

CIVIL SOCIETY FOR POVERTY REDUCTION

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2004 Pre- Budget Statement

"People's budget"

Recommendations and Contributions

By

Civil Society of Poverty Reduction (CSPR)

as part of the new participatory budget preparation process

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1.0 Introduction

The Civil Society for Poverty Reduction's (CSPR's) contributions and comments to the preparation of 2004 budget is based on the fact that as a civil society poverty network, we have greatly been involved in the formulation and drawing up of a poverty reduction plan for Zambia - the PRSP. As stated before, CSPR is not blind to the fact that the PRSP is an IMF/WB initiated plan and as such is sensitive that past IMF/WB programmes in the form of SAPs have not worked for Zambia. However, the contents of Zambia's PRSP provide a starting point to prioritizing the poverty question and it is a challenge to our government to reject the PRSP as conditionality for Zambia and to use it as a poverty plan.

The CSPR network attempts to reflect the voices of the poor in budget formulation and implementation through activities such as the Pre and Post Budget analysis. It is our hope that through this 2004 Pre-Budget Statement, the government of Zambia, parliamentarians, the international community and other state and non-state actors will pay particular attention to issues that will make the 2004 budget a people's budget.

Zambia's most important resource are the people and as such the budget must be one that aims to provide basic needs such as food and shelter, education and health. CSPR expects to see meaningful allocations to the social sectors and Poverty Reduction Programmes (PRPs) in the 2004 budget.

Zambians have continued to experience a worsening of income distribution in the past ten years. To ensure growth with equity we must combine targeted increases in spending on social services and economic reconstruction with a tax strategy that will reduce the burden on the poor majority.

In 2004 CSPR demands a budget that will make a difference to the approximately three quarters of the population that continue to wallow in unacceptable human conditions.

CSPR will be looking closely at proposed incomes and expenditures in the MTEF 2004 - 2006, and interpret what these can mean for the poor. Three questions are looked at: i) does the budget mention specific pro-poor policies, ii) are these matched by adequate funding commitments, and iii) do they relate to the socio-economic reality of the Zambian poor.

2.0 Status of Poverty in Zambia

There is no question that extremely high levels of poverty exist in Zambia today. The incidence of this poverty is higher in rural areas than in urban areas and more extreme among female-headed households than male headed households and this characteristic cuts across all provinces. Poverty in Zambia exhibits a seasonal trend and is highest during the months of November to March. This is the farming period when supplies are lowest. The quality of education and health, two critical social services, has been falling while the cost of the two has been rising. The latter has put these social services out of the reach of the majority of the poor.

Poverty is a symptom of two major problems. Firstly, the economy has failed to perform

to the expectations of the government and its people and secondly, the government has failed to provide essential basic services for its people

According to the 2002 Human Development Report (HDR), the value of Zambia's Human Development Index (HDI) has been dropping since 1985 from 0.48 to 0.43 in 2000. The Global Human Development reports have consistently pointed out that Zambia has been the only country to suffer this kind of decline among 79 countries where data is available for Human Development analysis. Today, more than 70 percent of the Zambian population live on less than K4,700 per day.

In May 2003 CSPR conducted a Participatory Poverty Assessment in 5 districts; namely Kalomo, Mwinilunga, Petauke, Samfya and Senanga. The assessment revealed that poverty levels are still high.

3.0 Social Economical Status

The 2003 budget retained the theme, *"Food Security through production and job creation"*. Using this theme, government in the year under review managed to increase food security through its input package assistance program to peasant farmers. On the other hand, government failed to create jobs. In the same year we witnessed with concern the closing of some companies like Supreme Furniture's, downing-sizing of labor force by both government and private sector, closing of some commercial banks' branches etc.

Though the projected year-end inflation rate of 13 percent was not achieved, there was an improvement with the December figure being reported to be 17.2. As for the cost of the basic needs basket, both sources, Central Statistical Office (CSO) and JCTR showed an increasing trend in the cost of the monthly basket for a family of six with figures way above what most people in formal sector employment get as take home salary. The JCTR have reported the December amount to stand at K401, 800 for food alone and given most wages and salaries, the majority of Zambians continue to spend the larger part of their incomes on foodstuffs.

In 2003, the budget showed government's resolve to stick to its macro-economic policy of pursuing economic diversification, implementation of appropriate fiscal and monetary policies, implementation of structural reforms in an attempt to improve efficiency, productivity and attract foreign direct investment, most of which did not meet the set targets. Drawing from this, the 2004 budget and policies should not be done with unrealistic inaccurate assumptions and predictions, particularly those referring to the Gross Domestic Product (GDP), inflation, interest rates, the budget deficit, money supply growth and the balance of payments.

Interest rates in Zambia continue to be too high. The challenge for Zambia is to increase productive investment and hence the need to reduce interest rates. The lending rates are still high at approximately 36% and as such it's mainly government that can borrow and hence crowding out private sector.

There is need for consistency in macro-economic performance and strong institutions of governance. Government, over a period of time needs to show its resolve to have a

stable macro-economic environment. There is need for a legal instrument that can stop government from excessive borrowing.

4.0 The Budget

4.1 Observations around the Process

We commend government's invitation to civil society to make contributions to the budgeting process for 2004 fiscal year through the review of the green paper (MTEF) and the formation of the Sector Advisory Groups (SAG). Government still has the important task of demystifying the process and content of budget preparation so that there are high levels of real rather than perceived participation.

Budgeting should not be held to be an elite prerogative for few technocrats at the Ministry of Finance and National Planning, but rather a duty and concern of every Zambian, including those at the grass root levels.

In this regard, CSPR emphasizes that:

- ./ The Government should ensure that the process of preparing and approving of the budget is more open, realistic, participative, and meaningful than it is currently. The illusion of abstractness surrounding the budget should be unpacked by Government by allowing people to contest facts and policies during budgeting so that the culture of secrecy surrounding the budgeting process is removed;
 - / Government should conduct *Budget Literacy Workshops* so that ordinary people can understand the budget processes;
 - ./ There is need to improve budgetary planning by closing the gap between national budgeting and sectoral planning, thus allowing better allocation and release of funds to priority social sectors like health and education which impact on the poor greatly;
 - ./ As the substance of the budget becomes increasingly comprehensible to more people, Open Public Discussions (OPD) should be facilitated by government at district level throughout the country. Such an initiative will enable government to get feedback on the presented budget from a wide constituency of non-state actors in all the districts; and
 - ./ We are concerned that government consultations with civil society organisations and other stakeholders on the 2004 budget and MTEF was rushed and thus the intended objective of a participatory budgeting process might not be realized this year. However, more Civil Society Organisations and other non-state actors must be identified and involved much earlier for 2005 budget preparation next year.
- ./ Sustaining poor people's participation considering a history of deep entrenched norms of exclusion is a complex process that requires resources, facilitation, sustained vigilance, and high levels of political commitment. If *contributions from the poor people are not fairly considered or taken on board, this new participatory budget exercise risks*

being a mockery and hence frustrating.

4.2 Confidence in the Budget

The public no longer has confidence in the public finance management system. It has also been noted with concern that some government officers squander HIPC resources without any accountability and divert monies meant for poverty reduction to other uses.

Without clear public expenditure management and fiscal accountability to arrest the current financial indiscipline, the budget remains a short term and myopic tool to tinker with symptoms of a deeper crisis.

Due to financial mismanagement of public resources, CSPR demands that:

- Government implements the Integrated Financial Management Information System (IFMIS) fully during the first quarter of 2004 so that the 2004 budget is run using this system;
- There be a reform in the general accounting and auditing procedures;
- There be a depoliticisation of the HIPC resources at district level and that these resources are used purely for poverty reduction programmes; and
- Government should strongly consider implementing the proposed 'Debt Mechanism'/Loan contraction process by Jubilee Zambia.

5.0 Medium Term Expenditure Framework (MTEF) 2004- 2006

In forecasting 2004 budget as presented in the green paper, it is critical to realistically comment on both revenue and expenditure past performances.

5.1 Revenues

According to the MTEF, the 2004 national revenue to be raised domestically is expected to be 4,372 billion Kwacha, while foreign revenue will have to be Kwacha 1,779 billion or 28.92% of the budget.

Experience has shown that Zambia Revenue Authority (ZRA) performs satisfactory and raises its share of the resource envelope every fiscal year. On the other hand, the international community has not been honoring their pledges in full and at the right time. Consequently the government borrows domestically to run budget programs and ends up destabilizing the micro and macro economic environment.

To this end, CSPR maintains that:

- The donors seriously review their programs and accompanying conditionalities for Zambia so that they can truly reflect their commitment to human development and poverty reduction;
- The international community should fulfill on time all their pledged finance to the

- national resource envelop;
- Instead of withholding their financial support when government is off track, which has a direct bearing on poverty programme implementation, the international community should consider the social impact of their actions and possibly continue support, where feasible directly, to the critical 'Poverty Reduction Programmes (PRPs)';
 - Government borrowing should be done prudently and responsibly and there should be a ceiling on how much can be borrowed in a year.
 - Government should indicate any other sources of money; especially money that was borrowed from Food Reserve Agency (FRA), Japanese Non-Project Grant Aid, KRII, Matching Grant, etc. These monies were given to the Zambian Government for onward lending and therefore should be repaid by individuals who benefited from them.

5.2 Expenditure

CSPR feels that there is need for government to realistically budget for finances that it can manage to raise both locally and internationally so as to avoid large discrepancies between allocations and actual releases. ie in 2002 out of K420 billion earmarked for PRPs, only K110.2 billion was disbursed reflecting 26.2 % of the initial allocation.

CSPR feels strongly that more resources can be committed and disbursed to PRPs if government cuts down on unnecessary expenditures. In order to reduce the Recurrent Department Charges (RDCs) and Personal Emoluments (PEs), which amounts to more than K673 billion in the MTEF (more than allocated to PRPs), CSPR suggests the following:

- To down size the cabinet and reduce the number of Deputy Ministers;
- To cut expenditure on both domestic and foreign travels by high ranking government officials, posh cars and utility bills;
- To reduce the current Daily Sustenance Allowance (DSA) of government employees on foreign trips from \$250 to \$100 per day (UN rate);
- To reduce the number of by-elections through political will that does not promote the opposition MPs from crossing the floor frequently;
- Senior public servants should be given an all inclusive monthly package that includes basic salary, transport, and housing allowance so as to avoid misuses of ROC resources by senior government officials; and
- All civil servants that benefited from the purchase of Council, government and Public Institutional houses should not be entitled to housing allowance, even under the new Rent Assistance Scheme Agreement for 2004.
- To minimize delegations representing Zambia abroad.

Poverty Reduction Programmes (PRPs)

Greater emphasis should be on **Poverty Reduction Programmes (PRPs)**, which are supposed to target the majority of Zambians who are struggling to make ends meet.

Allocations to PRPs in 2004 according to the MTEF is projected at K530.7 billion which is 2.2 % of the GDP. In order to have guaranteed resources to fight poverty in 2004, CSPR strongly feels that:

- Government can be more committed to improving the lives of the majority of Zambians by '**PRIORITISING POVERTY REDUCTION FOR ZAMBIA!**'
- PRPs should be a percentage of the annual national budget and not the GDP, since the projected growth might not always be positive but rather negative, the latter arrangement might result in a corresponding reduction of PRP allocations; and
- In as much as the MTEF states that spending on PRPs will depend on remaining within the spending targets set for unavoidable payments for debt and personal emoluments, at least 80% of the allocated amounts for 2004 **MUST** be disbursed. This is unlike in 2002 when only 26.2% was disbursed for the whole year.
- CSPR would like to see a substantial increase in spending per person on basic government services - education, health, water sanitation and food production services. Only by substantially increasing government activities in these areas can we develop stable, productive communities and overcome the backlogs of the past.
- The PRP budget lines must be 'protected' from misuse, misdirection and misallocation through appropriate legal mechanisms.

6.0 Conclusion

If the 2004 budget is to be a people's budget, it should meet the expectations of the majority Zambians who are wallowing in unacceptable human conditions.

The budget should not be used as a means for political rhetoric, for merely announcing figures and as such demands intelligent and fearless engagement in constructive debate, by both state and non state actors. MPs must take a more active role in the budget debating process.

It is not enough to acknowledge the presence of poverty, but there is urgent need for our leaders to commit to addressing the problem so that extreme poverty is eradicated.

CSPR would like to see a quarterly review of the national budget instead of the current annual review system, more with the implementation of IFMIS next year. Macro economic targets in the 2004 budget should not be largely driven by political rationale, but rather by economic facts.

Lastly, we end with some few questions:

- Does Zambia have the capacity to achieve the optimistic target of economic growth set in the MTEF 2004 -2006?
- Will the 2004 budget be a people centered budget?
- Will there be commitment to allocations and disbursement for priority poverty programmes?
- Will the government be more transparent and accountable in its use of public funds?
- Does the government have the will to reduce some unnecessary expenditures (e.g International travel, by-elections) in order to commit more resources to poverty reduction?