

## ZAMBIA

# 2006 budget: some gains, but not enough for the poor to benefit



After years of cuts in public spending to meet its debt relief obligations to the IMF and World Bank, the Zambian government's 2006 budget has allocated considerably higher funding for the social sectors. Nevertheless, these expenditures will still fall far short of what is needed to truly address the dire situation of the large majority of Zambians who live under the poverty line.

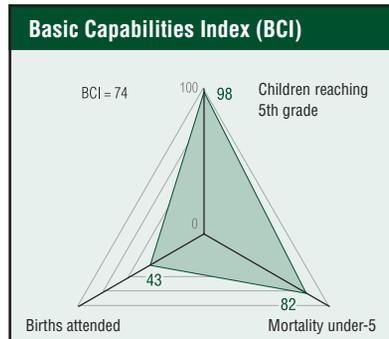
Women for Change  
Lucy Muyoyeta

The budget of any country is an important tool in the implementation of public policy and an indicator of priorities. An analysis of the 2006 budget will therefore reflect the Zambian government's commitment to financing social services for the poor and other redistribution mechanisms, as well the extent to which gender issues are taken into consideration.

Gender sensitivity is important in budgeting. It entails fairness to the needs of both women and men. It recognizes the fact women and men are different in their physiological make-up, that they play different roles in society and have a structural relationship of inequality. Women generally face more disadvantages than men. Therefore, gender-sensitive budgeting should include affirmative action for women and girls, and a gender-sensitive budget should establish how much in real terms has been allocated for the education of boys and girls.

Poverty remains the greatest challenge facing Zambia. An estimated 68% of the total population lives below the poverty line, with the majority living in extreme poverty. The situation is worsened by the impact of HIV and AIDS. Although the HIV prevalence rate declined from 20% in 1999 to 16% in 2002, the number of households experiencing chronic illness and death has continued to rise. Women have a higher prevalence rate than men, and young women between the ages of 15 and 19 are five times more likely to be infected as compared to males in the same age group. The impact of HIV/AIDS is leading more and more households to fall into destitution. Yet the social protection measures in existence are fragmented, under-funded and largely dependent on the good will of volunteers in the community, most of whom are women.

Social service provision for the poor also remains a major challenge. Poor progress and high levels of school dropout, especially among girls, characterize education at all levels. The provision of health services has been adversely affected by the budget cuts of previous years. As a result, few health indicators have improved in Zambia over the last decades, and some have worsened significantly. Average life expectancy dropped from 52 years in the 1990s to 37 years in 2002. The maternal mortality rate (MMR) increased from 649 deaths per



100,000 live births in 1999 to 729 per 100,000 live births in 2002. Malaria is endemic and is the leading cause of illness and the second highest cause of death among pregnant women and children under the age of five.

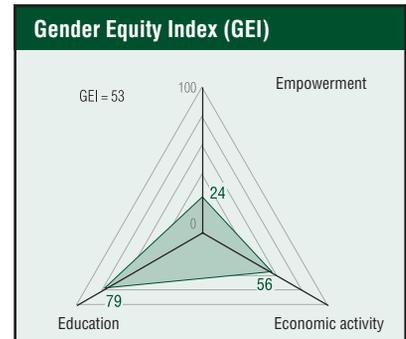
### Analysis of the 2006 budget

#### Job creation

For the last six years, Zambia's economy has consistently registered positive growth, averaging 4.6%. In the meantime, inflation has decreased, dipping from 15.9% at the end of 2005 to below 9% in May 2006. Nevertheless, as the figures in Table 1 and elsewhere show, positive Gross Domestic Product growth rates and stable inflation are in themselves insufficient for the eradication of poverty. There is clearly an urgent need for a substantial redistribution of expenditures in favour of poverty-reduction programmes and activities.

Formal sector employment has markedly declined as the main source of jobs. While the formal sector accounted for 75% of the total labour force in 1975, that share had dropped to 10.3% in 1999. Today, 90% of the labour force is employed in the informal sector, which is typified by poor quality low-paying jobs and underemployment. Women have been the most affected by the erosion of formal sector employment opportunities. The male labour force participation rate is 67% while that of females is 45%. In this situation, job creation is essential.

To what extent does the 2006 national budget place priority on employment? The strategy for employment creation is not well developed in the budget. Employment creation needs to be included as one of the key macroeconomic objectives in na-



tional budgets. To curb unemployment and ensure that new entrants are absorbed into the labour force, Zambia must generate more than 600,000 new jobs annually. Yet the crucial issue of employment has been relegated to the margins of economic policy.

The government should adopt a more direct and integrated approach to employment creation in order for more people to share in the benefits of economic growth. This could include special employment programmes through paid community involvement in rural road building programmes, transforming home-based care for people living with HIV/AIDS from voluntary to paid work, supporting micro and small enterprises, providing greater support to agriculture and rural development, and promoting decent work, among other initiatives. Employment creation activities should pay particular attention to the needs of women, who currently predominate in the low-paying, low-productivity informal sector jobs in urban areas and in small-scale farming in rural areas.

#### Health

The health sector received 10.7% of the total 2006 budget, which nonetheless falls short of the levels needed to deal with the current and accumulated problems in the sector. It is also below internationally accepted norms. For instance, the Abuja Declaration, to which the government is a signatory, stipulates an allocation of not less than 15% of the total budget to the health sector.

Much more needs to be done to confront the huge human resource deficit of over 20,000 people in the health sector. The 2006 budget provides for the recruitment of only 800 medical personnel. Drug shortages in health centres remain an endemic

problem. According to official government policy, the provision of anti-retroviral therapy (ART) is free for all those infected with HIV/AIDS, yet access to ART is still a major concern, particularly in rural areas, since very few hospitals around the country can conduct CD4 tests which are essential for the provision of ART. It is also extremely worrying that the provincial budget allocations for most programmes related to HIV/AIDS, sexually transmitted infections (STIs), malaria and tuberculosis have dropped in real terms. Health facilities are still inadequate, with many people having to walk long distances (over five kilometres) to the nearest health centre. Particular attention should also be paid to activities to reduce the unacceptably high maternal mortality ratio.

### Education

The national budget allocation for the education sector rose from 24% in 2005 to 26.9% in 2006. A number of commendable proposals were also made, such as increasing the funds earmarked for free primary education and the secondary education programme. However, unlike 2005, no provision was made for rural housing for teachers, even though schools in rural areas face a major shortage of teachers, largely due to insufficient or poor housing.

It is essential to ensure that the allocations reaching schools are adequate, as most schools still receive insufficient funds to meet their needs and resort to asking parents and guardians to meet the shortfall. This has worked against the free primary education policy, as those not able to pay are still forced to drop out of school. In the meantime, girls are dropping out of school at a higher rate than boys, which means that special measures need to be implemented to arrest this situation.

The government's priorities should include expanding free education up to grade 12 and improving the quality of education. This would entail dealing urgently with the massive loss of professionals in the sector and bringing down student-teacher ratios to under 40. The national student-teacher ratio at the primary education level has deteriorated significantly, from 52.2 students per teacher to the current ratio of 60.7.

### Social protection

Given Zambia's extremely high rates of poverty and extreme poverty, social protection is of the utmost importance. The allocation of less than 1% of the total budget to social protection is therefore inadequate, and needs to be raised to at least 2% to provide vulnerable groups such as the elderly, orphans and the disabled with access to social services.

### Agriculture

Over 50% of Zambia's population earns its basic income from agriculture, while 67% of the labour force is employed in the agriculture sector. Non-traditional exports (defined largely as agricultural rather than mining-related) increased their share of total exports from 21% to 41% in 2004. Agriculture could therefore be a key tool for poverty eradication, but the

TABLE 1

Selected development indicators 1980-2004				
	1980-1985	1990-1995	2003	2004
Poverty incidence (%)	*	68	73	67
Per capita income (in 2002 USD)	630	370	320	320
Adult illiteracy rate (%)	37	32	21	21
Infant mortality rate (per 1,000 live births)	103	109	115	115

Source: World Bank (2004). \* Official statistics unavailable.

agriculture sector received only 5.7% of the total budget. This falls far short of the Maputo Commitment to allocate not less than 10% of the total budget to the agriculture sector. The Fertiliser Support Programme takes up around 30% of the entire agriculture budgetary allocation, yet there is little to show in terms of its impact on reducing food shortages, increasing household income and reducing poverty.

Zambia often suffers from long dry spells leading to drought and adversely affecting its agricultural production. At the same, however, Zambia has vast freshwater resources that are not utilized for farming purposes. There has been a great deal of talk and promises regarding the need to invest in irrigation, but there was no provision for it in the 2006 budget. Irrigation requires a massive injection of capital and cannot be left to the farmers alone.

Most people depend on agriculture for their food but hunger remains pervasive. An estimated 80% of the population suffers from hunger, while 47% of children suffer from stunting, 5% percent from wasting, and more than 28% of children below the age of five are underweight. More needs to be done to orient agriculture towards meeting the needs of small-scale farmers, so that they can produce enough to eat while earning an adequate income.

### The tax regime

Two important tax measures in the budget are of concern with respect to poverty reduction.

- **The income tax exemption threshold.** The budget proposes to increase the current income tax-exempt threshold from the equivalent of roughly USD 80 per month to USD 92, representing a 15% increase. But the proposed increase is insufficient to provide meaningful relief. First of all, it does not account for the erosion of earnings due to inflation, which stood at 15.9% at the end of 2005. Secondly, the new threshold does not correspond to the income required to afford even a minimum food basket and falls below the government's own poverty line as defined by the Central Statistics Office. The exemption threshold should genuinely relate to the poverty situation and therefore effectively exempt income levels below the poverty line.

- **Pay As You Earn (PAYE).** The new tax structure for 2006 does not offer significant tax relief, particularly for those who earn lower incomes. It is a regressive rather than progressive tax structure, since those in the highest tax bracket (earning more than USD 1630 per month) will have their taxes cut by USD 126 per annum, while those earning USD 914 per month will see a reduction of only USD 41 per annum. It is also troubling that PAYE continues to comprise the largest portion of tax revenues, accounting for 70% of direct taxes and 30% of total revenues from all taxes.

### Conclusion

The theme for the 2006 budget was "From Sacrifice to Equitable Wealth Creation", in recognition of the sacrifices made by Zambians, especially the poor, to reach the "completion point" of the Heavily Indebted Poor Countries (HIPC) Initiative. In order to qualify for the debt relief offered under this IMF/World Bank initiative, poor countries like Zambia were obliged to implement neoliberal economic reforms, including austerity measures and cuts in government spending that took a heavy toll on social services and poverty reduction efforts.

Some gains have been made by the poor through this new budget, but given that 68% of the population is currently living below the poverty line, a great deal more is needed if the country is to make any progress towards the Millennium Development Goals. And even more needs to be done to achieve a gender-sensitive budget. Expenditures on the priority areas of health, education, water and sanitation, social protection and agriculture should be protected, and the funds allocated to these sectors must be disbursed in a timely fashion. ■

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1 Cited in: Civil Society for Poverty Reduction (2006). *CSPR Statement on the 2006 National Budget.* p. 2.

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This highlights the need for improved data management for all categories of the poor, which would facilitate extension and monitoring of assistance based on needs. Adequate allocation of resources should begin with their inclusion into local and district budgets, and a strategy should be established for effective management of all these resources. As is frequently the case in developing countries, the various existing policies and resource allocations are often improperly managed, especially for the poorest of the poor. In addition, in order to ensure adequate legal protection, existing laws need to be amended and strengthened.

Finally, there is an urgent need for further work by all stakeholders at all levels on the issue of social protection. For its part, civil society in particular should be more vigilant in engaging the various stakeholders about these issues. It should also study the experiences of other countries and the prospects for their adaptability to Uganda. ■

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- ## UNITED STATES OF AMERICA
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- ### The growing federal deficit
- According to the Center on Budget and Policy Priorities, the federal government ran a deficit of USD 318 billion in 2005. From 2002 to 2011, the government is projected to amass a deficit of USD 3.4 trillion. Much of the projected deficit can be attributed to tax cuts, increases in defense spending, particularly for the illegitimate war on Iraq, and spending on "homeland security" to fight the "war on terror." The long-term outlook for deficit reduction is bleak. Making the Bush tax cuts permanent would add another USD 9.6 trillion (in 2005 dollars) to the deficit over the next 20 years, including the added interest payments on the national debt, which would be substantial. In an attempt to reduce the deficit, Congress has begun to cut USD 39 billion from the budget over the next five years – including cuts in Medicaid, various children's programs, and student loans. The cuts are expected to weaken health care for many low-income families, cutting billions of dollars for low-income programs from the federal budget and placing increased responsibility on state budgets. Many states will not be able to make up the costs and further reductions in these programs are the likely result (CBPP, 2006).
- ### The end of the American Dream
- The Government shows little commitment to any kind of government-funded safety nets. However, there was a time when significant investments were made in programs to help make the American Dream possible. For example, public education, primary through tertiary, was of good quality and inexpensive. Progressive taxation ensured that the extremely wealthy would provide their fair share to support the public good, in line with most European governments in the 1970s and 1980s. With high levels of employment, health care that depended on employer-paid insurance schemes covered much of the population. Today, these cornerstones of social policy have been reduced to rubble. Many working Americans do not have access to health insurance (and consequently to health care), because the gap between stagnant wages and sky rocketing insurance rates prohibit the purchase of health insurance. Public schools have been allowed to deteriorate, and fee-based schools are being funded in their place with public tax dollars. Congress has approved a federal budget that allows power politics to define its foreign assistance while at the same time cutting crucial social programs at home. These overall trends reflect an indifference to emerging crises, and bode ill for domestic efforts to eradicate poverty and reduce social exclusion. ■
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