

ANALYTICAL BRIEF OF THE SOCIAL SECTOR BUDGET 2017 “LEAVING NO ONE BEHIND”



Highlights:

1. The share of social sector budget has increased by 2% (excluding FISP), from 30% of total budget in 2016 to 32% in 2017.
2. The social cash transfer and the Public Service Pension Fund have had their budget allocation increased by 83% and 106% respectively. To enhance poverty impact of this Government spending, synergies will have to be created between the Social Cash Transfer Scheme and the Farmer Input Support Programme.
3. As a share of the overall budget, the allocation to the education sector has fallen marginally from 17.2% in 2016 to 16.5% in 2017.
4. The 2017 National Budget allocation to the health sector has marginally increased by 0.6, from 8.3% in 2016 to 8.9 per cent in 2017.

“Scaling-up Government’s social sector allocation is expected to improve social outcomes and protect the most vulnerable in society from the effects of the economic downturn”

As Zambia is setting the stage for economic recovery, the 2017 National Budget is certainly not short on measures to protect the vulnerable from the adverse effects of possible austerity under the Zambia Plus Economic Recovery Programme. Zambia continues to face tough economic conditions with real growth projected at 3.4% in 2017. In response to these unfavorable economic conditions, the 2017 National Budget had reprioritized planned expenditure with a greater focus on social sectors. Indeed, the Minister of Finance Hon. Felix Mutati emphasised the need to leave no one behind during the short-term transitions of the economy to recovery.

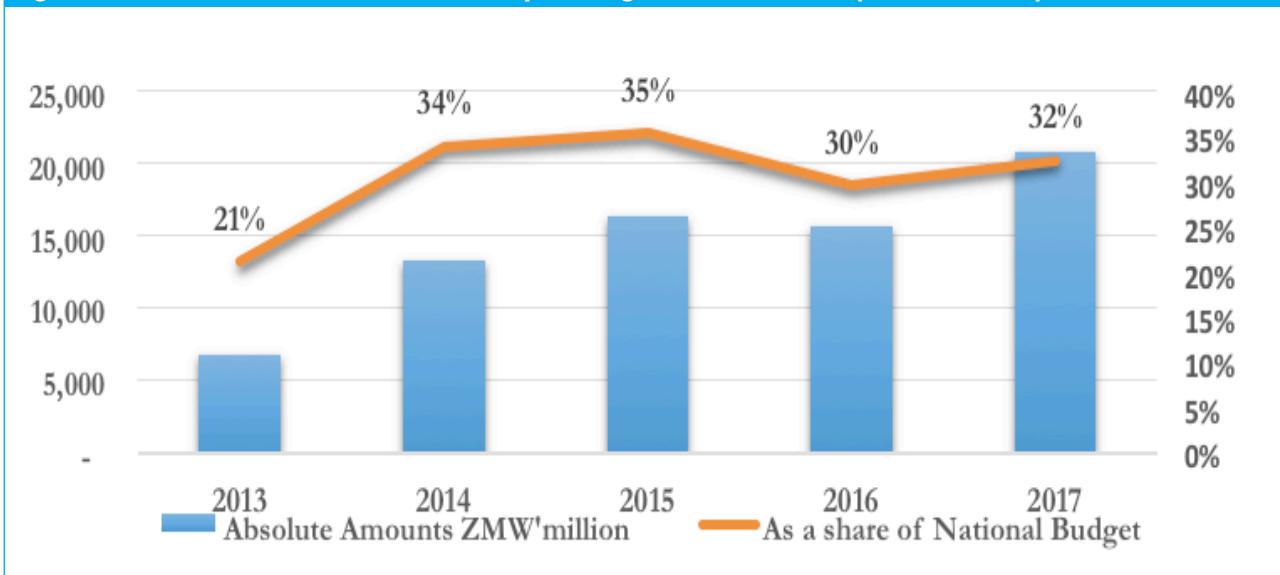
The budget has nominally increased by 21.5% from the ZMW 53.1 billion in 2016 to ZMW 64.5 billion in 2017. Of this, in terms of broad functions, General Public Service accounted for 27.9%, Defense (5%), Public Order and

Safety (3.6%), Economic Affairs (31.1%), Environmental Protection (1%), Housing and Amenities (1.3%), Health (8.9%), Recreation, Culture and Religion (0.5%), Education (16.5%) and Social Protection (4.2%). The main social sectors in Zambia’s 2017 budget are understood to include education, health, social protection and the Farmer Input Support Programme (FISP), although FISP is functionally classified under Economic affairs. Collectively, the social sector accounts for the largest functional-level share of the budget at 32% (or 36.4% when FISP is included).

1. Social Sector: an Overview

The allocation to the social sector (excluding FISP) has grown marginally by 2%, from 30% of total budget in 2016 to 32% in 2017 (Figure 1). In nominal terms, the allocations to the social sector have grown from ZMW 15.7 billion in 2016 to ZMW 20.9 billion in 2017. This increase in planned social sector spending can be partially attributed to the savings from the removal of fuel subsidies and the reduction in General Public Services allocation (8.2 percentage points decrease from 36.1% in 2016 to 27.9% in 2017).

Figure 1: Evolution of Social Sector Spending and Allocation (ZMW Million)



Source: Constructed by author from 2013-2017 Budget Speeches and financial reports

1 The social sector include six sub sectors namely; education, environmental protection, health, housing and amenities, recreation, culture and religion and social protection. At the policy level, the Farmer Input Support Programme (FISP) is a critical social intervention for poverty reduction and for social protection; however, at the functional level in the budget, it is included under Economic Affairs.

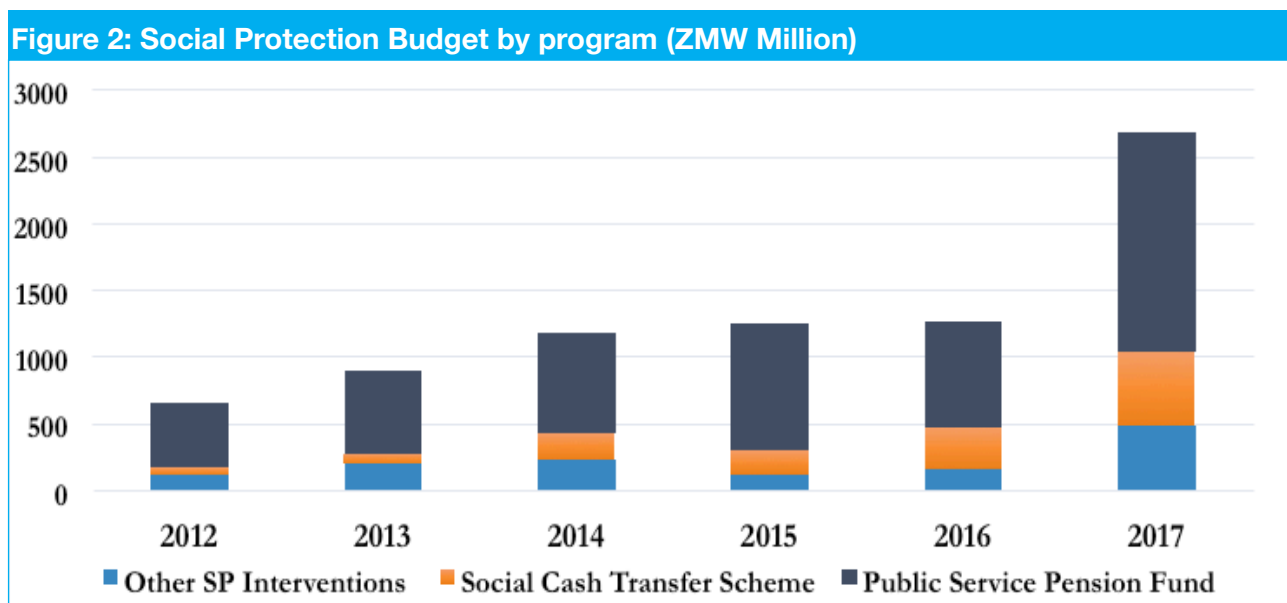
2. Is the Social Protection Budget Allocation Policy Coherent?

The social protection budget allocation has increased nominally by 108% from ZMW 1.3 billion in 2016 to ZMW 2.7 billion in 2017. This increase is timely given the economic downturn of 2015, which has necessitated programmes to reduce vulnerabilities to the extreme poor now more than ever. Within the social protection budget, the allocations to the Public Service Pension Fund and Social Cash Transfer Scheme have increased by 106% and 83%, respectively. As such, the Public Service Pension Fund has retained a dominant share of social protection (61.5% in 2017) followed by the Social Cash Transfer at 20.5% and other interventions at 18%.

In order to enhance the quality and poverty impact of Government spending towards ensuring that no one is left behind, synergies will have to be created between the Social Cash Transfer Scheme and FISP. FISP, a poverty reduction and social protection programme that is administered under the Economic Affairs budget function, had its share of the 2017 budget increased by 186% in normal terms compared to 2016. A key step for enhancing the poverty impact of FISP will be to improve the targeting of poor farmers, through firm commitment to a reformed e-voucher system, for instance. The Living Conditions Monitoring Survey 2015 estimates that Zambia

had 1.6 million poor households in 2015. Thus, the Social Cash Transfer's target of 500,000 households and the FISP target of 1 million households have the potential to jointly cover 94% of poor households. On the other hand, if separately and uncoordinatedly implemented, these programmes bear chances of leaving some poor households behind, in addition to the 100,000 households already not catered for under either of the two programmes.

The unpaid pensioners are the biggest relative (or share-increase) winners, with their budget (pay arrears) increasing by 106%. However, this has to be accompanied by prudent non-financial measures to ensure equity and timeliness in the payment of benefits to both junior and senior ex-civil servants. Given the Constitutional requirement to continue paying salaries to ex-staff who have not been paid their benefits, an arrangement to pay the most senior with higher dues first will have some costs savings for the Government. The measures proposed in the budget to reform the pension system are long overdue. The Public Service Pension Fund need not receive budget support if pension contributions are matched with the promised benefit. Savings from the pension reform should be channelled to the interventions for the most vulnerable. However, these pension reforms should be done in the context of the approved National Social Protection Policy as opposed to isolated reforms.



Source: Constructed by author from 2012-2017 Budget Speeches

3. Education - Inconsistency between Spending and Outcomes

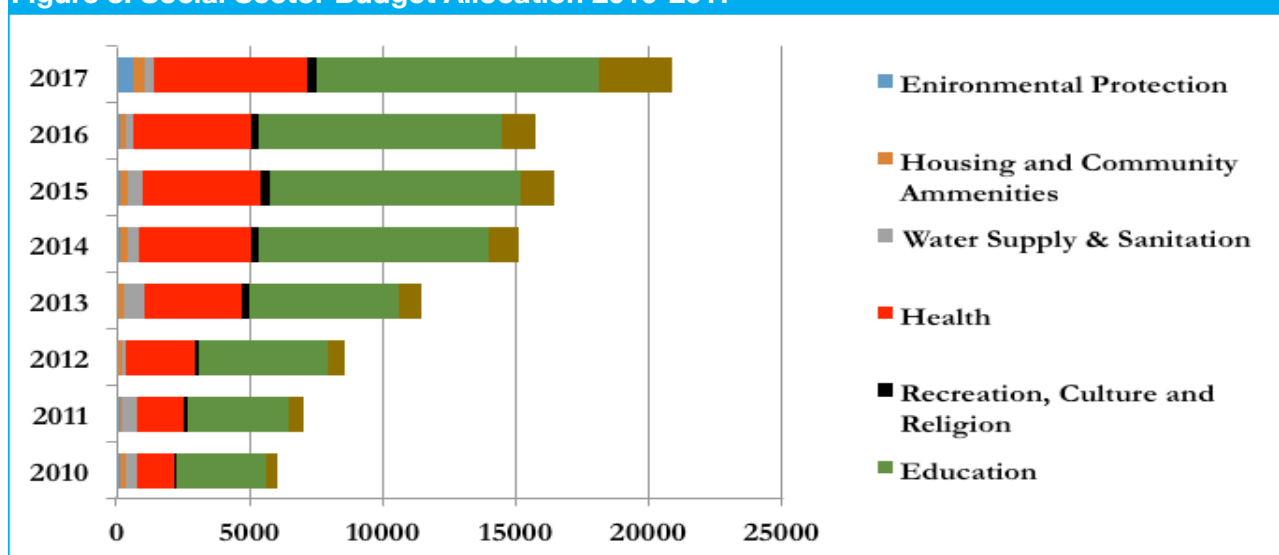
Education has received the largest share of social sector allocation in 2017 at 51%. The Government plans to spend ZMW 10.6 billion on education alone in 2017, representing a nominal increase of 16% from the 2016 allocation. However, as a share of the overall budget, allocation to education has fallen marginally from 17.2% in 2016 to 16.5% in 2017, a reduction of 0.7 percentage points. As a share of total social sector budget, the education budget has also fallen from 58% in 2016 to 51% in 2017. When compared to other social sectors, Figure 3 illustrates that education has received the largest share of social sector spending in the last nine years.

Primary education usually receives the largest share of general education budget when compared to secondary education. Greater spending in primary education reflects in part the Government’s preference for *education for all* at the lower end of the education spectrum. In 2016 primary education accounted for more than half of (67.9%) of the general education budget, while secondary education

represented 24.1%. The skewed distribution of public resources towards primary education has serious implication for progression to secondary education and consequently for tertiary education as well. With the budget for infrastructure remaining at a constant ZMW 1 billion in 2017, the financing constraints on education are unlikely to change. An alternative to bridging the shortage in secondary school financing may be to convert some primary schools into secondary schools.

Despite the growth in public spending on education and in particular primary education, a recent public expenditure review (PER) by the World Bank¹, reveals that the quality of education has not improved. The study finds that primary education measured by Grade 5 pupil learning outcomes has remained relatively flat and has fallen slightly in recent years. These poor outcomes reflect in part the large share of educational spending going towards emoluments. For example in the 2016 National Budget, personal emoluments accounted for 93% of the entire primary education allocation. With that level of spending on emoluments, there is very little financial room to acquire teaching aids and books. Left unaddressed, education outcomes are unlikely to improve.

Figure 3: Social Sector Budget Allocation 2010-2017



Source: Authors own construction from budget speeches (2010-2017)

2 World Bank. 2016. Beating the Slowdown: Making Every Kwacha Count. 7th Zambia Economic Brief Issue 7. Washington, DC: World Bank.

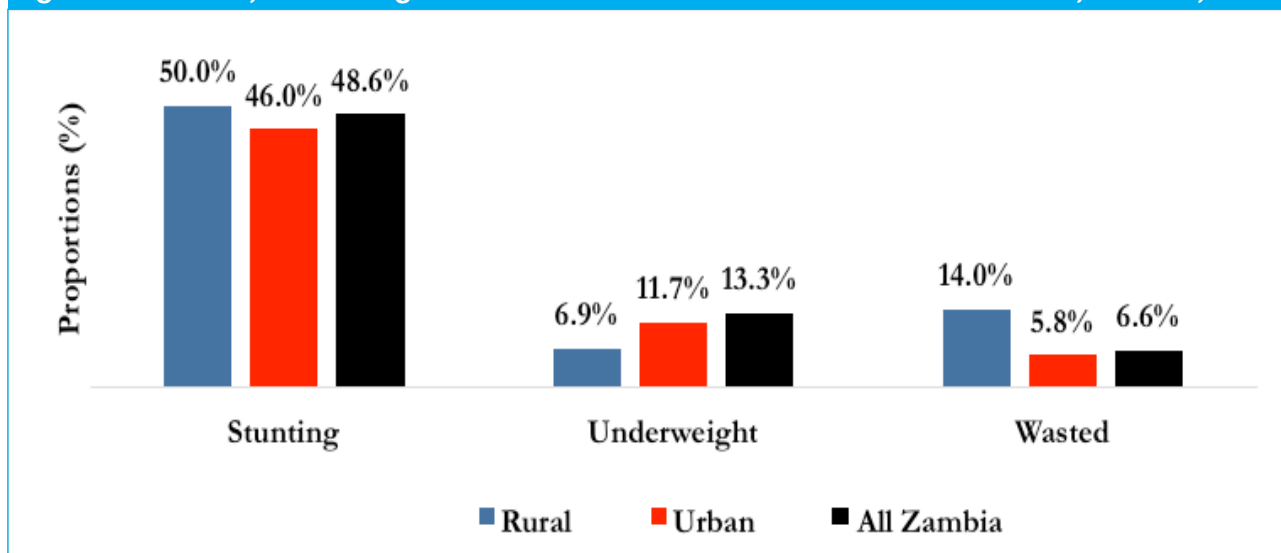
4. There is Need to Improve Human Capacity in the Health Sector

The 2017 National Budget presentation saw the allocation to the health sector increase marginally by 0.6 percentage points from 8.3% in 2016 to 8.9% in 2017 of the total budget. Among the target expenditures include establishment of satellite cancer treatment centres, recruitment of medical frontline personnel and purchase of medical equipment. Compared to the overall allocation to the entire social sector, the health allocation represented a substantial share of 28%, second only to education with the lion's share of 51%. According to the budget address, these measures are aimed at improving universal health coverage for all. In order to achieve this, establishment of health centres should go hand in with human capacity development. With the drug and medical supplies budget only increasing nominally by 2% from ZMW 754 million in 2016 to ZMW 769 in the proposed 2017 budget, it remains unclear if the Government

will ensure adequate supply of drugs and other medical supplies given the increasing costs and demand of drugs.

Provision of quality health care is a major contributor to human wellbeing. WHO has estimated that achievement of the major health targets for child, maternal, infectious diseases and non-communicable diseases (NCDs) (SDG 3), would result in an increase of global average life expectancy of around four years by 2030. This includes provision of child health care and adequate nutrition for children under the age of five. Zambia has made significant progress in reducing child mortality and maternal deaths but challenges remain on the nutrition side. The country has one of highest stunting rates in the world. As shown in the chart below, almost half of children under the age of five in rural and urban areas are stunted while 6.9% and 11.7% in rural and urban areas, respectively, are under weight. This is more than 8 percentage point from the African average stunting rate of 40%². This reiterates the need to refocus efforts towards addressing these challenges.

Figure 4: Stunted, underweight and wasted under five children in rural/urban, Zambia, 2015



Source: Constructed by author from 2015 Zambia Demographic Health Survey Data

3 2013, IMPROVING CHILD NUTRITION: The achievable imperative for global progress, UNICEF

5. More Could and Should be Done

Overall allocation to the social sector stood at ZMW 20.9 million, a marked nominal increase of 33% from the 2016 allocation of ZMW 15.7 million³. This is highly commendable given the importance of a vibrant social sector as an effective, tangible and direct conduit towards the achievement of human development objectives such as better nutrition, maternal and child health care and educational outcomes.

However, questions remain: what mix of social policy interventions is efficient and effective to lift people out of poverty? Is the observed increase in social sector allocation in 2017 sufficient to *leave no one behind*? As the Government is trying to make long term economic development plans, questions like these should take centre stage. In addition, stocktaking of past achievements (errors and successes) should be carefully undertaken and examined to help design future development programmes such as the upcoming Seventh National Development Plan.

3 2017, National Budget speech address

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