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ANALYTICAL BRIEF ON SOCIAL SECTOR BUDGET 2018

‘A Mirage in the Social Sector budget’

5th October 2017

Key Messages

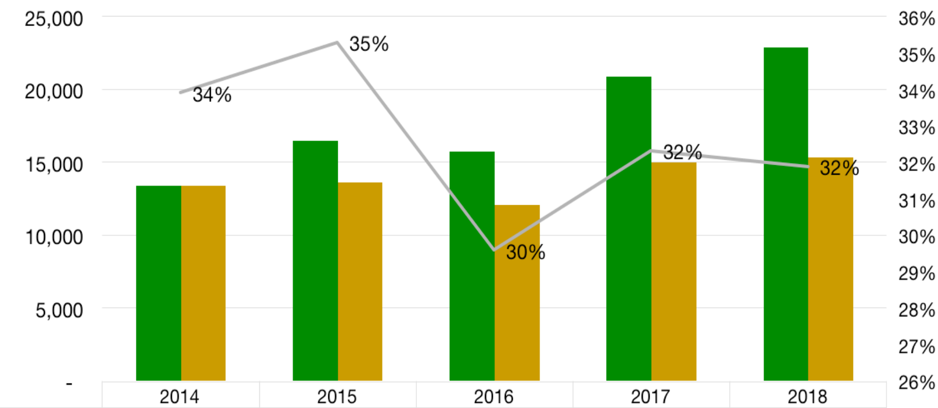
1. ***The allocation to the social cash transfer programme increases by 31 % despite a decline of 15% in the social protection allocation;***
2. ***The share of allocation to the education sector declines from 16.5% to 16.1 %;***
3. ***The 2018 allocation to the health sector is marginally higher than in 2017;***

4.. The allocation to Water and Sanitation skewed towards urban and peri-urban areas.

As Zambia continues on its recovery path, Social Sectors spending remain cardinal to providing both increased and good quality services to its increasing population. The level of resources allocated to these sectors through the National Budget is thus important. This section provides an analytical perspective of the Social Sector resource allocations in the 2018 Budget drawing on a number of perspectives including past progress, current issues and future prospects as expressed in the 7NDP. Particularly the section seeks to answer the question of whether or not the country is 'leaving no one behind' through the perspective of the 2018 Budget.

The 2018 relative share of the Social Sector Budget to the National Budget has remained static at 32%. However, in absolute terms the allocation has actually increased nominally from K20.9 billion in 2017 to K22.8 billion in 2018. This translates to an increase of 10% (3% in real terms with year-end inflation projected at 7%).

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



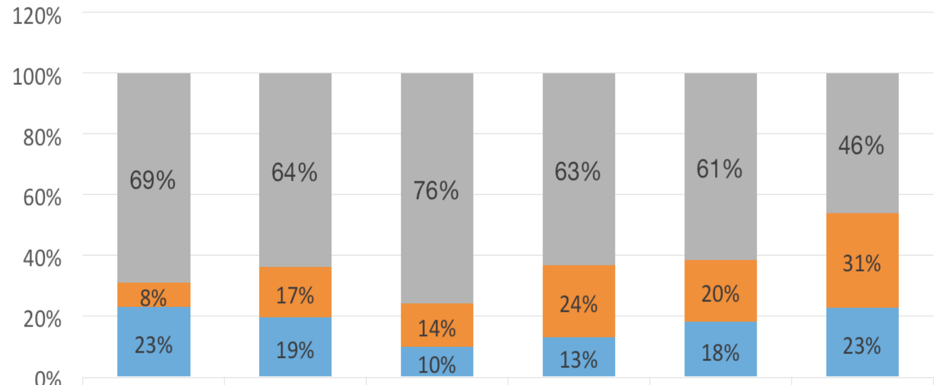
	2014	2015	2016	2017	2018
Absolute Amounts ZMW'million	13,408	16,453	15,731	20,860	22,862
Social Sector allocations adjusted for inflation-2014 prices	13,408	13,598	12,094	14,988	15,352
Share of National Budget	34%	35%	30%	32%	32%

Source: authors own construction using 2013-2017 Budget Speeches and financial reports

1. Social Protection (SP): Scaling up Government's Social Protection Programmes at a reduced budget

The Social Protection (SP) budget has decreased nominally by 15% from the K2.7 billion in 2017 to K2.3 billion in the proposed 2018 Budget. The decline is on account of the reduction in the allocation to the Public Service Pension Fund (PSPF) which has been reduced by 33%. However, the PSPF still accounts for a dominant share of the SP budget at 46% compared to the Social Cash Transfer (SCT) at 31% and other interventions at 17%.

Figure 2: Relative share of the Social Protection Budget by two key programmes



	2013	2014	2015	2016	2017	2018
Public Service Pension Fund	69%	64%	76%	63%	61%	46%
Social Cash Transfer Scheme	8%	17%	14%	24%	20%	31%
Other SP Interventions	23%	19%	10%	13%	18%	23%

Source: authors own construction using 2013-2018 Budget Speeches

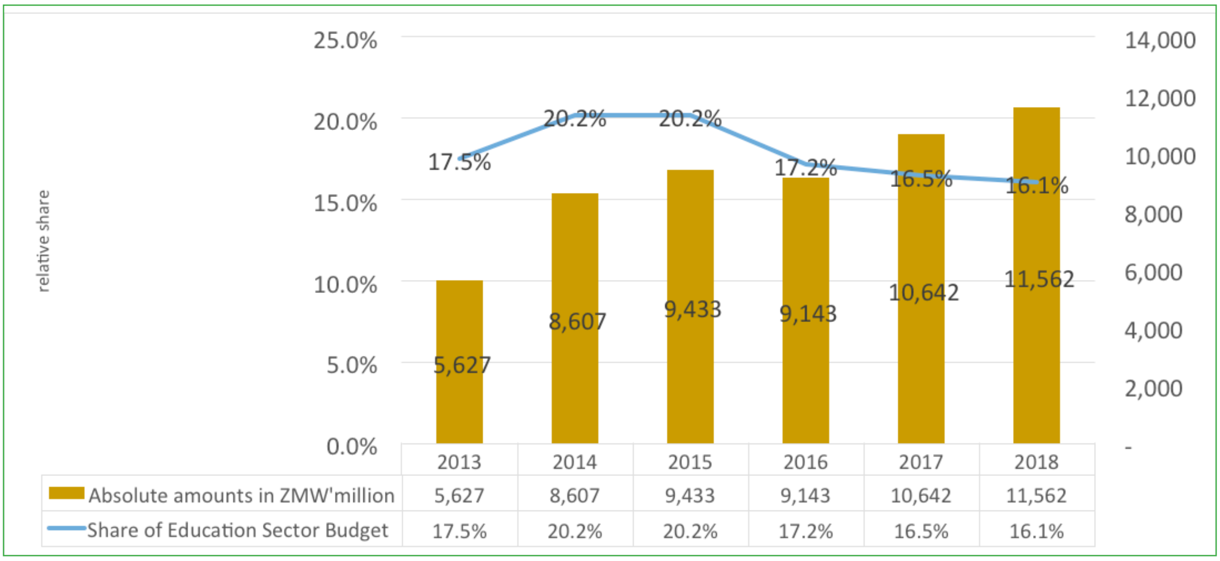
The decrease in SP spending seems contradictory to national aspirations and commitments the Government announced both through the 7NDP and the ESG to reduce vulnerabilities on the extreme poor. With reduced budgets it is definitely difficult to reach as many people as pronounced which leaves many vulnerable families with no hope of living a better life. Concerning the reduction in the allocation to PSPF it is not possible that the proposed pension reforms are already generating gains to justify such a significant reduction.

On the bright side the 31% increase in allocation to the SCT scheme 110, 000 additional beneficiaries will be expected translating to a 19% increase in coverage. To facilitate this increase, the SCT programme is expected to migrate to an electronic platform obviously in the hopes of better record keeping, improved coordination and beneficiary tracking. Nonetheless, with limited internet access most of the rural areas this will be a huge milestone to actualise. The Food Security Pack (FSP) has also been doubled and will now reach 80,000 households compared to 40,000 in the 2017 Budget. Similarly, the School Feeding Programme (SFP) is expected to increase coverage by 25% despite the level of allocation not having been stated in the budget speech.

2. Education Sector - Big promises but relative share of the allocation declines marginally

In the education sector the policies outlined in the 2018 Budget Speech shows promise of the Government adhering to the 7NDP aspirations. It is clear that the Government is still keen to enhance access to quality education at all levels through the construction and rehabilitation of learning facilities, providing equipment, materials and the recruitment of teachers. This is commendable and shows a lot of promise.

Figure 3: Evolution of Education Budget: Absolute K 'Million and share of National Budget



Source: authors own construction using 2013-2018 Budget Speeches

The 2018 allocation to the education sector as a share of the total Budget has declined from 16.5% in 2017 to 16.1% in 2018. However, in absolute terms there has been a marginal increase representing 3% in real terms. Given the many aspirations and transformations required to improve the quality of education, this marginal increase raises questions of whether the Government is really committed to actualise its aspirations or it is just business as usual. Furthermore, with the approved increase in the wages of civil servants, there is a risk that increase in the allocation could be absorbed by personal emoluments in the sector.

Spending on infrastructure development has marginally increased as a share of the education sector budget from 6% to 6.3% while the student loans and bursary scheme has marginally decreased from 3% in 2017 to 2.8% in 2018. In terms of resource allocation, the 2018 Budget seems to mirror the 2017 allocations yet the Government hopes to achieve a lot more in 2018.

It is also important to note that in previous Budgets allocations have been skewed towards emoluments[1] and have also shown bias towards primary education. On the contrary, the 2018 Budget has indications that more resources will be allocated to equipping teaching centres, providing learning materials and infrastructure development. The same may should be more equitable especially that secondary education as well as tertiary continues to face challenges and score poorly in important indicators such as enrolment rates, transition rates and pupil/ student teacher ratios.

1 In 2017, 91% of the allocation to primary education went to personal emoluments

The Government has also shown commitment to focus on the implementation of the two-tier system in the 2018 budget especially for learners pursuing a vocational career path-way. When this is done pupils will be given an opportunity to obtain vocational certificates that can improve their chances of employment or entrepreneurship. However, implementing the two-tier system will require drastic infrastructural needs for affected institutions. It is important that sufficient support is provided in terms of appropriate equipment and learning materials in order to ensure good quality education. The current Budget allocation does not offer enough confidence that support will be sufficient

In the 7NDP the Government made important pronouncements concerning the new direction the country should take in improving skills development. Earlier the Government introduced a Skills levy to mobilize resources for skills development. In the 2017 Budget a total of K233.5 million from the Skills levy was planned for spending on skills development. However, just after one year of collecting the fund the anticipated proceeds from the levy has been adjusted downwards to K176.7 million in the 2018 Budget representing a 29% reduction in real terms. The reduction in this budget line could be due to the poor performance of the levy between January and June 2017 as shown in the fiscal tables which report that the skills levy contribution fell short of the projected amount by 56%.

The poor performance of the skills levy notwithstanding, it should be used efficiently and ensure that the Technical Education, Vocational and Entrepreneurship Training Institutions absorptive capacity is increased, infrastructure modernized and teaching aids and materials are updated to address the mismatch that currently exists between the skills offered and the industry's needs. In ensuring that no one is left behind the 7NDP on vocational skills has devised a number of strategies that will ensure that learners with different capabilities and needs are covered through for example apprenticeship, distance learning and the recognition of prior learning assessments among many others. These strategies have a potential to have approximately 655,000 people with informal skills trade tested and certified through the recognition of prior learning assessments and will improve the job prospects of a number of people especially the youths. We expect to see the detailed budget explicitly allocating resources towards the strategies outlined in the 7NDP for vocational skills.

3. The Health Sector: Progressing but destination still far off

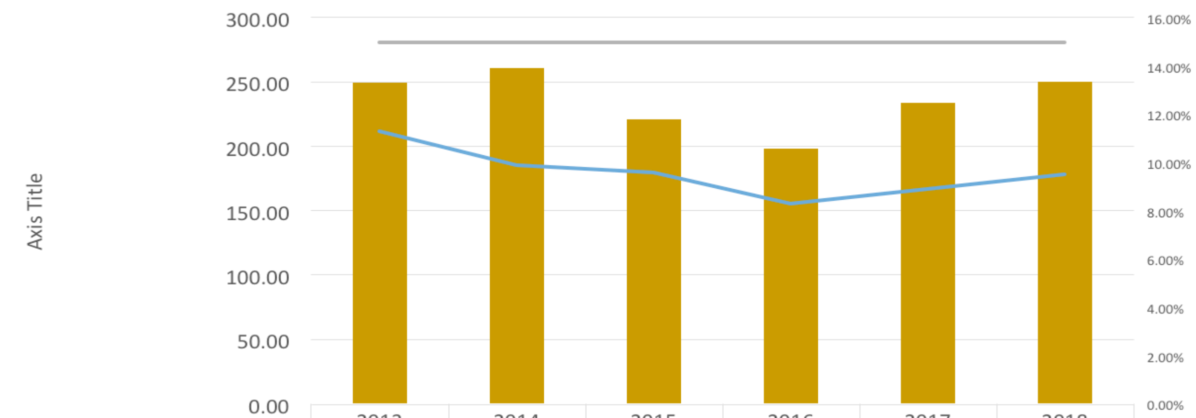
The share of the 2018 Budget allocation to the health sector has increased from 8.9% in 2017 to 9.5%. The marginal increase in the budget for health is not sufficient to address the many challenges that the health sector is currently facing. Recently Government made policy pronouncements to implement routine testing for HIV as part of diagnostic screening. This may lead to increased demand for services but more especially an increase in the number of people requiring ART. Based on this it was expected that the 2018 Budget would provide some guidance in terms of how Government intends to meet this new demand when it arises. While most HIV programs are donor driven it is important for Government to start showing commitments towards playing a leading role in the fight against HIV.

Nonetheless, the health sector has made important strides worth acknowledging. According to the recent Zambia Demographic Health Survey (ZDHS) 2013-14 report, the maternal mortality ratio (MMR) and infant mortality rate (IMR) have declined from 591 per 100,000 live births to 398 per 100,000 live births and from 70 per 1,000 live births to 45 per 1,000 live births. Under-five mortality has also declined significantly from 119 per 1,000 live births to 75 per 1,000 live births. Malaria, which is the country's leading cause of death has been managed well as hospital fatalities decreased from 24.6 per 1,000 admissions in 2014 to 19 per 1,000 admissions in 2016.

Zambia is no longer devastated by the HIV pandemic as prevalence has continued to decline while more and more people are accessing treatment. HIV prevalence recently declined further by 1.7 percentage points from 13.3% in 2014 to 11.6% in 2016. Antiretroviral treatment (ART) coverage has also increased and now stands at 72% of the eligible people against the United Nations AIDS (UNAIDS) global target of 90% showing a lot of progress. The recent policy announcement earlier mentioned of routine testing and treatment is likely to have more people accessing ART and prolonging their lives.

Nonetheless the health sector still faces many challenges. With regard to Human Resources for Health (HRH), Zambia has only managed to fill 67% of the required health worker positions. This means that the deficit is still significant and needs to be addressed. While Government intends to recruit 1,000 health personnel to add to the 7,400 recruited in 2017 the numbers are still not sufficient to meet current deficits. The infrastructure project which government embarked on which has led to 275 new health posts while commendable creates a new demand for more health workers.

Figure 4: Evolution of Health Budget, share of Total Budget and real per-capita allocation



	2013	2014	2015	2016	2017	2018
Real per capita allocation	249.52	260.85	220.96	198.17	233.88	249.88
Share of Health Budget	11.30%	9.90%	9.60%	8.30%	8.90%	9.50%
Abuja target	15%	15%	15%	15%	15%	15%

Source: authors own construction using 2013-2018 Budget Speeches

Furthermore, the budget to health has continued to be low and has always fallen short of the Abuja declaration that Zambia signed many years ago obliging the country to allocate 15% of its national budgets to the health sector. But low budgets are not the only issue of concern: for many years the health sector has been operating without a clear health financing strategy making it difficult to mobilize sufficient financial resources to carry out all its operations and be able to provide decent health services. The 2018 Budget has repeated Government's intention to implement the Social Health Insurance (SHI) as in earlier budgets. However, this has never been followed with corresponding action. Once implemented the SHI has the potential to grant Zambians much needed access to universal health coverage without being impoverished every time they seek care.

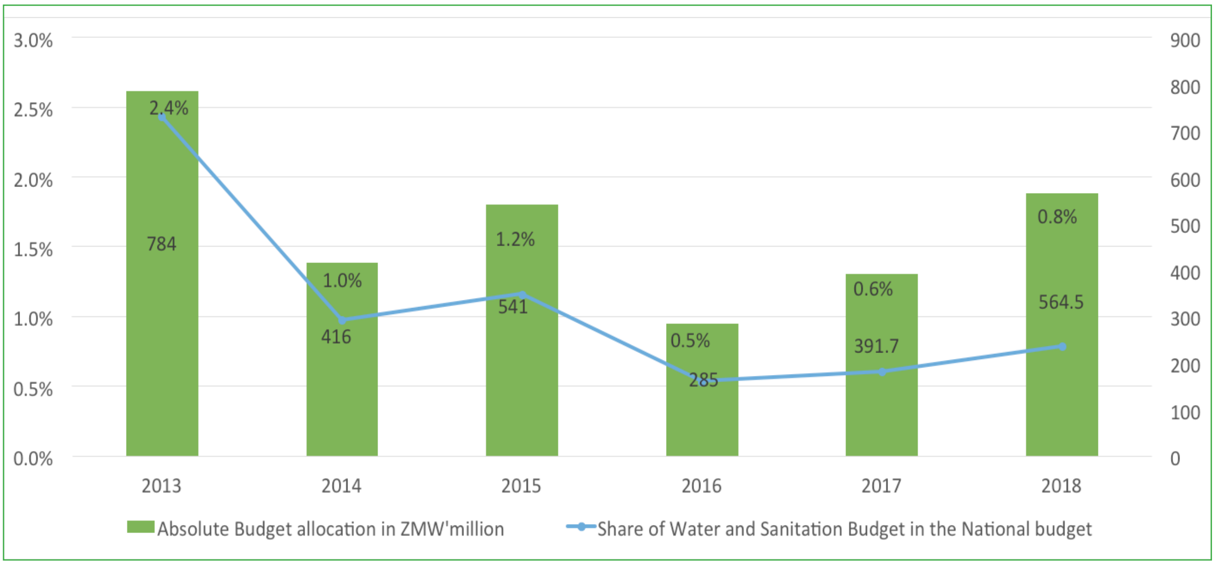
Zambia's health sector also remains dependent on external funding which accounts for approximately 60% of total health expenditure. The concern with high dependency on donor funding is that it raises sustainability concerns given that donor support has little flexibility, making it impossible to fund priorities defined in strategic plans.

4. Water and Sanitation

Over the past years, the focus in the budget on water and sanitation budget has been to improve access to safe and clean drinking water in rural areas. In 2017 the focus for the water and sanitation sector was to support the provision of safe and clean water to 600,000 households in rural areas. This was achieved through investment in infrastructure, namely-drilling of 1,340 boreholes, construction of 10 small water schemes in rural areas and the rehabilitation of 600 boreholes.

In the 2018 Budget focus is towards clearing water arrears while programmatic spending on water will go towards the Millennium Challenge Account to supplement the compact agreement with GRZ. According to the Minister's speech, water and sanitation infrastructure are being constructed and upgraded in urban and peri-urban areas. The Kafue Bulk Water Supply Improvement Project under the Millennium Challenge Account aims at increasing water supply to 110 million litres of water per day to Lusaka and surrounding areas.

Figure 5: Water and Sanitation Budget: Absolute and Share of National Budget



Source: authors own construction using 2013-2018 Budget Speeches

The focus of the 2018 water and sanitation budget therefore, will be directed more towards urban and peri-urban areas. This inequitable focus could result in poor health and possible outbreaks of diseases in rural areas as constant access to a clean water supply and proper sanitation facilities are cardinal for good health and productivity. This defeats the very purpose of reducing developmental inequalities between rural and urban areas which is a priority under the 7NDP.

Takeaways from social sector allocation

1. The unpaid pensioners have moved from being the biggest winners in 2017 to being the biggest losers in 2018. With the increase in salaries and employment service for Public Service Pension Fund members, the Government pension debt continues to increase. As a consequence of delayed pension reforms the problem continues to escalate.

2. The budget allocation to education has increased. Nonetheless is it not sufficient to actualize the aspirations of the Government earlier espoused in the 7NDP aimed at enhancing human capital and improving quality.

3. Despite a new policy pronouncement regarding the response to HIV prevention and treatment likely to increase demand for ART the resources do not seem sufficient to counter new demand.

4. Disparities between urban and rural likely to escalate with 43% of the water and sanitation budget going to the Lusaka urban water project.

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