. He also noted that the Lusaka Stock Exchange All Share Index declined by 29.2 percent during the year 2008. He stated that all these were indicators of an ailing economy that required a stimulus package and wondered if such a package was provided in the 2009 budget.

He further observed that the 5.8 per cent growth in GDP attained in 2008 did not trickle down to the poor as the life for the majority was deteriorating. He observed that jobs have been elusive despite recording positive growth year after year and that even the jobs

created were low paying and degrading. This, he observed, did not reflect government's commitment to the International Labour Organization (ILO) Decent Work programme which the labour movement has fully endorsed. He further informed the participants that the reality in the communities and the work place give a gloomy picture because most of the people are confronted with destitution, disease, hopelessness, misery, joblessness, and poverty. He added that among these are the working poor, people in jobs that cannot lift them out of poverty. He also made reference to the cholera epidemic that usually affects people during the rainy season and called for more investment in sanitation and urban infrastructure to deal with floods by providing good drainage networks.

In reference to growing inequality between the poor and the rich, the Acting Secretary General observed that the successive budgets in the past five years or so were increasingly contributing to the current state of inequality in Zambia. He noted that the tax system failed to redistribute wealth in the nation. He attributed this to the structure of the tax regime that remained unfair and retrogressive to the disadvantaged. As a result, he said the distribution of income and wealth is highly skewed in favour of the minority rich. In this view, he called for a more equitable tax system to avoid social evils such as high crime and social unrest usually sparked by socio-economic iniquities.

Moreover, the Acting Secretary General was concerned with the fact that PAYE was expected to contribute 59.4 per cent to direct taxes against the background that company and mineral royalty tax would contribute only 24.4 percent and 3.4 per cent respectively. He likened this to taking from the poor and giving to the rich. In this regard, he stated that ZCTU expected non taxable PAYE monthly income threshold to be increased in the 2009 budget from the current levels to enable workers meet their basic needs. As such he emphasized ZCTU's demand that the Basic Needs Basket (BNB) be applied as the threshold for arriving at non taxable PAYE monthly income.

As regards the expenditure side, he observed that the allocation towards General Public Services was the biggest and unexpectedly high at 32 per cent of total expenditure. As such he called for an analysis of the nature and composition of these general public services and see if they are justifiable. He later welcomed the increase in spending on the social sector (education and health) but wondered if it will go to deserving areas and not workshops and seminars. The Acting Secretary General further advised government to take advantage of the reduced fuel prices on the international market to set up strategic fuel reserves. He ended his speech by urging all participants to critically analyse the budget and the pre-budget proposals to come up with popular and collective demands for further consideration.

6.4 Remarks by the Minister of Finance and National Planning

In his remarks, the Minister stated that the budget was prepared in the face of great uncertainty because of the global economic downturn which was to be taken into account. Regarding ZCTU proposals, he stated that government's focus is broader and has to be all embracing unlike the Unions' focus that only aims to address members' needs. The

Minister further explained that the impact of the global economic crisis in the Zambian economy is far reaching. Specifically, he stated that the collapse of the mining industry in Zambia has also affected other industries that are directly linked to the mining value chain. Besides the loss of business by industries linked to the mines, the loss of employment by the mine workers has also reduced demand for household basic needs such as vegetables and other necessities, sending those in the supply chain of such commodities out of business. Above all, he said that the mine workers who have lost employment face the challenge of providing for their families because they have lost their only source of income. In this regard, the impact of the collapse of the mining industry has generally affected the whole economy.

As such, in responding to the Acting Deputy Secretary General's speech, he stated that the budget may seem to favour the rich as rightly observed because government had to move in to save the collapsing mining industry due to the impact it would have on the economy. In this regard, the government had to reduce the cost of doing business in the mining industry by removing the windfall tax and removing customs duty on Heavy Fuel Oil among other concessions. In addition, he acknowledged that these measures favoured the mining industry which will subsequently help to save ZCTU members' jobs.

On failure to reduce PAYE, the Minister stated that there is a limit to which government can lose revenue given competing interests across all other sectors. For this reason, government could only afford to give a relief of K100,000 on PAYE. He added that while the Union is only concerned with workers, government is also concerned with creating opportunities for the unemployed. As concerns efforts to fight poverty, he said the economy has been growing at an average of more than 5% in the medium term. However, he said that due to lack of infrastructure in the rural areas, the growth has not spread at the same pace with the urban areas. In this view, government aims to develop infrastructure in rural areas. Further, he acknowledged that growth has not translated into reduced poverty levels and implored the labour movement to be patient because the benefits of growth cannot be realized overnight. The Minister gave the example of China whose growth started in 1978 and advised that a period of at least 20 years of consistent high growth would be required to significantly reduce the levels of poverty in Zambia. Regarding expenditure to the social sector, the Minister stated that the allocation towards health and education have increased with the objective of building the human resource base. He said that development should help improve people's health and build human capabilities to be able to take up opportunities arising from the growth of the economy.

6.5 Vote of Thanks by Sath Paradza, President for Communications Union of Zambia

In delivering his Vote of Thanks, Mr. Paradza thanked the Minister for having had time to attend the workshop. He also appreciated the encouraging remarks from the FES representative, Mrs. Kathy Sikombe. Mr. Paradza later implored the Minister of Finance and National Planning to realize that only 12% of the Zambian workforce contributes over 50 % of tax revenue. As such, he contended that government could have considered giving adequate tax relief to this group. He added that despite the labour movement

submitting proposals for inclusion in the budget every year, little consideration is given to the proposals. In this regard, he requested the Minister to consider including trade union representatives in the budget review meetings.

Mr. Paradza emphasized the fact that Zambian workers are subjected to low salaries, retrenchments, casualisation and general lack of decent working conditions. In view of this, he urged the Minister to seriously consider the plight of Zambian workers when formulating the national budget and hoped that the current relationship between government and the labour movement would be harnessed for the benefit of the all.

As concerns agriculture, Mr. Paradza observed that interventions in the sector lack practical commitment and requires government to consider attaching practical commitment towards agricultural programmes. Specifically, he implored the Minister to allocate more resources towards revamping the Nitrogen Chemicals of Zambia and ensure self sufficiency in fertilizer supply.

6.6 Questions from Participants

1. One of the participants wanted to know the component for personal emoluments in the 2009 national budget and how it compared with the allocation in the 2008 budget. This was in view that the allocation to personal emoluments in the 2009 budget was hidden.
2. Another participant asked how the 2009 budget addresses problems of broadening the tax base inline with the demand from the labour movement
- 3 A question was also raised as to what happens to companies that do not pay windfall tax.
- 4 Another participant wanted to know at what time and stage the MoFNP considers ZCTU proposals. This was after one of the participants expressed doubt whether proposals taken into consideration by government were a result of chance or serious consideration of ZCTU proposals
5. In view of the suggested refunds for investors who set up studios for movies, a question was raised why this consideration only applies to foreigners and not local investors.
6. With regard to the Maputo Declaration that recommends at least 10% of the budget towards the agricultural sector, one of the participants wondered why government has failed to uphold the declaration by allocating fewer resources than recommended.
7. One other participant raised concern over the steady increase in the external debt, expressing fear that Zambia would eventually fall back into the debt trap.

6.7 Responses from the Minister of Finance and National Planning

With regard to the allocation towards personal emoluments, the Minister acknowledged there is a provision for salary awards but did not have the exact figures.

On the tax base, he stated that revenue collection is based on taxable income. In view of this, he said the current system of tax collection is not efficient to be able to extend revenue collection to the informal sector. He said the solution lies in increasing levels of investment to expand the base upon which tax can be collected.

As regards those that do not pay windfall tax, the Minister said government pursues them and ensures that they comply with tax regulations.

On the issue concerning ZCTU proposals and at what stage government analyses and incorporates them into the budget, the Minister informed the participants that government takes ZCTU proposals into serious consideration and even compiled a booklet. However, he noted that the challenge comes with the broader considerations in view of competing demands with other sectors.

In view of the concessions given to investors in the film industry who would be given a refund in the event that they withdraw their investment, the Minister said this consideration was not given to Zambians because they would not require moving their equipment upon withdrawing their investment. He said this measure would discourage uprooting of equipment when investors wish to relocate to another country.

In response to the swirling debt burden, the Minister stated that the current debt position is not worrying because it is sustainable. He added that the current debt is mainly from concessional loans and the focus is to direct it towards infrastructure development to help generate more income. He further said there are intentions to ensure that the contraction of loans is open to parliamentary scrutiny and approval. However, he said the current law does not provide for such transparency and parliamentary approval before contraction of loans.

As concerns the Maputo Declaration, the Minister said the issue was misunderstood because the signing of the declaration did not take into account other important sectors of the economy and different country specifics. He reiterated that government is concerned with broader issues affecting all sectors of the economy and therefore incorporates the needs of all players when formulating the budget.

The Minister ended by pledging to work with the trade unions and assured the participation of government during the pre-budget workshops usually held by ZCTU before presentation of the national budget.

6.8 Remarks by ZCTU President Mr. Leonard Hikaumba

The President expressed gratitude to the Minister for attending the workshop. He acknowledged and appreciated the Minister's desire to work with the trade unions and stated that when making proposals for inclusion into the national budget, ZCTU would always consider inviting MoFNP. He also stated that ZCTU would consider meeting the Minister to discuss outstanding issues affecting workers in Zambia.

7.0 Way forward facilitated by Mr. Austin Muneku

Later, Mr. Muneku invited the participants to suggest the way forward in consideration of various issues brought to the fore during the deliberations. In view of this, it was resolved that a team of trade union leaders be constituted and arrange for a meeting to discuss various issues with the Minister of Finance and National Planning. It was also proposed that an urgent letter be written to the Minister in this regard. The workshop also resolved to constitute a team of trade union economists that should compile and submit the workshop resolutions to the Minister.

With regard to broadening the tax base, it was proposed that learning experiences be drawn from other countries such as Malawi that effectively devised and implemented an equitable tax system. The workshop resolved that this needed strong support from ZCTU leadership. It was further suggested that when compiling proposals on broadening the tax base, experts on tax such need to be brought on board to assist in coming up with appropriate tax proposals.

The workshop further resolved to create awareness to government officials on various issues affecting workers to enable them appreciate the need to address the plight of workers in Zambia. It was acknowledged that the challenge was with the trade union movement to impress upon government to realize the importance of addressing members' needs. Reference was made to the experience in England where the labour movement formed a strong force and had strong presence in government through the labour party.

Further, it was agreed that more experts were needed in the marketing of trade union proposals. In this regard, the Secretariat was mandated to come up with a team of experts that will help in lobbying for trade union demands. This was with the view that effective lobbying strategies required the expertise of specialized individuals possessing specific skills.

To strengthen the cause for these resolves, it was suggested that the proposed issues become part of the agenda items at the ZCTU General Council. These were to be included before adopting the agenda of the General Council.

8.0 Closing Remarks

8.1 Closing Remarks by Acting Secretary General for Finance Mr. Benson Ngula

In his closing remarks, Mr. Benson Ngula thanked all participants for their valuable contributions. He stated that he did not have much to say in consideration of the limited time that was remaining. He later called upon the President for ZCTU to close the workshop,

8.2 Closing Remarks by ZCTU President Leonard Hikaumba

In his closing remarks, the President thanked all participants for the fruitful deliberations concerning the budget. He noted that the challenge posed by the global economic crisis was massive and that it required concerted effort to mitigate the effects of the crisis. However, he informed the participants that even with the challenges posed by the global economic crisis, the issue of broadening the tax base still needed massive campaign in order to compel government to appreciate and implement it. The President ended by thanking all participants for their contributions and stated that the onus was on the Secretariat to implement the issues discussed during the workshop. He later closed the workshop at 18:35pm.

Appendix 1 Workshop Programme



ZAMBIA CONGRESS OF TRADE UNIONS
 in collaboration with
FREIDRICH EBERT STIFTUNG
WORKSHOP PROGRAMME



POST 2009 NATIONAL WORKSHOP
13 FEBRUARY 2009
Lusaka Hotel

TIME	THURSDAY 12 FEBRUARY 2009 ARRIVALS NONE	FRIDAY 13 FEBRUARY 2009		SATURDAY 14 FEBRUARY 2009 DEPARTURE	
08:30		Registration			
15:00		Workshop Introduction and Orientation (Austin Muneku-ZCTU)			
		<u>Opening Ceremony and Welcome</u>			
		Welcome Remarks Secretary General (ZCTU)			
		Representative of the FES			
		ZCTU President			
		Guest of Honour Minister Finance and National Planning			
Break 10:30			Tea Break		
11:00			<u>Presentation and Discussions</u>		
			Critical Analysis of the 2009 National Budget and its Implication on the Economy and Workers (Grayson Koyi)		
Lunch 13:00			Lunch		
14:00			<u>Round Table Discussion</u>		
			Assessing trade union input into the 2009 National Budget Facilitator (Austin Muneku)		
		<u>Group Work</u>			
		Trade Union Position on the 2009 National Budget Facilitators (Austin and Grayson)			
Break 15:45		Tea Break			
16:00		<u>Group Work Continued</u>			
		Trade Union Position on the 2008 National Budget			
16:30		<u>Report Back General discussions</u>			
17:00		Conclusions			
		Consolidation of trade union Position Facilitator (Austin Muneku)			

Appendix 2 List of Participants