

## **ANALYTICAL BRIEF ON THE 2020 SOCIAL SECTOR BUDGET**



### ***SAFEGUARDING AND SUSTAINING SOCIAL SECTOR GAINS***

**OCTOBER 2019**

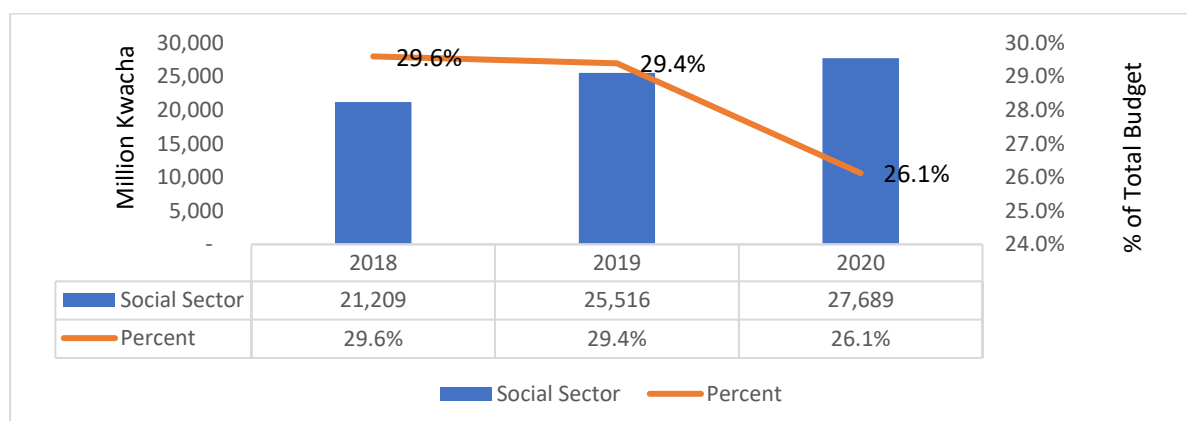
## SUMMARY

1. The social sectors are the backbone of society and the engine for human capital development. The Government of Zambia has shown its commitment to the social sectors in the 2020 budget, in spite of the challenging fiscal conditions and downward trend in economic growth forecasts.
2. In a quest to address high levels of vulnerability among the poor, the Government has been implementing several programmes in support of social protection, including the Social Cash Transfer scheme (SCT), the Food Security Pack (FSP) and Public Welfare Assistance (PWA). The SCT programme has been subject to a further budgetary allocation increase in 2020. Overall, the social protection and water and sanitation budgets have increased nominally by 18% and 32% respectively. However, both functions suffered from partial budgetary execution performance in 2019 and spending against allocated budgets in 2020 will be key. Enactment of the Planning and Budgeting Act is directly linked to the overall credibility of the budget and its in-year execution.
3. Zambia continues to make significant progress in the health sector. Ambitious policy reforms and investment particularly in health infrastructure and human resources for health have yielded considerable improvements in the health outcomes of women and children as evidenced in the indicators released in the 2018 Demographic and Health Survey. Although allocations to the health sector increased by 16% in nominal terms, as a share of the total budget it has reduced from 9.3% to 8.8%, falling short of the National Health Strategic Plan (NHSP) target of 13% annually and below the 15% Abuja Declaration target. To sustain the gains made thus far, there will be a need for the introduction and implementation of innovative health financing modalities to increase domestic resources for health, and to sustain health security and the supply chain. .
4. The education budget nominally reduced from K13.2 billion in 2019 to K13.1 billion. As a share of the total budget, the education budget represents 12% of the total budget compared to 15% in 2019. The international benchmark for education spending is 20% of total government expenditure. These reductions risk compromising the education sector's ambitions to enhance access and improve the quality of education in 2020.
5. The allocations towards water and sanitation have increased but allocations remain skewed towards urban areas where access is already relatively high thus risking leaving behind rural populations in access to quality water and sanitation services. By leveraging more private sector funding through public-private partnerships, the Government could potentially fund critical water investments and services in rural areas.

## 1. Introduction

Zambia’s current fiscal constraints have affected social sector spending more than any other function of government. For instance, of the approved K1.7 billion budget for social benefits in 2019, only K141 million or 8% of the approved budget for the year was released by June 2019<sup>1</sup>. During the same period however, the Minister of Finance proposed a K9.8 billion supplementary budget to cover an emerging financing gap, including to meet higher than anticipated debt obligations. Additionally, the social sector budget as a share of the total budget has been on the decline and moved from 29.4% in 2019 to 26.1% in 2020. This raises a question as to whether the relative importance of this particular function has been reducing compared to others.

Figure 1: Social Sector Spending and Shares of Total Budget, 2018-2020



Source: Author construction

The levels of underspending and the redirection of resources away from the social sectors to the other priorities in the budget could threaten the gains that Zambia has made so far and it is important to safeguard the investments and gains made to date.

## 2. Social Protection: Diminishing Commitment to Protecting the Poor

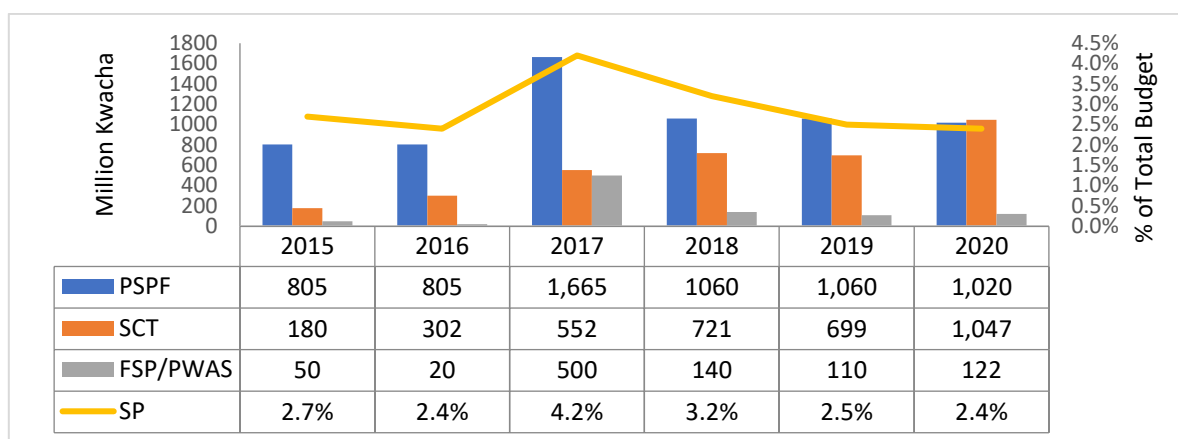
In a quest to address the high levels of vulnerabilities among the poor, the Government has introduced several programmes. These include the Social Cash Transfer programme (SCT), the Food Security Pack (FSP) and Public Welfare Assistance (PWA). The Government also provides pensions through the Public Service Pension Fund (PSPF) which provides social security for selected public servants. Since the

<sup>1</sup> ZIPAR 2019 Quarter 2 Budget Review

launch of the Seventh National Development Plan (7NDP) more poverty programmes under Pillar 1<sup>2</sup> have been introduced. These include Supporting Women’s Livelihoods (SWL) targeting 75,000 women, the Aquaculture Empowerment Fund targeting 580 beneficiaries and the Livestock Pass-on scheme targeting 2,060 poor female-headed households and youth as a pathway out of poverty.

The interventions listed above have had different levels of impact on the poor and provide a lot of hope in terms of reducing vulnerabilities. Nonetheless, the fiscal challenges pointed out earlier could make it difficult for the Government to adequately continue investing in poverty reduction to sustain the gains realized so far. For instance, since 2017, the social protection budget as a share of the total budget has been declining, moving from 4.2% of the total budget (2017) to 2.4% in the 2020 budget.

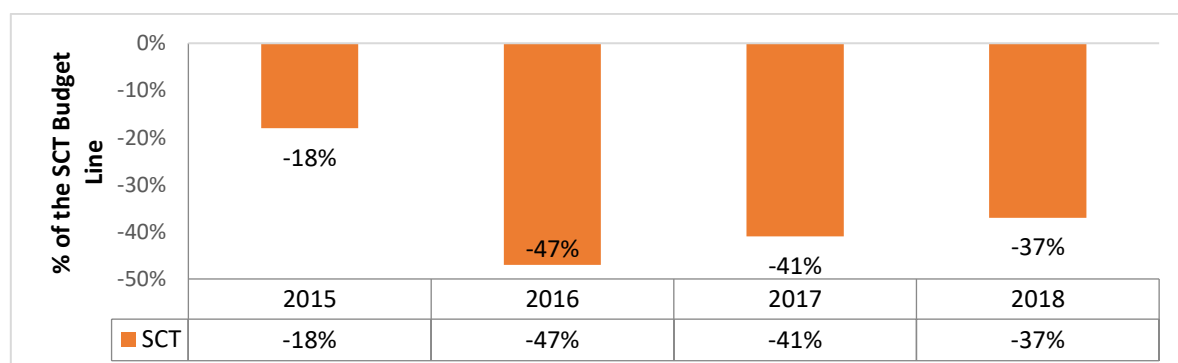
Figure 2: Social Protection Budgets and Shares of Total Budget, 2015-2018



Source: Author construction

The decreasing share of the social protection budget requires deeper analysis and unpacking when measuring against 2017 when there was a major spike in allocation to the Public Service Pension Fund. It is encouraging to see that some components of the social sector budget recorded some increases. For instance, the budget for SCT has increased by about 40% from K699 million to K1 billion. However, there was a deviation as high as 80% in the social benefits expenditure category in the first 6 months of 2019. Furthermore, by June 2019 only 8% of the total K3.8 billion meant for the Poverty and Vulnerability Cluster Pillar under the 7NDP has been spent.

Figure 3: Extent of Underspending for the Social Cash Transfer programme, 2015-2018



Source: Author’s construction using data from Annual Economic Reports

<sup>2</sup> Pillar 1 of the 7NDP seeks to end poverty and reduce vulnerabilities.

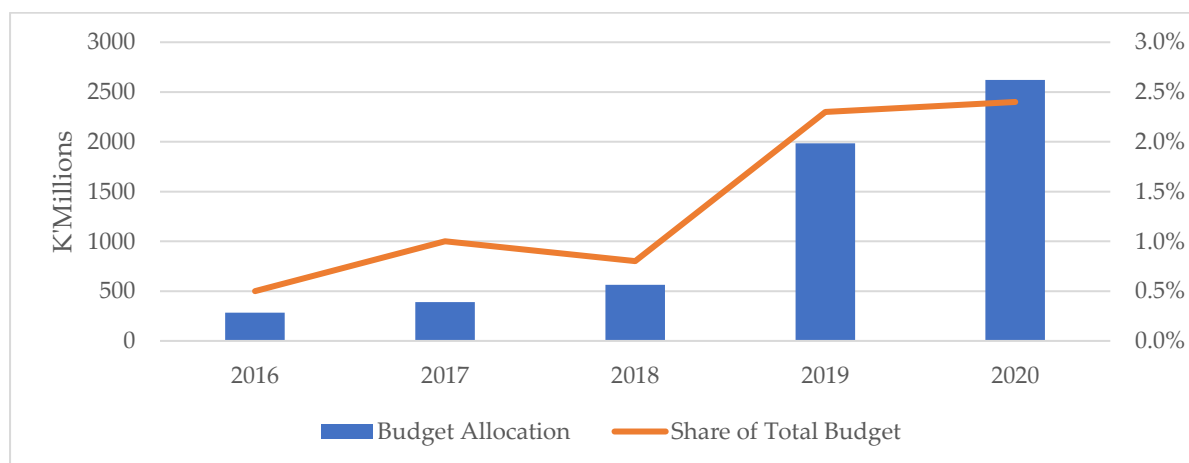
The failure to actualize budgets is a threat to the gains that have been made through the various social protection programmes that the Government has been implementing. Increasing efficiency in the execution of budgets through timely and consistent release of funds would do much to boost protection under the programme. The Government should also consider ring-fencing the social protection budget so that it is not prone to reallocations in the middle of the fiscal year.

### 3. Water and Sanitation: Installing taps and sanitary systems without leaving anyone behind

Zambia has in the last four years recorded significant improvements in basic water and sanitation coverage, increasing water coverage in rural areas from 35% in 2016 to 56% in 2018 while sanitation in rural areas has also improved from 30% to 57.6% during the same period<sup>3</sup>. Improving sanitation in rural areas is critical as access remains relatively low despite the said gains. Although there is high access to water and sanitation services in urban areas, the majority of the urban poor remain without access. This situation creates an environment that has a heightened risk of disease. The 2018-2019 Cholera Outbreak resulted in loss of life and an unplanned expenditure of K159 million. The 2020 Budget thus presents an opportunity to efficiently allocate expenditure to water and sanitation in a way that sustains the progress that has been made. This entails allocating adequate funds in the areas that have the least access and are at most risk of a epidemics.

The 2020 Budget proposes spending K2.6 billion on water supply and sanitation; a 32% increase compared with the 2019 Budget. This also represents an increased share of the overall budget, from 2.3% in 2019 to 2.5% in 2020.

Figure 4: Water and Sanitation Allocation 2016-2020: Absolute K'million and share of the budget



Source: Author’s construction based on budget speeches

Figure 4 shows that allocations towards water and sanitation have increased, however the allocation is skewed towards the urban areas where access is already high. Unfortunately, this has been the trend over the last three years where the larger share of the water and sanitation budget has been allocated to urban and peri-urban projects such as the Kafue Bulk Water Supply and Sanitation Project, the Kafulafuta Water Supply Scheme Project Water Supply and Sanitation and the Nkana Water Supply and Sanitation Project. The share of such projects as a percentage of the water and sanitation budget

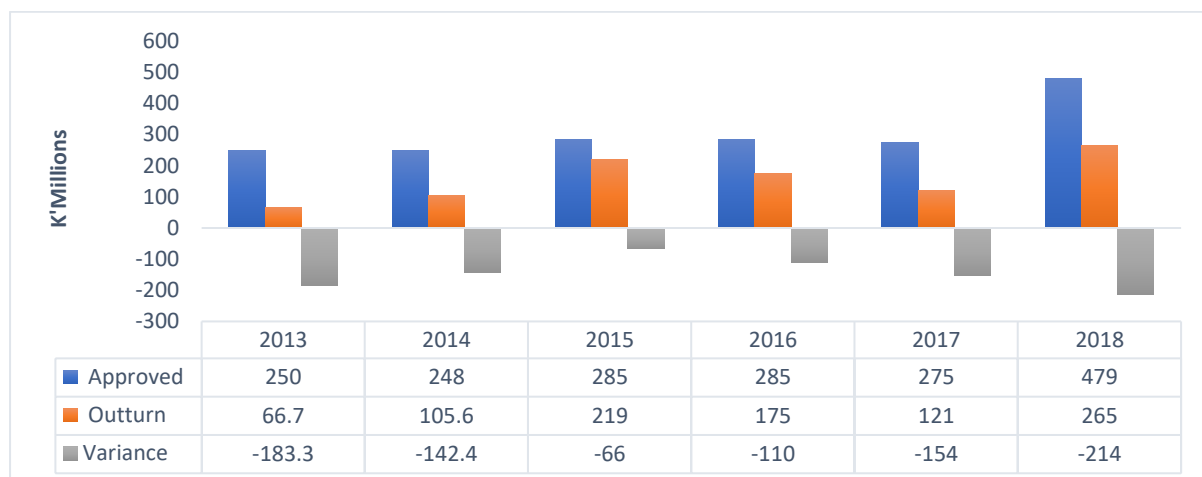
<sup>3</sup> Ministry of Water Development, Sanitation and Environmental Protection

has increased from 42% in 2018 to 66% in 2020, leaving very little for rural areas. With regards water and sanitation financing by source, household and external financing account for about 80% of expenditures compared to government’s 20%<sup>4</sup>. While most of the external support goes to rural areas, however, the Government cannot sustainably rely on external support to improve access in the rural areas as this support has continued to reduce over recent years.

While the water and sanitation projects are skewed towards urban areas, these projects do not reach many of the urban poor who are not connected to the standard water infrastructure. For example, in Lusaka, which was the epicentre of the 2018-2019 Cholera Outbreak, it is estimated that 70% of the population live in high-density unplanned areas where 90% use pit latrines<sup>5</sup>. It is further estimated that most of these latrines are unimproved, increasing the chances of contaminating nearby water sources. Efforts to address this situation are currently ongoing through the Lusaka Sanitation Project. However, the significant portion of the population remains unserved and such efforts must be enhanced to meet these needs.

Although the 2020 water and sanitation budget has increased, there is concern about the outturn of the budget. Between 2014 and 2018 on average only 56% of what was budgeted for was actually spent<sup>6</sup>. The relatively low outturn of the water and sanitation budget compromises the implementation of critical water sanitation projects.

Figure 5: Water and Sanitation Expenditure 2014-2018



Source: Author construction based on budget speeches

The 2020 Budget commits to improving access to water in rural areas through the provision of water schemes and the drilling and rehabilitation of boreholes in various areas. However, current and previous allocations indicate that these efforts must be enhanced to ensure the equitable distribution of water and sanitation projects. While allocations to water and sanitation have increased, it is evident from the budget outturn as shown in Figure 5 that over the last five years spending in the sector is being crowded out. The Government must therefore prioritise water and sanitation by increasing the allocation to rural areas and amounts disbursed to ensure that planned projects are effectively undertaken. Prioritising water and sanitation are now, more than ever, critical due to the heightened

<sup>4</sup> Households and external sources account for 41% and 39% of water and sanitation financing respectively

<sup>5</sup> African Development Bank, 2012

<sup>6</sup> Fiscal Tables, Ministry of Finance

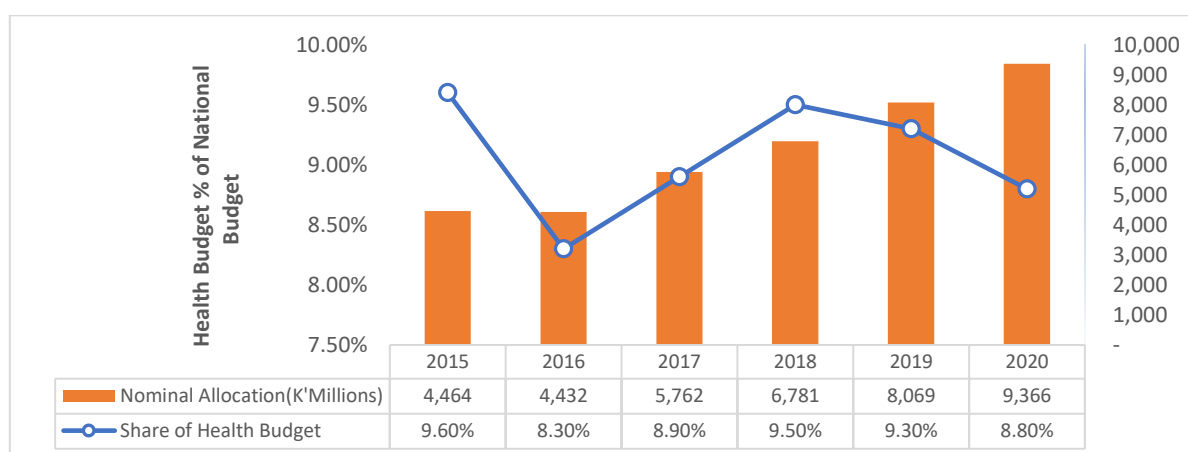
adverse effects of climate change which will result in reduced water availability and increased risk of contamination due to increased flooding.

#### 4. Health: Sustaining gains in the pursuit of Universal Health Coverage

Zambia continues to make significant progress in the health sector. Ambitious policy reforms and investments particularly in health infrastructure and human resources for health has yielded considerable improvements in the health outcomes of women and children. The 2018 Zambia Demographic and Health Survey has reported a decline in both infant and child bearing related deaths with under-five mortality declining by 18.7% from 75 deaths per 1,000 births in 2013 to 61 deaths per 1,000 births in 2018. Pregnancy related deaths recorded a significant decline of 30% from a high of 398 deaths per 100,000 births in 2013 to 278 per 100,000 in 2018<sup>7</sup>. The Government of Zambia’s commitments to achieving the UNAIDS 90 – 90 – 90 target<sup>8</sup> is currently on course with 84 – 93 – 89 achieved.

The Government’s constrained fiscal position has slowed the realisation for the National Health Strategic Plan’s goal of allocating 13% of the national budget to the health sector, which has averaged at 9% in last five years. The 2020 Budget allocates K9.4 billion (8.8 percent of the national budget) to the health sector, representing a 16% nominal increase from the K 8.1 billion allocated in 2019.

Figure 6: Figure 3: Share of the Health Sector Budget to the National Budget, 2015 – 2020



Source: Author construction based on budget speeches

By expenditure function, the health infrastructure budget has more than doubled, increasing by about 140% from K620 million in 2019 to K1.5 billion in 2020. While allocations towards drugs and medical supplies has remained constant at K900 million, allocation towards hospital operations has reduced by 5.5% from K726 million in 2019 to K686 million in 2020 posing a threat to effective healthcare service delivery in hospitals. Overall, as a proportion of the national budget, the health sector budget has reduced from 9.3% to 8.8%, falling short of the NHSP target and significantly short of the 15% Abuja Declaration target. To sustain the gains made thus far in the health sector will require, among other things, improving efficiency in resource utilization and the introduction of other innovative healthcare financing methods, such as the National Health Insurance Scheme.

<sup>7</sup> Zambia Demographic Health Survey, 2018

<sup>8</sup> This target is aimed at ensuring that 90% of all people living with HIV know their status, that 90% of those diagnosed with HIV are initiated on ART and that 90% of those on treatment achieve a suppressed viral load.

One of the most important reforms announced in the 2019 Budget was the introduction of a mandatory National Health Insurance (NHI) aimed at accelerating the achievement of Universal Health Coverage through the provision of Financial Risk Protection in health access. However, the implementation of the NHI Act failed to take off in 2019 as anticipated, amidst among other things, opposition to NHI implementation from trades unions and employers' associations. The 2020 Budget reiterated the commitment of the Government to implement the NHI Act through stakeholder engagement. Some concerns remain around levels of informality which narrows the formal sector base from which the NHI payroll-based contributions will be collected. Innovations to capture the informal sector which accounts for most of the anticipated NHI beneficiaries, will be important to ensure the sustainability and the financial risk protection aspect of the scheme. Ensuring consistent disbursement in support of health security and an uninterrupted supply chain will also be important.

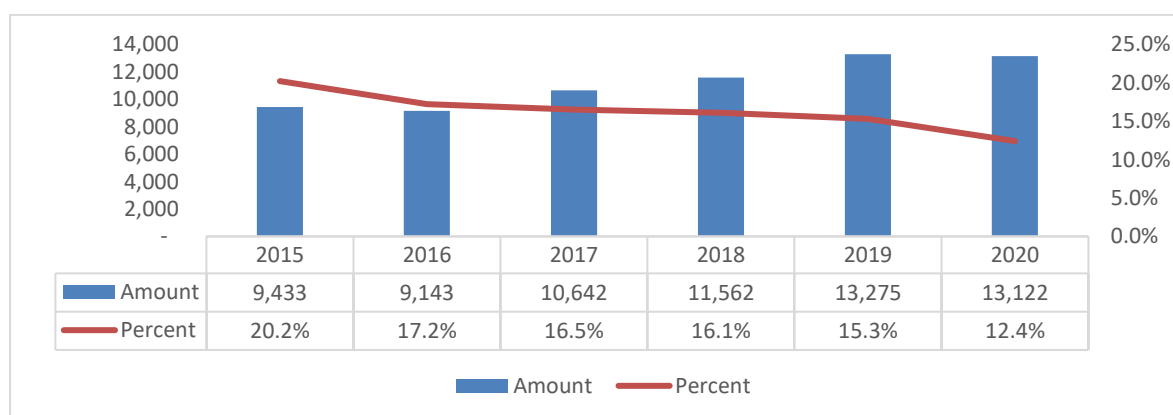
## 5. Rising Food Insecurity

The effects of climate change resulting in severe droughts covering Southern, Central, Eastern, Lusaka, and Western provinces have given rise to food insecurity which threatens the health and wellbeing of citizens, particularly by affecting the nutritional status of children. The threat to almost one million people in the affected districts of the country poses a great risk to improved nutrition and may lead to the erosion of gains made in the health sector with regards the reduction of stunting among children. Consequently, the resulting increase in vulnerability arising from food insecurity will require emergency support and coordinated interventions among stakeholders to reduce the negative impact on health and wellbeing. A particularly vulnerable group to imminent food insecurity and hunger are school-going children. In this regard, the Government has reiterated that it will continue to implement the Home-Grown School Feeding Programme, targeting vulnerable children, to increase learner attendance and retention. This will increase the number of beneficiary children from the current one million learners countrywide.

## 6. Balancing diminishing fiscal space in education and quality of education

Education is one of the most effective tools of reducing poverty and inequality as it ensures social mobility and its gains last longer than other means of empowerment such as access to finance. With nearly a quarter of Zambia's population attending school and college, harnessing the demographic dividend depends on the quality of their learning. According to the World Bank, young Zambians could be an asset or a liability depending on the quality of education they receive.

Figure 7: Evolution of education budget: Absolute K' million and share of the budget





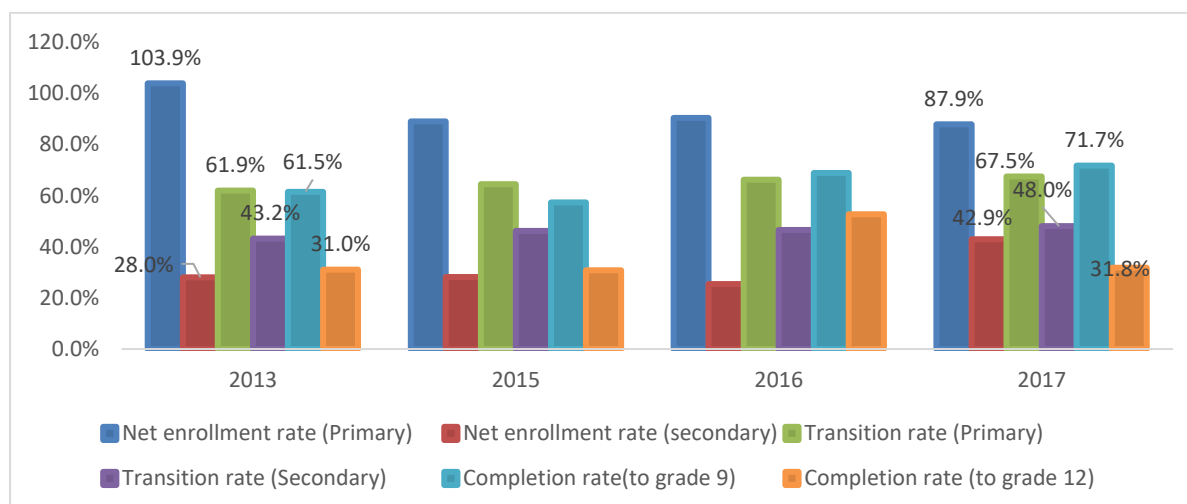
Source: Budget speeches

Recent discussions have also focused on preparing today's population for the future of work. This requires a responsive, inclusive and forward-looking education system. Given the prioritisation of education in the 7NDP, financing towards the education sector to enhance quality and access to both secondary and tertiary education should be prioritised at national level.

The Government continues to show its commitment to education through the allocation of K13.1 billion towards the education budget, making it the third largest allocation in the 2020 Budget. However, compared to the 2019 Budget, the 2020 allocation represents a 2% reduction in nominal terms. Consequently, the proportion of the education budget has further dropped to 12.4% of the total budget from 15.3% in 2019 and 16.1% in 2018. In fact, the share of the education budget has been on a downward trajectory since 2015 as shown in Figure 7.

The reduced budget allocation to the education sector notwithstanding, the budget has committed to improving access and the quality of education, prioritising the completion of some infrastructure development projects and providing school materials. Transition rates are a very important measure of efficiency of the education sector as they assess the absorptive capacity of the next level of education and are also an indicator of the quality of education in addition to providing information on the selectivity of the education system due to financial requirements. However, while the transition rates have increased over the years, the indicators also show that 68.2% of the learners do not successfully complete Grade 12 compared to 28.3% at Grade 9.

Figure 8: Selected education indicators in Zambia



Source: Ministry of General Education Statistical bulletins

Therefore, budget allocations should prioritise increasing the absorptive capacity of the education system at secondary and tertiary level. The 2020 Budget in this respect does commit to improving the progression rate from primary to secondary level by completing and constructing secondary schools by 2020. The budget also proposes to reduce the pupil-teacher ratio which as at 2017 stood at 42.1 at

primary level and 30.2 at secondary level.<sup>9</sup> To address this problem, the Government recruited 2,009 teachers with many of the teachers in the fields of science, technology, engineering and mathematics (STEM). STEM subjects have had a deficit in terms of teachers, thus, the Government's commitment to bridge this resource gap in 2020 is a step in the right direction. In addition, the Government should enhance the quality of teacher training centres and facilitate in-house retraining for teachers that are already recruited to enhance their skills.

At university level, the 2020 Budget commits to completing the construction of student hostels at existing public universities which it has continued to fund since 2014. In a bid to expand university coverage, the Government has embarked on the construction of new universities such as the FTJ University. This accounts for 80% of the infrastructure budget under education in 2020. However, as we indicated in the 2019 budget analysis, the Government will need to rationalise expenditure on infrastructure development and refrain from new heavy capital projects at tertiary level. While there is need to expand tertiary education, we feel doing more with less will require concentrating on already existing projects and improving the quality of existing infrastructure.

Lastly, Technical Education, Vocational and Entrepreneurship Training (TEVET) has been identified as a sector that is relevant to labour markets and which supports skills development of not only post-secondary students but also primary and secondary school dropouts. It ensures that no one is really left behind. However, TEVET remains relatively underdeveloped with the Government prioritised funding to other sub-sectors. In the 2018 budget analysis, we had stated that there were approximately 655,000 people with informal skills that could be trade-tested and certified through the recognition of prior learning assessments under vocational skills which would improve their employability. The 2020 Budget proposes to support TEVET as a means for job and wealth creation by accelerating skills and entrepreneurship training to the out-of-school youth and adults. This is proposed to be done through the Skills Development Fund which in the budget is K179 million, a 1.4% share of the education budget. Funding such as the ones allocated to FTJ University, Defence and Public Order and Safety can be diverted towards skills training.

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<sup>9</sup> At provincial level, the pupil teacher ratio is as high as 87.7 at primary level in Eastern Province and 39.1 at secondary level on the Copperbelt Province