



Caritas Zambia

Submission

to the

**EXPANDED PLANNING AND BUDGET COMMITTEE
On REVENUE AND EXPENDITURE FOR THE FINANCIAL YEAR ENDING 31ST DECEMBER
2024**

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Introduction - Caritas

- Caritas Zambia was established as a department in 1986 by the Zambia Conference of Catholic Bishops (ZCCB). The Conference of Bishops is a permanent grouping of Bishops that jointly exercises certain pastoral functions on behalf of the Christian faithful in Zambia.
- The structures of Caritas in Zambia permeate from the national level to parishes (communities), consistent with the structure of the Catholic Church. At the lower level are Parishes with their Out-stations and Small Christian Communities
- Caritas Zambia has 4 programme
 1. *Economic and Social Accountability Programme (ESAP):*
 2. *Democracy and Governance Programme (DGP)*
 3. *Livelihoods and Climate Change Programme (LCCP):*
 4. Child protection and Peace Building (CTPBP)
- Caritas Vision Statement “*A **Zambian society where every person attains integral human development***”.
- Caritas Mission Statement” *Inspired by the Word of God and Catholic Social Teachings, Caritas Zambia, a department of the Zambia Conference of Catholic Bishops is dedicated to the promotion of integral human development through witnessing, animation, conscientization and institutional strengthening”*

BASIS OF OUR COMMENT ON THE NATIONAL BUDGET

Zambia has faced significant macro-economic challenges in the last 3 years, as the global slowdown due to the COVID19 pandemic, war in Ukraine – Russia, and unstable copper price. This coupled with domestic challenges, including the depreciation of the kwacha, high debt levels, constrained electricity supplies and poor rainfall patterns have created challenges for budget formulators. This has led to reduced GDP growth, challenges for domestic revenue collection, rising debt levels and a higher fiscal deficit. This budget analysis is a submission of Caritas Zambia to the expanded planning and budget committee.

The Caritas Zambia analysis of the national budget arises from the exercise of the Churches’ prophetic role to speak on behalf of the poor and marginalized in society. Guided by values of justice, solidarity and the common good in our analysis, it is our hope that as we contribute our voice to the national budget, government will address of the areas that need to be improved. As we have stated in previous statements, our contribution is supported by the Social Teaching of the Church and by research in areas that people live. So what we are looking at in the 2024 national budget is;

1. As Caritas Zambia we want a budget that will lead the economy back to the high GDP growth rate of about 7 to 8 percent per annum at the earliest possible time. Growth of income is important in itself, but it is as important for the resources that it brings in. These resources

provide us with the means to bridge the critical gaps that remain in our development efforts, particularly with regard to the welfare of the vulnerable segments of our population.

2. We are looking for a budget that deepens and broadens the agenda for inclusive development; and to ensure that no individual, community or region is denied the opportunity to participate in and benefit from the development process.
3. The third aspect is that we want a budget that re-energizes government and improves delivery mechanisms. Our public institutions must provide high quality public services, security and the rule of law to all citizens with transparency and accountability.
4. How will poverty be reduced in the country and improve peoples lives

Specific Measures

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

Macroeconomic Policies for 2024 National Budget

The government intends to develop the national economy by pursuing the following macroeconomic policies:

- a) Attain a real GDP growth rate of at least **4.8** percent;
- b) Reduce inflation to the **6-8** percent medium-term target band;
- c) Maintain international reserves above **3.0** months of import cover;
- d) Increase domestic revenue to at least **22.0** percent of GDP;
- e) Reduce the fiscal deficit to **4.8** percent of GDP
- f) Limit domestic borrowing to no more than **2.5** percent of GDP.

General comment on the macroeconomics

Governments' primary objective should be to maintain stable prices of consumer goods and services in order to keep the value of savings and maintain the economic welfare of the people they serve. When prices are increasing all the time, the standards of living decline and the value of savings is eroded. Commodities have increased and government should come up with measures that mitigate this challenge. The cost of living in Zambia has become extremely high.

a) Achieve an annual real GDP growth rate of 4.8 percent

The most effective and sustainable key to reducing poverty is by maintaining consistently high rates of growth of 7 to 10 per cent each year. It requires rapid and fundamental changes. But high growth rates are not the sole requirement; such growth must occur in such a way as to create the jobs that will lift people out of poverty and reduce inequality. This will even draw us closer not only to achieving the SDGs but also to socio-economic development, which at the moment cannot be achieved by urgently adopting a radical approach and through bold and decisive action.

- We believe the government needs to do more to ensure that economic expansion can be sustained, and participation should be broadened. Part of the answer lies in our fiscal and investment decisions and partly in ensuring that our economy is able to adjust to global risks

and opportunities. This development should be Zambian driven by Zambians and not rely on foreigners to develop Zambia.

- Despite positive economic growth in Zambia, poverty and unemployment still remain a huge challenge. We need to broaden the participation of people in economic activities, thus stimulating growth through job creation unlike concentrating growth in urban areas.
- We recommend that growth should be redistributed among sectors and regions as this is critical in determining which groups benefit from expanded employment and income-earning opportunities.
- Also, the government should reform the informal sector and emphasize growth in agriculture. Remote poor regions and urban slums should be improved upon to the extent that the poor benefit from the much talked about growth targets.
- Rural areas are not productive due to infrastructure underdevelopment. We commend the government that it is now focusing on rural infrastructure development so that we could tap into the potential growth distribution of our rural areas.

Accelerate the diversification of the economy, particularly towards tourism, energy, agriculture and agro processing

It's not only the mines that have been affected by the economic stagnation and exchange rates. Our exporters by virtue of their close links to the external sector have borne the brunt of the economic challenges. It is, therefore, appropriate that we continue to provide all possible assistance to our exporters to help them overcome the short-term disadvantages. More specifically:

- To enhance growth and competitiveness, the government needs to address regulatory and microeconomic barriers to our competitiveness. This involves detailed sectoral analysis and consultation with affected industries and interest groups. This will guarantee sustained, faster and broad-based growth- inclusive growth.
- A Market Development Assistance Scheme that would provide support to exporters in developing new markets. With many traditional markets still under financial stress, greater effort is required to identify and develop new markets. We commend the government for recognizing this aspect
- Micro, Small and Medium Enterprises (MSMEs) have been affected by the slowdown in exports and the indirect effect of the global crisis on domestic demand. We commend the government for providing a credit facility at reasonable rates, by providing a special fund out of the Citizens Economic Empowerment scheme.

b) Maintain single digit inflation with an end-year target rate of no more than 6-8 percent

- As Caritas Zambia 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, no matter what the price level is.
- We recognize that maintaining inflation rate at 6-8 percent, or to the lowest possible level, is obviously desirable as far as macroeconomic stabilization is concerned. It is expected that lower

inflation will help reduce interest rates, will encourage long terms investment borrowing, and will help decrease the government's debt service burden.

- The government is aiming to achieve an inflation rate target of 6-8 percent by close of 2024. This is realistic. However, looking at the increase of commodities and possible increase in fuel prices (because of the exchange rate - we import our fuel) that will work against this objective recognizing that inflation in Zambia is hugely influenced by food, fuel (transport cost) and electricity.

c) Reduce the budget deficit to 4.8 percent of GDP and limit domestic borrowing to 2 percent of GDP;

We still believe and maintain our stance that the government must decrease its domestic borrowing as borrowing causes interest rates to rise, thereby crowding out private sector organizations and ordinary citizens from borrowing from commercial banks.

- It is recognized that the government is under pressure to borrow for capital projects and infrastructure development; however, continued borrowing by the government from the country's limited savings has an adverse impact on interest rates. The government is competing with the private sector in getting funds from banks, and as such is crowding out private sector investment while pulling interest rates upwards. This policy limits private sector employment creation, as such small business owners and citizen-entrepreneurs are denied access to local funds, as the interest rate is too high for them.
- We recommend that the government should reduce the domestic borrowing through building a trust based, simple, neutral, tax system with almost no exemptions and low rates designed to promote voluntary compliance. Today we are losing millions of Kwachas through tax avoidance and tax evasions that are amplified by tax holidays, tax incentives and corruption. The government is still struggling in this area and it good if the government
- We recommend that the government introduce a tax system that generates revenues on a sustained basis without use of coercive tax collection methods so that we could raise the needed revenues to meet the gaps in our financing.

Social Target needed

We need to move from the traditional mode of only limiting ourselves to macroeconomic targets, the government needs to start including social targets indicators in the budget. At the moment the government makes no mention of what has been made in the last financial year with regards to social sector; however, we are meant to believe that the indicators are met by accident, as there is no projection of targets.

Employment

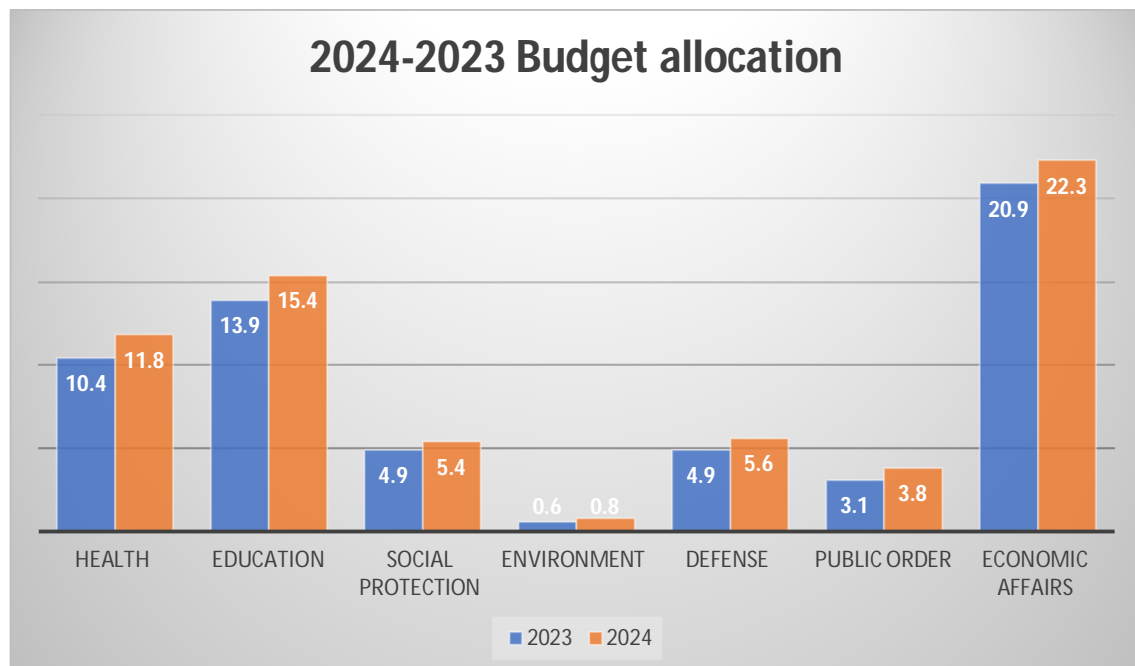
The governments should estimate the employment opportunity that they will create and also by what percentage they are going to reduce the unemployment rates. Empowering people with respectable jobs that ensure sustainable livelihood to individuals and their families is one of the best and effective ways of unblocking the resources and empowering the local people, otherwise the other macroeconomics targets become meaningless if they do not translate to anything in people's lives.

We don't need to remind the government that unemployment, especially of the youth graduating from educational institutions, is an increasing challenge that must be tackled urgently. The fall in mineral export prices has not made it easier. The 2024 National Budget falls short of skills building which is one way to make the youth suitable for the labour market, and also enable them to establish Small and Medium Enterprises.

We also need to build an industrial sector base that adds value to newly discovered greatest potential, namely minerals. It is also of urgency that we build a solid industrial sector based principally on adding value where Zambia enjoys a strong comparative advantage, namely agricultural products. In this regard, the provision of affordable and reliable electricity is critical, in addition to dealing with other constraints to doing business.

2.0 Social Sector

2024 ZAMBIA SOCIAL SECTOR BUDGET BRIEF



- Education
 - In 2024, the education budget represents 15.4% of the overall budget; the budget increased compared to last year
 - The 2024 education budget share is about 5 percentage points below the budget target set by the Dakar framework for Education for All, agreed by the Conference of Ministers of Education of the African Union in 2000;
- Health sector
 - Zambia's Health Budget in 2024 increased of the total budget;

- This health budget allocation is 4 percentage points below the Abuja Declaration target of 15%, which was agreed upon in 2001 by the Heads of State of the Organization of African Unity;
- Social protection
 - Using the official classification, social protection expenditure accounts for 5.4% of overall proposed expenditure for 2024. About 40% of this is allocated to the Public Service Pension Fund;

KEY MESSAGES

We acknowledge that Zambia has experienced substantial social and economic challenges over the past four years, leaving many destitute. The recent poverty statistics, revealing that over 14 million Zambians live in poverty, further confirm this. Factors such as the depreciating kwacha, limited electricity supply, unfavorable rainfall patterns, poor farming input distribution, COVID pandemic have all compounded these issues, leading to reduced GDP growth, high food inflation, increased poverty levels, high debt levels and a higher fiscal deficit.

Caritas Zambia was expecting a 2024 national budget would address some of these issues, specifically expectation a budget that could restore the economy to a high GDP growth rate, reduce the high poverty levels, restore confidence in the people of the advent of low cost of living , promote inclusive development, enhance government performance, improve delivery mechanisms and ensure that no individual community or region is denied the opportunity to participate in and benefit from the fruits of development process. Living no one behind!

OUR KEY MESSAGES ON THE 2024 NATIONAL BUDGET

Our assessment of the budget's theme, "Unlocking Economic Potential," and its macroeconomic and social targets, however, fall short of these expectations.

1. **The lack of emphasis on employment, particularly for Zambia's youth, and the inadequate focus on skills building and industrial sector development are notable shortcomings.** Furthermore, the budget does not sufficiently address the issues of poverty reduction and difficult economic conditions. We are concerned about the lack of political will and innovative strategies to benefit impoverished and vulnerable Zambians. Macroeconomic targets – are not ambiguous enough – why is employment missing on the targets, given that millions of youths remain unemployed. We are of the view that government should be setting a macroeconomic target on employment. We acknowledge the teachers and nurses it wants to employ but that is not good enough. The government should estimate the employment opportunity that they will create and also by what percentage they are going to reduce the unemployment rates. Empowering people with respectable jobs that ensure sustainable livelihood to individuals and their families is one of the best and effective ways of “Unlocking Economic Potential” and empowering the Zambian people, otherwise the other macroeconomics targets become meaningless if they do not translate to anything in people’s lives.
2. **We need to build an industrial sector base that adds value to newly discovered greatest potential, namely the critical minerals as we prepare for transitional energy.** It is also of urgency that we build a solid industrial sector based principally on adding value where Zambians enjoy a strong comparative advantage, namely agricultural products and minerals

enrichment. In this regard, the provision of affordable and reliable electricity is critical, in addition to dealing with other constraints to doing business. This needs to be driven by Zambians and not dependent on foreigners to unlock the potentials of the country empower Zambians so that they can the industrial revolution of the country. The 2024 national budget completely falls short of these things. All these pronouncements will remain meaningless and rhetoric if poverty reduction is not put at the center of the economic agenda of this government. People are in dire need of help, and we need practical solutions.

3. **We also note the budget's inadequate proposed spending on agriculture and the perceived lavish expenditures on non-essential areas.** Caritas Zambia is of the view that proposed spending on agriculture is incredibly low especially that the most money is going to farmers input support and less to extension services and key drivers to make the agriculture viable and productive. We urge the government to be focused and develop strategies of how best we can revive the sector. The government can recover some of the funds to committee to the agriculture sector by reducing some expenditures. For instance, we have seen and witnessed lavish expenditures that are not remotely connected to poverty reduction such as hefty expenditure on trips and buying of vehicles.
4. **Government must demonstrate greater concern for the Zambian people.** We agree with the IMF and the government's proposition to increase the tax base, but not at the expense of the poor. Caritas Zambia observes that government has failed to meet the aspiration of the people through merger increase in allocations. The nominal increases in budget allocations to the health and education sectors do not sufficiently address these challenges the said sectors face, limiting the potential for significant improvement in these areas. The health sector has seen a nominal increase of 17 percent while the education sector allocation of 15 percent increase, while inflation to date is at 12 percent. The implication therefore is that it will be impossible to meet the pro poor programmatic priorities of basic health care, improvement in the health outcome and public health. This scenario does not give hope for the poor and the vulnerable in the coming year.

Health sector - 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 COVID19, 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 – Government increase allocation from 0.6 to 0.8 percent of the total budget. It will spend about has allocated This simply means that the government will in actual fact allocate **K9,671,765,277**to to implement 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.” **Surly is this enough?!!!!** We have almost 14 MILLION people living in poverty in Zambia, and we shall spend about K690 per person the whole year. 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 60% of the population are living in abject poverty.

5. **The Caritas Zambia feels that the budget has failed to relate the cost of living to the tax exemption that has been provided for, given the rising economic conditions.** The tax exemptions extended to investors appear to neglect the struggling Zambians. The dismally raising the tax-free exempt threshold to K5, 100 from K4, 800 per month even in the face of rising economic conditions. JCTR food basket for a family of 6 is approximately K9, 300. The tax exemption being extended to investors could also have been extended to Zambians to show concern on the current state of affairs.
6. **Government failure put more resources to deal with environmental challenges is worrying.** Climate change effects are upon us and there is no deliberate efforts by government to innovate and respond to the challenges of climate change and government is going to spend 0.8% of national budget on environmental protection. We commend government for tax exempt on Electric cars, but how many Zambians can afford them, these are for the rich and the privileged not the poor Zambians. There is need for government to focus on growth and incentives that help its citizenry and addresses the issues of equity and economic empowerment among its people.
7. **We further want to acknowledge and commend government for the continued political will extended towards the realization of the decentralization policy objectives through enhanced fiscal decentralisation like CDF.** However, we want to register our concern with regard to the disbursement, acquisition, utilization and management of CDF. We urge the government through the minister of finance to consider disbursing this fund on time and in full. The minister has proposed to increase CDF to K30.6 million in the 2024 budget from the current allocation of K28.3 million. Given this increase, government will have to critically tackle the issue of poor disbursement of the said fund to the local authorities. It is in the public domain that the 2023 CDF disbursement stands at the average of K6million per constituency and we are in the last quarter of the year, the fundamental question that begs an answer is how possible is it for the ministry of finance to finish disbursement of the remaining K22.3million in the coming 90 days to all the 156 constituencies?
8. Our appeal to the ministry of finance together with other line ministries is that they should see to it that they work on shortening the procurement process of the projects supported by the CDF fund. We appreciate that transparency and accountability in the management of public funds is very cardinal, but we are of the view that aligning CDF to the Zambia Public Procurement Authority (ZPPA) affects effective implementation of this fund due to tedious procurement procedures and processes, hence delaying the disbursement and completion of community prioritized projects. Government should consider finding other means of oversight to this fund so as to reduce on the delays.
9. Lastly, we highlight the missed opportunity of focusing on the Artisanal and Small-scale mining sector, which could be a game changer in "Unlocking Economic Potential." The 2024 budget fails to target this potential, further demonstrating the need for more strategic planning and implementation. The ASM is one of the biggest potential sector that can play a crucial role quest to unlock Zambia potential and economic development. However, to unlock its full potential, a comprehensive and strategic thought through approach is needed, combining capacity building, market access, employment creation, financial support, regulatory reform, market access, technological innovation, and infrastructure development. By promoting ASM and being strategic, Zambia can diversify its economy away from the traditional sectors, which may be vulnerable to global market fluctuations.

Conclusion

Each year, the preparation and implementation of the national budget presents a new opportunity for the Government to promote structural equality, remediate past injustices, and provide a better life for the poor. A human rights based national budget is not the “silver bullet” to ending poverty in Zambia. However, a budget that supports accountability and the core elements of fundamental human rights is necessary to reverse the downward trend of human development that has characterized Zambia since independence. Rather than make empty political promises, we urge the Government to “put its money where its mouth is” by financing the progressive projects that bring in immediate benefit and that we expedite economic development.

Caritas Zambia 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 at the center should be poverty reduction. The government needs to be more ambitious than what they are doing now.