



## **How non-state actors lobby to influence budget outcomes in Zambia.**

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## HOW NON-STATE ACTORS INFLUENCE BUDGET OUTCOMES IN ZAMBIA

### ABSTRACT

State-business relations have become an important mechanism for improving information flow between government and the private sector, and depending on the policy relevance of the information transmitted state-business relations can help to reduce policy and institutional failures that arise from poor policy coordination and asymmetric information. While recent empirical studies have demonstrated that effective state-business relations increase the productivity of firms in Sub-Saharan Africa, there is little understanding of how such relations influence the national budget and adoption of pro-poor expenditures in developing countries. In this paper, we examine the role non-state actors play in shaping tax and expenditures policies through formal budget processes, using data compiled from budget submissions for the 2008 budget and lobbying activity data published in print media between 2006 and 2008. Analysis of these data indicate that the current institutional arrangement established to encourage participation of non-state actors in formulating the budget has been utilized quite effectively by several non-state actors to influence budget decisions. The data also show that tax proposals submitted through line government departments and agencies were more likely to be adopted in the budget as bureaucrats helped to shepherd these proposals throughout the budget process. Those more able to articulate and justify their own budget proposal also recorded higher success rates than those who lacked such capacities and skills to more convincingly present their budget proposals to government. Such capacities and skills are largely lacking among several civil society organisations that evidently had the lowest number of budget submissions, albeit quite active in public lobbying through the media. Donors can help build the necessary capacities in a bid to promote policy dialogue; democratic economic governance and state-building by encouraging civil society participation in fiscal policy-making processes. Measures to strengthen state-business relations and effectiveness in lobbying for more pro-poor fiscal policies and strategies are discussed.

## 1 INTRODUCTION

This paper analyzes how non-state actors or interest groups seek to influence tax and expenditure policies of government and particularly examines whether formal lobbying through tax and expenditure policy submissions during the yearly national budget formulation process improves budget outcomes in Zambia. As part of the national budget formulation process, government through the Ministry of Finance and National Planning (MoFNP) has put in place a mechanism through which non-state actors can submit tax and expenditure proposals to be considered in the national budget. This avenue is increasingly being utilised by individuals, businesses, business and professional associations and civil society to lobby for tax concessions and exemptions, changes in tax administration and the adoption of pro-poor public expenditures, and thereby influencing budget outcomes in the country.

The study uses data compiled from formal budget submissions to MoFNP, Cabinet meetings and decisions made regarding the national budget, which are published in Cabinet Memoranda, Parliamentary budget debates and information from Parliamentary Committee Proceedings. This information is supplemented by data collected from media reports largely from the daily newspapers, as well as from observations of lobbying activities and strategies of interest groups. The objective is to relate lobbying effort to budget outcomes and to assess whether these have led to the adoption of pro-poor budgets. In this case, lobbying would be viewed to advance the "public interest" otherwise lobbying is viewed as being driven by private interest in line with the regulatory capture theory (Stigler, 1971; Peltzman, 1976).

Although no elaborate legal framework exists that formalises participation of non-state actors in the national budget process, the current mechanism is quite well established and has become an important feature of the national budgeting process, providing a platform for non-state actors to actively seek to influence fiscal decision-making. This process has now become standard practice within budgetary preparation process and permits interest groups to seek to dialogue on fiscal decisions by formally submitting and presenting their preferred policy positions to government at various stages in the budgetary process. This platform was initiated in 1993 following recommendations of the Tax Policy Review Committee established to review and improve the country's tax policy regime and to recommend appropriate tax administration reforms with a view to increasing tax revenue collections while at the same time providing an enabling and competitive tax policy environment to attract investment.

Zambia's budget process and institutional arrangement for soliciting inputs from non-state actors in formulating the national budget is not entirely unique. It is similar to that of Uganda and South Africa where no specific legal frameworks exist to provide for a more formalized and durable institutional arrangement for encouraging participation of non-state actors or interest groups in the budget process. However, in Ghana, Kenya and Burkina Faso for example, their systems are different. While they too allow for participation of non-state actors in the budget process, access to budget information by non-state actors is quite restricted and limited. In other countries, such as Botswana and Nigeria, formal participation of civil society organisations in the budget process is almost not allowed. A more formalised institutional arrangement for engaging non-state actors in the budget process that is backed by legal provisions exists in Namibia. This system permits non-state actors including civil society groups to attend budget hearings and make submissions to relevant parliamentary committees. However, the capacity of civil society to engage with policymakers and exert political influence on policy decision-making is low and needs to be sharpened through capacity building programs initiatives for civil society. But is clear that different institutional arrangements for engaging non-state actors in the budget process in many countries in Africa exists, but studies that evaluate the effectiveness of these structures in promoting fiscal policy dialogue and consensus as well as the impact on budget outcome are sparse in Africa. This study is an attempt to contribute to this limited literature by evaluating how non-state actors utilise

this formal institutional arrangement for making budget submissions to influence budget outcomes in Zambia.

Generally, interest groups as non-state actors adopt different lobbying strategies for different policy proposals but their effectiveness depends on a number of demand and supply factors that influence outcomes in the political marketplace (Figueiredo and Tiller, 2000). Demand for policy and regulation derives from several interest groups whose interests are served by the policy or regulation, while supply of policy or regulation depends on a number of factors that influence the costs policy-makers incur in shepherding tax and expenditure policy proposals through the budget formulation process. This construct implies that a political marketplace exists with non-state actors, bureaucrats and politicians acting as market participants or agents. In this context, a simple political economy model of lobbying, where actors on the demand side (non-state actors) are assumed to be sorted in homogenous interest groups with a common set preference over a policy or regulation. Members of the interest group then pledge to contribute to the efforts to influence policy in their collectively preferred direction. Such efforts may involve hire of experts to prepare tax policy proposals or to engage in active formal and informal lobbying of policymakers. A more complete construct should capture intra and inter group heterogeneity and coalitions to promote, defend or oppose a particular policy proposal. On the other hand, policymakers act as suppliers of regulation subject to their own interest, ideas and ideologies. Where their own interests are compromised or threatened by lobbyists' proposals or counter proposals, the policymaker will tend to act in favour of their policy direction unless doing so will lead to loss of political capital or popularity.

In any case lobbying influences policy and regulatory outcomes but whether interest group lobbying improves budget formulation and budget outcomes and therefore leads to the adoption of socially optimal policies is an empirical question. In supporting this behaviour hypothesis, we do not assume like Kinazaki (2005) that government has information superiority over lobbyists. Rather, we believe that both government and interest groups have partial information as regarding the optimal tax and expenditure policy such that dialoguing over policy can potential improve policy decision-making. This is supported by low capacity by bureaucrats, politicians and indeed civil society to comprehensively comprehend and analyze tax and expenditure proposals and policies in developing countries<sup>1</sup>.

In addition to lobbying through the formal budgetary process and structures, interest groups also use informal means to channel their lobbying effort to influence policy decision making. Although we expect informal lobbying at higher levels of the budget process such as at cabinet and parliamentary budget approval stages, it is difficult to obtain good quality data to isolate policy preferences of major state-actors such as bureaucrats and politicians from those they champion on behalf of non-state actors or lobbyists. In this context, tracking informal lobbying activities is complicated and difficult, but is also one of the most effective ways of influencing public policy and is fully acknowledged.

We therefore focus on studying lobbying channelled through a formalised institutional arrangement for submitting tax and expenditure proposals during the budget formulation process. We examine how formal lobbying influences budgetary outcomes, and more specifically whether such lobbying leads to the adoption of more

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<sup>1</sup> In Mozambique, Hodges and Tibana (2004) identified lack of technical capacity among non-state actors including the media to be one of the major factors limiting their participation in the national budget process. While the private sector had the necessary resources to hire technical experts to research budget issues and help them to engage with government on tax and public expenditure issues, they were politically patronized to be of any influence on the budget. Public interest in budget issues was also low because most of them perceived the budget as largely answering to the aspiration of the donor who financed 50 percent of it, and that the remaining 50 percent which was financed domestically through taxation largely catered for salaries and recurrent costs of running government and hence was insufficient to be a basis for engaging government in matters of fiscal—social contracts.

efficient and pro-poor budgets in Zambia. We do not attempt to develop formal political economy models in this paper, instead, use existing data to analyse how non-state actors utilise the budget process to influence budget outcomes and assess the extent to which such influences can be said to promote the adoption of pro-poor fiscal policies. In so doing, we provide fresh insights on how non-state actors can reposition themselves to play a greater role in the crafting, monitoring and implementation of the national budgets.

The rest of the paper is organised as follows: The second section describes the evolution of state-business relations in Zambia and discusses how these relations can be strengthened. This is followed by an overview of the budget formulation process in section three. The data and methods are discussed in section four. Empirical analysis of how non-state actors have utilized the budget process to influence budget outcomes is then presented in the penultimate section and provide concluding remarks in the final section of the paper.

## 2 EVOLUTION AND NATURE OF NON-STATE ORGANISATION IN ZAMBIA

### 2.1 Definition and overview

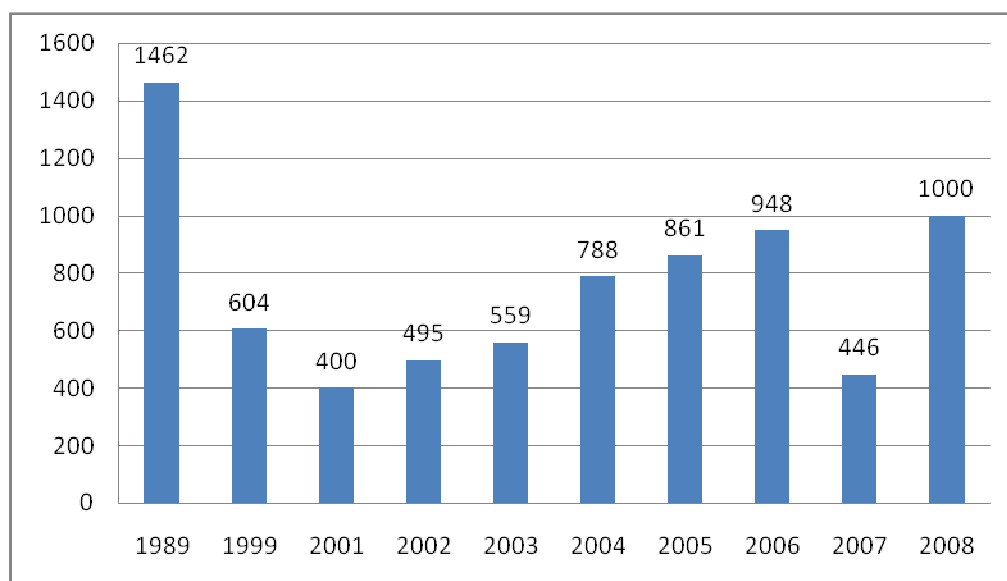
The Mung'omba Constitutional Review Commission (2005) defines non-state actors as organisations that seek to protect public interest and which enjoy relative autonomy. This broad definition covers a wide range of associations and interest groups including the Zambia National Farmers Union, Chamber of Commerce, environmental movements, civil society, labour unions, and professional associations, sporting clubs, cultural associations, religious groups, trade unions, media organisations, NGOs and other socio-economic orientated organisations. These groupings are perceived to act in the "public interest" and or in the interest of their respective constituencies.

Non-state actors began to be recognised as key stakeholders in the development process after political reforms that introduced multi-party system of political governance in 1991. Donors began to support civil society capacity building in political, social and economic spheres. More importantly, government fiscal performance and credibility with the donor community had deteriorated to the extent that donor agencies had to search for alternative effective channels for delivering development assistance and for developing capacity for public policy advocacy and dialogue with government. They began to engage and build capacity of civil society organizations, private sector associations and professional bodies to become more effective channels for implementing development aid programs especially in rural areas where the public service delivery system was largely ineffective and often absent.

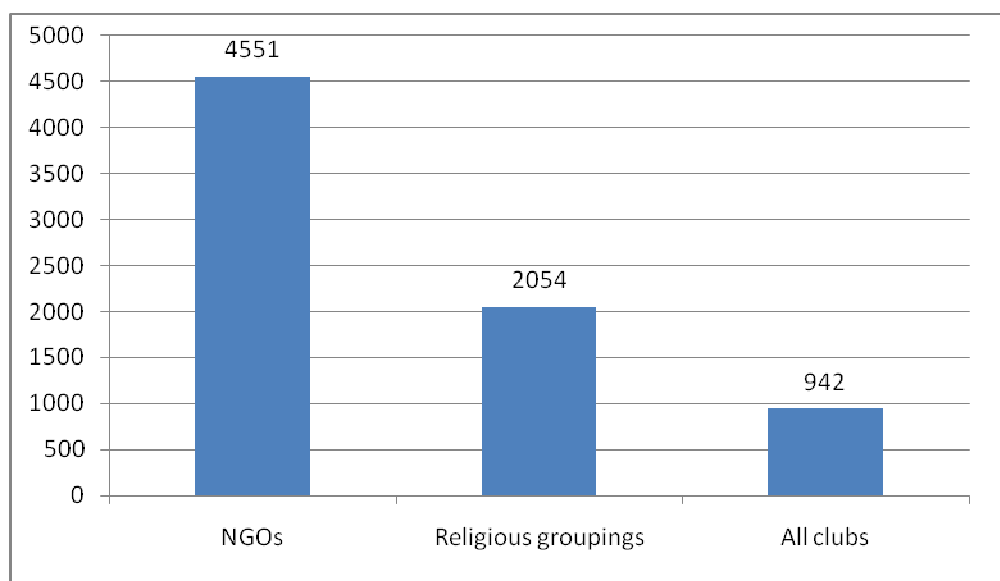
The adoption of multi-party political reforms and subsequent liberalization of the economy provided an enabling environment and greater scope for enhancing participation of non-state actors in economic and political governance of the country. The number of civil society organization, political parties and other private sector associations and groups registered with the Registrar of Societies increased rapidly from 14,579 at the end of 1997 to 22,142 by 2007. Of these, 5,770 are Non-Governmental Organizations (NGOs), 9,500 are religious groups, and 6,872 are clubs and associations including political parties.



**Figure 1: Trends in new registrations of non-state organisations, 1989--2008.**



**Figure 2: Types of Non-state actor organisations registered between 1998 and 2008.**



Between, 1997 and 2007, the government through the Registrar of Societies registered a total of 7,547 non-state actor groupings. Approximately 1,462 of these groupings were actually registered in 1998 and another 948 and 1,000 in 2006 and 2008 respectively. In terms of type of groupings, the largest number of registrations was within the NGO group, accounting for 60 percent of the total followed by religious groups at 27 percent and clubs, which include political parties at 12 percent (see figure 1 below).

This increase in the number of non-state organisations is not peculiar to Zambia as similar trends have been observed in many Sub-Saharan African countries. For example, in Uganda, the number of NGOs formed and registered doubled from 3500 in 2000 to 7000 in 2007. In South Africa the number of NGOs actually tripled reaching 36,981 over the same period. It is expected that greater inclusion and participation of non-state actors in public decision-making would improve government policies and outcomes as well as fiscal transparency and accountability. The extent to which these organizations can induce improvements in policy decision-making depends on a number

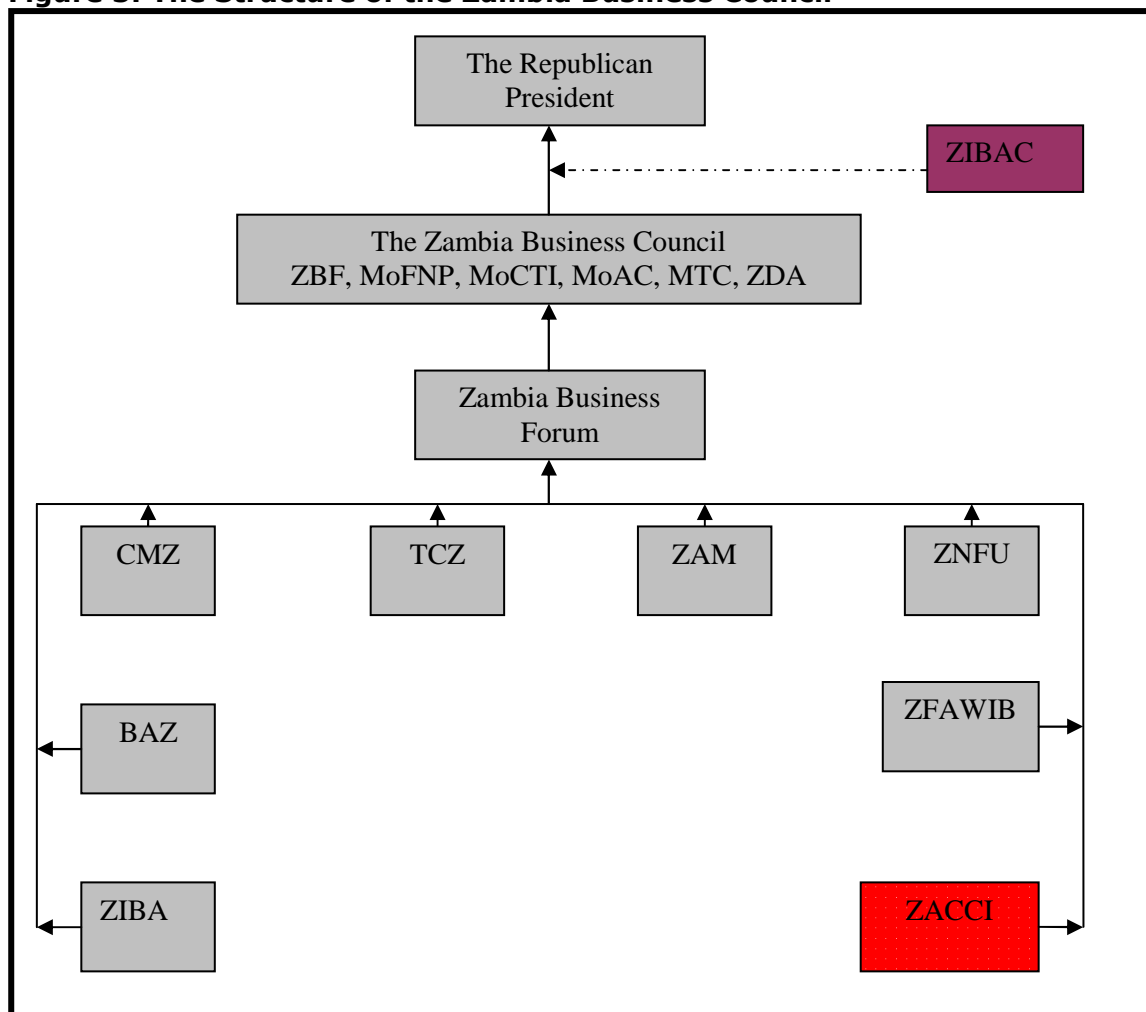
of internal and external factors, which include institutional, organizational, and a whole range of political factors that influence collective decision-making. In the subsequent section, we will use the data on budget submissions to evaluate how these organizations have influenced fiscal policy choices in Zambia in the last three years.

## 2.2 The nature of State-business relations

### *The Zambia Business Council*

During the last decade, and in particular during the tenure of office of the late President Mwanawasa, the government and the private sector agreed to initiate a more formalised consultative process where key government institutions and the private sector would engage in a dialogue on key policy issues. The objective of the private consultation was to generate ideas and dialogue with government on institutional, regulatory and policy reforms that need to be undertaken to promote private sector development. The Zambia Business Council was then established as an apex body that comprised four key Cabinet Ministers responsible for Commerce Trade and Industry, Finance and National Planning, Transport and Communication, and Agriculture; Zambia Development Agency (ZDA), Business Associations, and the Zambia International Advisory Council (ZIBAC). The Zambia Business Council was chaired by the President and in his absence by his Economic Advisor and met quarterly. This ZIBAC comprised of well-established international business experts and attend the annual Zambia Business Council meetings.

**Figure 3: The Structure of the Zambia Business Council**



The ZIBAC was formed to provide advice to the President on key economic issues and generally meet annually to review the private development program. It comprises the President as chairperson, International Advisors, the economic advisor to the President and ZBF as observer.

While the initiative to form the Zambia Business Advisory Council is critical in promoting fruitful state-business engagements on policy issues, this forum is not institutionalized and is not backed by any legislation. As such, it operates as an assembly where matters pertaining to the business environment are discussed and with the hope that the recommendations raised would then be implemented through presidential directives to line ministries and departments of government. Thus, continuity of this forum was endangered when President Mwanawasa who established the Zambia Business Council died. However, the current President, who was then the Vice-President has continued with the forum and chaired its meeting in 2009. However, how effective this forum has been and its future relevance is still questionable.

What needs to be done is to institutionalize through legislation a formal arrangement that will guide government consultation with the private sector, drawing its mandate either from Parliament or from the Presidency. This will ensure continuity and would stimulate well-structured policy engagement and dialogue with the private sector business associations. This will also improve policy decision-making as the ZBF will have to debate and harmonize their policy positions first within themselves and present a common position to government for consideration.

While this will strengthen its ability to lobby government, they still have challenges of brokering an agreement with the forum membership which has diverse policy preferences. For example, policies that would generally favor the association of small businesses may in fact be perceived to be costly to larger business represented by the Manufacturer's association or the Zambia National Farmers Union. Because of diverse interests, the ZBF only lobbies on matters of common interests of all its seven members, while allowing individual associations to directly engage with government on policies unique to their sector or members. This heterogeneity in policy preference with the ZBF dilutes its effectiveness and more powerful associations who are members of the ZBF command some level of hegemony over small associations in terms of ability to influence the forums' direction, but more so government policy choices. The ZBF will have to address some of these challenges and encourage its members to engage with government through the ZBF as this will strengthen the forum and assist government in selecting optimal policy instrument to address the needs of the private sector as a whole.

#### *The Zambia Business Forum*

Below the Zambian Business Councils is the Zambia Business Forum, which comprises seven business associations as shown in the Figure 3 above. The business forum was formed as a common intermediary organisation to spearhead constructive and formal engagement with the Government on cross-cutting issues of interest to all its members, as well as a platform for exchanging information and lobbying Government and other stakeholders such as the bilateral and multilateral agencies on matters of business interest of its membership. The seven members of the ZBF are represented by their Chairpersons on the ZBF Board, from whom the Chairperson of the board is appointed normally on a rotation basis, and the Chief Executive Officer of ZBF serves as the Secretary of the Board. The Zambia Chamber of Commerce and Industry(ZACCI), which was one of the core founder members, has pulled off the ZBF perceiving it as simply duplicating the core functions and mandate of the ZACCI. With its current seven (7) member associations, the ZBF can still reorganise itself into a credible business association and lobby as it represents business sectors that account for approximately 50 percent of the country's GDP.

Currently, the ZBF functions through its three sub-committees namely the Private Sector Development Sub-Committee which monitors progress on the Private Sector

Development Reform Program; the policy sub-committee which reviews policy matters tabled before the ZBF Board; and the Finance and Administration sub-committee which is responsible for reviewing ZBF administrative and financial matters. The major preoccupation of ZBF is to monitor progress made under the Private Sector Reform Program.

While the private sector can more effectively engage with government on several issues through the ZBF, more organisational reforms are needed at this level. At present the ZBF operates as a loose coalition with member associations allowed to lobby unilaterally on sectoral policy issues, with the forum engaging in collective lobbying for all member associations on cross-cutting policy issues. For instance, the forum has played a critical role in the private sector development reform program aimed at reducing the cost of doing business in Zambia. Beyond this, the ZBF will need to reform its organisational structures and mandate so that it becomes an apex body for all private sector associations in order to hold as a stable coalition.

While the Zambia Business Forum (ZBF) and other private sector associations are generally perceived to advance the interests of the business community, civil society organizations are seen to advance the public interest especially the interest of the poor. Consequently, it is not uncommon to find policy positions and interests of the business associations and those of civil society organizations at variance and in competition. This competition among interest groups may in fact promote adoption of better policies and generate socially optimal outcomes (Baldwin and Robert-Nicoud, 2007). It is not clear whether private associations such the ZBF and civil society organizations have utilised these formal arrangements that government has initiated to improve relations with the government and to influence the adoption of pro-poor budgets.

### **2.3 Importance of state-business relations**

Government has reformed its fiscal processes to accommodate participation and active consultation of non-state actors in fiscal decision-making and in formulation, monitoring and evaluation of government policies and programs. This commitment was demonstrated when government engaged several non-state actors in the formulation of the Poverty Reduction Strategy Paper (PRSP). However, the extent to which this engagement influenced planning and budget allocation to pro-poor programs is often doubted and can only be established through a detailed study. There is some concern and dissatisfaction among some non-state actors that government has not fully adhered to the implementation of the PRSP as its budgets have not shown systematic bias towards financing poverty reduction projects as prioritized in PRSP. In addition, there are further concerns that although government adequately involved non-state actors in the formulation of the Fifth National Development Plan (FNDP), its budgets and public expenditures have so far not fully adhered to the priorities set out in the FNDP.

These concerns underscore the need to further strengthen capacity of non-state actors to engage with government in the preparation of budget formulation as well as in monitoring the budget performance in order to ensure that pro-poor budget policies and programs are implemented accordingly. This however, is not to assume that non-state actors have a better sense of what fiscal programs are socially optimal than government. Government, both bureaucrats and politicians, may have a legitimate interest to pursue socially optimal programs. It is expected that by providing, within the budgeting process, formal arrangements through which non-state actors can provide inputs into the process they would be able to influence policy decisions of government. It is however an empirical question whether state-business relations and in particular lobbying by non-state actors improves fiscal policy decisions and outcome in Zambia.

What is rather even more evident is the fact that enhanced state-business relations is associated with higher economic growth rates in Sub-Saharan African countries (Dirk Willem Te Velde, 2006) and increased total factor productivity of firms in Zambia (Qureshi and Dirk Willem Te Velde, 2007). The later study of firm productivity in Zambia estimates that belonging to an association accounted for as much as 47 percent of total factor productivity. The study however does not specifically pinpoint the specific

services or activities that these association provide to its members to increase their productivity by such a large magnitude. We can only speculate that associations provide a wide array of services that support technology transfer and diffusion across its members, market information, procurement services, business contacts and other business services available only to its members

Furthermore, state-business relationships, by improving information flows between government and private sector help to resolve information asymmetries and coordination failures which result in institutional and policy failures. In this context, state business relations are expected to lead to the adoption of more efficient fiscal policies and outcomes. Improved fiscal policy outcomes, in turn, can improve the provision of public goods and services that support firm productivity, for instance, improved infrastructure and streamlined administrative procedures improve the business environment and lower cost of doing business. State-business relations can also improve outcomes from lobbying, creating greater access to publicly supported goods and services, including fiscal incentives, and raise the rate of returns on investment. Effective State-business relations can also generate a stream of benefits to the economy in terms of increased investment, productivity and employment needed to reduce high levels of poverty in the country.

### 3 AN OVERVIEW OF THE NATIONAL BUDGET PROCESS

#### 3.1 Elements and budget preparation

The budget is the main tool for allocating scarce public resources and therefore its process is extremely important in stimulating economic growth and reducing or mitigating extreme conditions of poverty in the country. The Zambian budget is a hybrid of three government documents namely the Yellow Book which details the budget by activity; the Medium Term Expenditure Framework (MTEF) or Green Paper that forecasts government revenues and expenditures for a period of three years, and Fifth National Development Plan (FNDP). The Yellow Book contains estimates of revenue and expenditure, organised by budget item and activity covering a period of one calendar year. It is presented with four supporting documents- the annual budget speech, the economic report, the appropriations bill and the establishment register.

The MTEF is a three year macroeconomic framework that provides a consistent outline for determining macroeconomic aggregates, which are broken down into fiscal framework for revenues and expenditures explicit targets and desirable fiscal balances that are consistent with the monetary and other macroeconomic targets. The MTEF actual and projected government revenue and expenditure are published yearly and publicised in the daily newspapers to allow stakeholders to debate and evaluate government priorities and overall fiscal performance. This helps to improve fiscal transparency and accountability. Accountability is achieved not by merely publishing governments planned revenues and expenditures but also by consistently publicising public expenditure audits. These have significantly improved public confidence in the country's fiscal systems and have increased public demand for improved fiscal accountability over the last decades.

Government has over the last decade demonstrated commitment to adhere to fiscal targets, and together with its stakeholders, jointly monitor and review fiscal performance against these targets biannually. These institutional limits and a more transparent and accountable budget process have significantly contributed to better fiscal discipline and budget outcomes.<sup>2</sup> These improvements in fiscal performance of

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<sup>2</sup> For example, the fiscal balance as percentage of GDP improved from negative 5 percent in 2002 to negative 2.7 percent in 2006 and is forecasted to decline to 1 percent by 2010. Furthermore, the stock of external debt has fallen from 178.7 percent in 2002 to 8.8 percent in 2007 largely due to debt cancellation under the Highly Indebted Poor Countries Initiative (HIPC) while domestic debt decreased from 27 percent of GDP in 2003 to 16.8 percent of GDP in 2007, and is forecasted to reach 14 percent by the year 2010.

government have played a critical role in achieving macroeconomic stability, with inflation near single digits and economic growth of above 5 percent since 2000.

The FNDP is a government plan that sets out government expenditure priorities for the period of five years from 2006 to 2010. Five year national development planning period has been in existence since 1964, except for the period 1991 to 2005 when the Fourth National Development Plan was abandoned in 1991 following the change of government. Ideally, the costing for the priority programmes and activities are reflected in the MTEF and the annual budget.

Meeting fiscal targets does not in itself imply that fiscal allocations and expenditures will truly be socially optimal. However, when fiscal allocations are developed with wider stakeholder consultation, the budget formulation process is effective and efficient, generally reflect the "public interest". Deviations from such budget targets, unless properly justified, may be an indication that the budget process lacks the necessary transparency and accountability, which in itself is a recipe for a future fiscal crisis. But fiscal accountability is enhanced by putting in place an effective budget process with proper checks and balances among the key actors. The main actors in the budget process in Zambia include Cabinet Ministers and the President (Executive Branch), legislators (Members of Parliament), bureaucrats, and non-state actors including cooperating partners, citizens, civil society and the private sector. Apparently, there are no effective checks and balances between the Executive branch and the Legislature when the governing political party holds a significant majority in Parliament due to political patronage as the Cabinet is appointed from among the Members of Parliament.

### **3.2 The budget cycle**

Government annually prepares and presents the national budget to Parliament for approval. The annual budget preparation starts in the second quarter of each year and the Ministry of Finance and National Planning (MoFNP) is vested with responsibility of consolidating and implementing the national budget. The budgeting process starts with the preparation of the MTEF, which is presumably driven by the FNDP. Once the MTEF is prepared and approved by Cabinet, ceilings on revenues and expenditures published and the MoFNP invites submissions of tax and expenditure proposals from all stakeholders to be considered in the national budget. The Ministry then appoints the budget committee to receive and consolidate all budget submissions, with most committee members drawn from officials from the MoFNP, Zambia Revenue Authority (ZRA), Bank of Zambia (BOZ), and other line ministries and government agencies. The budget committee is divided into two sub-committees, one in charge of tax policy proposals and the other for receiving and considering expenditure submissions including submissions from government ministries, departments and agencies.

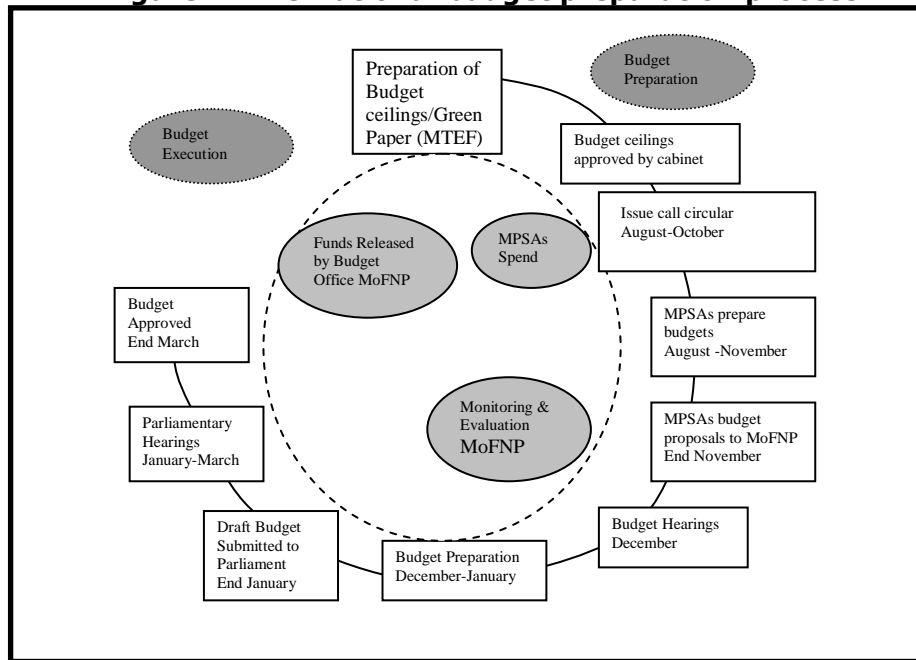
The tax policy committee has three specialised sub-committees namely the customs and excise sub-committee, direct taxes sub-committee, and Value Added Tax sub-committee. The tax policy committee and the committee on expenditures consolidate their submissions into a draft budget which is presented to a higher committee, the Economic Performance and Monitoring Committee, chaired by the Minister of Finance and National Planning. This Economic Monitoring Committee comprises senior government officials mainly drawn from the MofNP, ZRA, BOZ and other agencies under the oversight of the MofNP. This committee considers the draft budget and can make changes, drop and introduce new proposals before submitting it to Cabinet for approval and subsequently for presentation to Parliament. The Cabinet also has powers to revise, drop and introduce new measures before approving it for presentation to Parliament.

Parliament debates the budget, and can call for fresh submissions from stakeholders on budget proposals through its respective revenue and expenditure committees of Parliament. It can drop, alter and revise submissions and in some cases can also introduce new measures in the budget. Parliament frequently requests for detailed submissions from relevant ministries and government departments on certain budget proposals as well as from non-state actors on case by case basis. Parliament

approves the budget and enacts tax measures into law by end of March each year, although expenditures commence in January on provisional basis. The budget may be reviewed mid-year by parliament and supplementary allocations may be presented through the MoFNP to Parliament for approval.

To increase the absorption capacity of budgets, Government has initiated budget reforms to ensure that the budget is approved by the beginning of each fiscal year in January. This will enable budget and expenditures to be implemented for a full twelve month period rather than a nine-month period when the budget is approved at the end of March. It is expected that this will help to improve budget execution and expenditures efficiency.

**Figure 4: The National budget preparation process**



How budget institutions, state and non-state actors attempt to influence the budget and fiscal outcome is not well-understood in Zambia and indeed in many Sub-Saharan Africa (SSA) countries. Some evidence, in developed countries and Latin America, suggests that stricter numerical limits, higher prerogatives with actors with incentives that favour fiscal restraint and higher transparency and accountability generally produce more sustainable fiscal results<sup>3</sup>. This paper takes a different dimension. It assumes budget institutional arrangements that permit non-state actors to submit their tax and expenditure proposals and examines how actors in the budget process have utilised those processes to influence budget outcomes in Zambia.

## 4 HOW DO NON-STATE ACTORS INFLUENCE THE NATIONAL BUDGET

### 4.1 Data and methods

Budgetary decisions occur at various stages of the budgetary process. In this study, we tracked tax policy proposals submitted throughout the budget stages, documenting proposals that were approved, reviewed, or dropped at each stage of the process until the final Parliament stage when tax and expenditure proposals are approved and tax proposals are enacted into tax legislations. We also trailed all new proposals introduced

<sup>3</sup> See for instance Bohn and Inman, 1996.

at each stage of the budget formulation process, especially after the budget committee has submitted their draft budget to the Ministerial Committee. Inclusions at higher stages of the budget formulation stages are assumed to reflect preferences of those represented at those stages and may represent proposals channelled informally through political elites and bureaucrats or those that answer to political aspirations of the party in government. Tax proposals submissions are categorized by tax types, namely income tax, value added tax and customs and excise taxes. This information, though not comprehensive, enabled us to examine which actors in the budget process had the most impact on the budget for 2008.

We have also compiled data and stories published in the daily newspapers on tax and expenditures issues to help explain the pattern of lobbying during the budget preparation and approval process. For tax proposals that result in revenue losses, which we regard as tax expenditures, should in principle equally be subjected to the same stringent scrutiny and approval by Parliament as is the case with public expenditures. However, parliamentarians usually treat tax concessions and incentives less strictly and do not attract that much debate in Parliament as well as the media. As a result, the count of revenue and expenditure stories published before and after the budget may be biased towards fiscal policy issues on which the general public have more interest or which are easier to understand and report on by the media. These shortcomings notwithstanding, this information is valuable to the analysis.

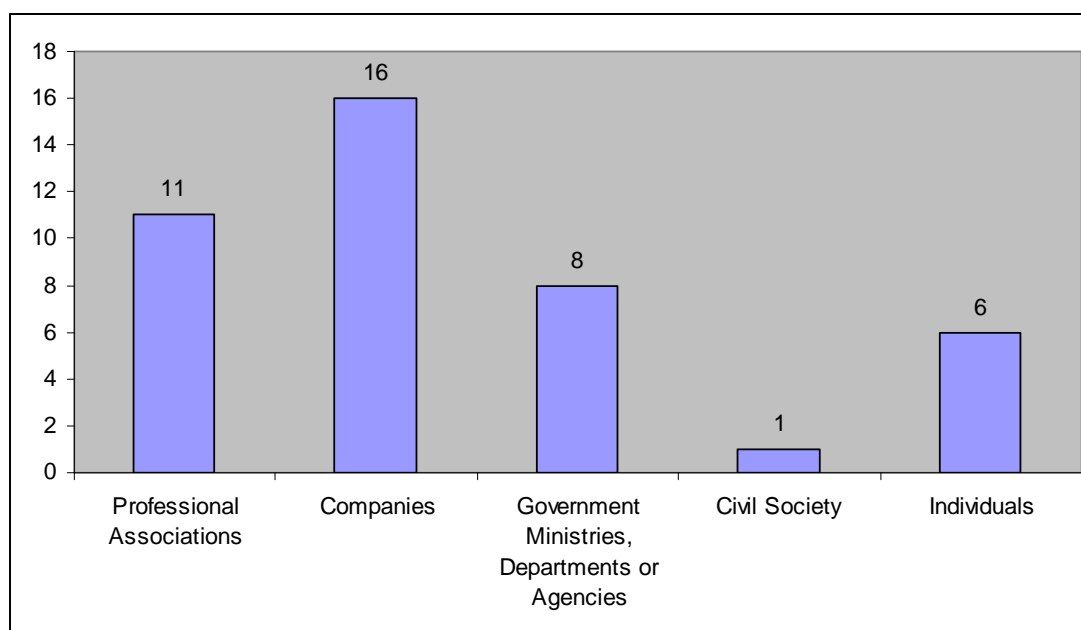
#### **4.2 Formal lobbying by non-state actors to influence budget outcomes**

The process of preparing the national budget allows both state and non-state actors to make written submissions to the tax policy and expenditures committees (hereafter budget committees). The budget committee consolidates the submissions, drops those submissions it thinks are generally not consistent with the interest and preferences of government policy or those that are too general to be considered as substantive budget proposals. This implies that the budget committee also has significant power, at this stage, to influence which submissions move to the next stage and which ones get dropped or deferred to the following fiscal year. This process is however quite transparent as all tax policy submissions are compiled and published in a booklet and is available for public scrutiny and those whose policy proposal have been dropped can seek an explanation from the Ministry of Finance and National Planning. The first publication of budget submission was for the 2008 budget process; submissions for previous years have not been compiled and published and hence not captured in this analysis.

Our first interest was to document the type and number of state and non-state actors that made tax policy submissions for consideration in the 2008 budget. Figure 5 below shows the number of actors who made submissions to the tax policy committee for the 2008 budget. We have classified actors into five categories namely, business and professional associations, individual firms or companies, government ministries, departments and agencies, civil society organizations, and individuals. The highest number of participation comes from individual companies (16), followed by professional associations (11) and government ministries, departments and agencies (8). Only six individuals and one civil society organization made tax policy proposals in the 2008. A total of 42 interest groups submitted tax policy proposals to the MoFNP through the tax policy committee during the 2008 budget preparation.



**Figure 5: Number of tax policy proposals submitted in 2008**



The number of submission received does not at all reflect the effectiveness of lobbying by each of the five categories of interest groups. We need to look at the number of tax policy proposals made by each interest groups or actor, assess how comprehensive these were and which of these were partially or fully adopted in the budget. Table 2 below shows the number of tax policy proposals submitted by each interest group by tax type. Notice that although only 11 business and professional associations made submissions, they accounted for the largest number of tax proposals (53.8%) in 2008, followed by government (22.1%) and companies (16.1%). Civil society and individuals had an equal number of proposals each accounting for 4 percent. In terms of distribution of tax proposals by tax types, business associations by virtue of their diverse representation had their proposals evenly distributed across the three tax types (Table 1).

Individual companies submitted more proposals on customs and excise (29) and only had five and six on income tax and Value Added Tax (VAT). The number of proposals on customs and excise by companies reflect the fact that special treatment (incentives, exemption) under customs tends to be product specific and companies may find it more effective to lobby unilaterally for their specific needs. Proposals from government were fairly even distributed between income tax and customs and excise, but only 11 proposals were on VAT. Civil society and individuals made most of their proposals on income taxes. Only three non-tax proposal were received and all of them came from individuals.

**Table 1: Number of tax proposals submitted in 2008**

State and Non-state Actors	Number of tax proposals				Total number of proposals
	Income Taxes	Value Added Taxes	Customs & Excise	Non-tax revenues	
Professional Associations	47	38	49	0	134
Companies	5	6	29	0	40
Government	23	11	21	0	55
Civil Society Organisation(s)	7	2	1	0	10
Individuals	5	0	2	3	10
<b>Total</b>	<b>87</b>	<b>57</b>	<b>102</b>	<b>3</b>	<b>249</b>

### *Channels of effective lobbying*

This analysis shows that non-state actors actively invest in efforts to lobby both politicians and bureaucrats to reflect their preferences in the design and implementation of the national budget, and tax policy in particular. Thus, the budget process is an important governance mechanism through which the state seeks to internalize the welfare of all stakeholders. While the evidence suggests that government receives submissions from a cross section of society, these submissions reflect diverse interests and are channelled through the budget process using formal and informal channels.

Over 90 percent of submissions from government ministries, departments and agencies result from interactions with their respective stakeholders, and appeal to sector specific needs. Submissions through government departments and agencies appear to be more effective in the sense that these submissions are properly coined and defended at different stages of the budget process through adequate representation. A casual observer will perceive tax policy proposals from public officers as representing government positions yet they are being moved through the budget process on behalf of their stakeholders or interest groups. In this way, interest groups are able to utilise their informal networks within government to influence budget outcomes and advance their individual and sectoral interests. In other words, most often, there is some "collusion" between the state agencies and the stakeholders. However, it is also important to note that of the total tax policy proposal fully or partially accommodated in the budget, 33 percent are presented by government departments, ministries and agencies.

The second most effective way through which non-state actors attempt to influence tax policy is through business and professional associations. In 2008, 36 percent of approved tax policy measures were submitted through business and professional associations. Because of existing cordial state-business relations that have emerged in the last few decades, business and professional associations are able to constantly engage government and politicians on tax policy issues even before submission of tax policy proposal begin. By the time submissions are being made, the fiscal policy concerns and proposals would have already been conveyed and discussed with the government. More importantly, tax policy and taxation is technical and complex and only those who are capable of understanding and effectively debate their tax proposals are likely to influence tax policy decisions and outcomes. Most tax policy proposals are rejected on technical grounds and others on grounds that they clearly seek to benefit only few individuals with little positive spillovers to society. Consequently, only 14.5 percent of the proposals were adequately accommodated in the 2008 budget.

**Table 2: Effectiveness of lobbying by interest group**

Interest groups	Number of Submissions (a)	Total no. of proposals (b)	No. of successful proposals (c)	Average proposals per institution $d=b/a$	Success rate (%) $e=c/b$
Business&Profes. Associations	11	134	12	12.2	1.5
Companies	16	40	3	2.5	7.5
Government	8	55	12	6.9	21.8
Civil Society Organisation(s)	1	10	8	10.0	80.0
Individuals	3	10	0	3.3	0
<b>Total</b>	<b>42</b>	<b>249</b>	<b>36</b>	<b>5.9</b>	<b>14.5</b>

Table 2 shows the total number of submissions and tax proposals submitted to the tax policy committee in 2007 for the 2008 budget. Although both government and business and professional associations had the same number of approved proposal (12 each), the success rate was higher for proposal channelled through government agencies (21.8 %) than through professional associations and companies which had success rates

of 7.5% and 1.5% respectively. This may seem to suggest that government agencies tend to support proposals channelled through them rather than those directly submitted through to the budget committee through professional and business associations and companies. This may also suggest that proposals submitted through government departments benefit from expert guidance and tend to be better presented than those that lack such guidance. Most non-state actors in Zambia, with the exception of a few business associations that have resources to hire tax experts and advisors, struggle to formulate their submissions, let alone provide compelling justification for their proposals. It appears that the scope for consultation between policymakers and non-state actors should be broadened and initiatives to enhance capacity among non-state actors to engage in a dialogue with government on fiscal matters developed in order to promote effective participation of non-state actors in the fiscal governance of the country.

Professional Associations and companies can improve their success rates by making their proposals more realistic and administratively feasible. However, in absolute terms, business and professional associations appear to be quite effective at influencing tax policy outcome compared to other non-state actors, like civil society and individuals although their success rate was quite high. For example, of the ten (10) budget proposals submitted by civil society organisations, eight (8) were either fully or partially accommodated in the 2008 budget and only two were completely rejected. This gives civil society group(s) the highest success rate of 80 percent. This is perhaps due to the fact that proposals from this category were modest and general in nature, relatively costless to implement, and results in limited revenue losses.

Proposals submitted by government agencies had a collective success rate of 21.8 percent followed by companies with 7.5 percent success rate. Companies also had the lowest number of submissions per company, averaging 2.5 per company, but were ranked third in terms of effectiveness. Companies tend to have sufficient skills and resources to engage tax planners and consultants and to lobby politicians to influence tax policy in their favour. In fact, a significant number of the submissions from government represent sectoral interests and largely benefit the private sector. Submissions from civil society predominately represented the interests of workers, with 62.5 percent of the approved submissions being on payroll taxes and the remainder (37.5 %) on Value Added Taxes. None of the proposals from individuals were adequately accommodated in the 2008 budget largely because they were too general and poorly articulated, indicating lack of skills in drafting the proposals and perhaps represented diffused interests with little political clout.

#### *Tax policy lobbying by tax type*

Tax policy lobbying may lead to rent-seeking through lobbying for special advantages, which can generally take various forms; consolidation of monopoly power, legitimating previously illegal activities, government quotas, tariffs protecting some industries and so on. Special interest groups can also lobby for direct transfers, in form of subsidies, tax rebates or deductions, social benefits and redistribution of wealth through progressive taxation. We will analyse the actions and intentions of political actors, bureaucrats, companies and consumers and civil society groups, with respect to their proposals and discuss the revenue, private cost and benefits, and welfare implications of the approved tax proposals. In this section, we examine how tax proposals submitted by each interest group are distributed by tax types.

Table 3 shows how proposals are distributed across tax types. The last row indicates the success rate, calculated as the percentage of approved proposals to total number of proposal submitted for each tax type. The data shows that the highest number of proposals on VAT (26.3%). About 80 percent of these submissions called for the reduction in the VAT standard rate from 17.5 percent to between 10 percent and 15 percent. In response, the government passed a budget measure to reduce the VAT rate from 17.5 percent to 16 percent, resulting in estimated revenue loss of K243 billion in 2008. The policy measure is expected to benefit both producers and consumers, but the distribution of these benefits will largely depend on market structure and conditions that

determine the degree to which producer will pass on the benefits to consumers in terms of lower prices.

**Table 3: Tax proposals partially or fully adopted in the 2008 budget**

Source	Income Tax	Value Added Tax	Customs and Excise duties	Total
Companies	0	2	1	3
Government departments	2	6	4	12
Professional Associations	8	5	0	13
Religious organisation(s)	5	2	1	8
Individuals	0	0	0	0
Total proposals approved	15	15	6	36
Total proposals submitted	87	57	102	249
Percent success rate (%)	17.2	26.3	6.9	14.5

The second highest number of approved proposals was on direct taxes, and particularly on employee payroll taxes, the Pay As You Earn (PAYE). Thirty five (35%) of the total proposals were on income tax, and of these 17.2 percent were either fully or partially accommodated in the budget. However, of the 15 approved submissions on income tax, 13 were on personal income tax and only 2 were on corporation tax. Submissions on PAYE proposed that government increases income exemption threshold from K500, 000 to about K850, 000 per month and realign income tax bands. This submission was partially accommodated by increasing the PAYE exemption threshold to K600, 000 in 2008 from K500, 000 in 2007 and further by marginally broadening the income tax bands for lower income groups and reducing those for highly paid employees. This measure resulted in some income tax relief for the poor and the estimated revenue loss is K64.8 billion.

The other two measures of income tax addressed the needs of less advantaged groups (disabled individuals) and aimed to raise tax credits on income earned by disabled persons as well as allowable deductions for companies employing disabled persons. These measures were fully approved as proposed by the civil society and business associations. Generally, most submissions on income tax focussed on uplifting the welfare of the worker and the poor, which were successfully incorporated in the budget. Submissions on customs and excise had the lowest success rate, with only proposals submitted by government departments being approved.

The most significant tax policy reforms announced in the 2008 budget relate to the new mining tax regime for the mines. This refers to tax and regulatory measures applied to mining companies engaged on the extraction of copper and cobalt with effect from 1<sup>st</sup> April 2008. Government increased corporation tax rate applicable to mining companies from 25 percent to 30 percent and mineral extraction royalty from 0.6 percent to 3 percent. In addition, to capture income arising from autonomous increases in copper prices on the international market windfall tax was introduced, among other measures. These proposals were introduced at cabinet stage and may reflect the views of government as well as of the general public as they were widely accepted by a large section of citizens, civil society, and local as well as international organizations.

As expected, mining companies did not favour these measures as they raised their tax payable to government. Because of the level of rents involved, the mining tax regime is susceptible to intense lobbying by mining companies, international

organizations, bilateral and multilateral institutions alike, and the only way one can assess the optimality of the regime is to benchmark it to international best practices and opinion polls as displayed in the media. The Zambian new mining regime has received popular support and we expect little resistance from the mining companies but when copper prices on the international market fell, the mines started to resist the new mining taxes. Almost all tax proposals were approved by Parliament in their original form.

#### **4.3 Lobbying activity as captured in the print media**

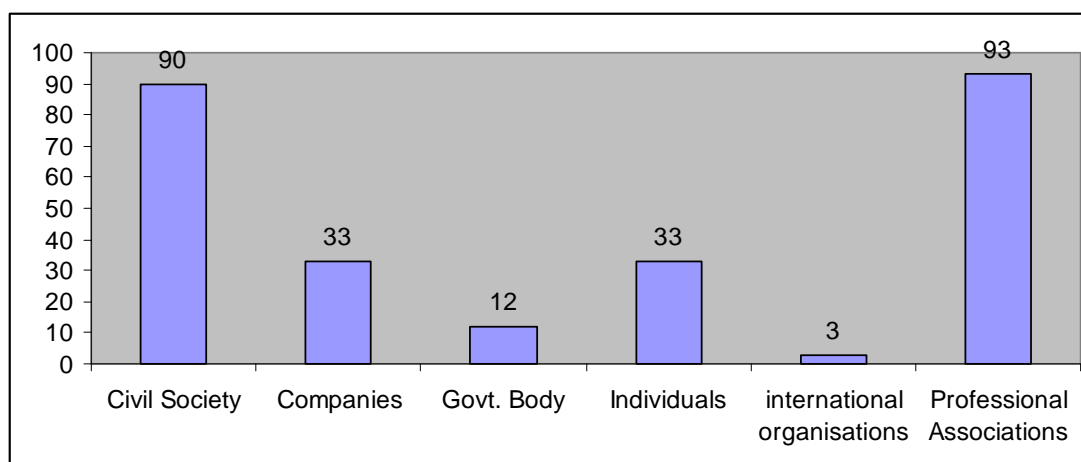
In addition to submitting budget proposals through the formal budget process through the Ministry of Finance and National Planning, interest groups also use the media to campaign for and against fiscal policy proposals. They often use informal channels to influence policy positions of Parliamentarians, Cabinet Ministers, and Bureaucrats in their preferred direction. To complement our earlier analysis, we reviewed and transcribed all articles and stories covered and published in the three main daily newspapers, namely the Post Newspaper, Zambia Daily Mail, and Times of Zambia from 2006 to 2008.

There were 3,285 editions printed by the three print media companies between 2006 and 2008. Of these 2,775 newspapers were collected and transcribed. These represented 85 percent of the total editions printed during this period. From these papers, 269 stories and articles on tax and expenditures issues were covered by the three print media. Of these, 160 covered tax policy issues while 109 were on expenditures and included 6 articles that covered both tax and expenditure issues. Most of the articles appeared a couple of months before presenting the national budget to Parliament and after the proposals had been approved or dropped by parliament. Few articles appeared during the period of budget implementation.

We decomposed these articles by institution or lobby group covered either as advocating or opposing a specific tax or expenditure policy proposal, we found that a majority of the articles and stories featured views of professional and business associations and civil society, each accounting for a third of the total articles covered on fiscal matters (Figure 6). Companies and individuals were tied to 33 proposals each while government bodies had 12 and bilateral and multilateral organizations had been covered three times only. This seems to indicate that while professional and business associations utilized the formal channels for influencing the budget, they also lobbied and expressed their policy preferences through the print media. On the contrary, civil society made very few written submissions through the formal budget submission process, but had the second highest number of articles on fiscal issues covered in the print media, after professional and business associations.

This pattern may suggest that civil society, which generally lacks the capacity to adequately analyze fiscal issues especially tax matters and which lacks the necessary financial resources to enable them hire experts to analyze and draft tax and expenditure proposals, have perhaps been more reactive than pro-active and therefore tended to voice their concerns through the media. This strategy perhaps works well for civil society whose strength is drawn from a larger constituency of voters.

**Figure 6: Number of articles and stories on tax and expenditure covered in the print media by interest group, 2006–2008.**



Professional and business associations may have a small constituency and therefore appealing to voters may not be as effective as lobbying policymakers directly through formal and informal channels. Their political voice may lie in their ability to sponsor politicians into office by financing their election campaigns, in which case informal lobbying may be more effective for them. For instance, mining companies often lobby the President and Cabinet Minister—the Minister of Finance and National Planning directly for tax concessions and have secured tax concessions using this approach. Other business associations have also utilized their informal channels to obtain tax incentives and exemptions and have been quite successful but tracking lobbying efforts channeled through informal means is difficult. What we often see are policy outcomes and not the informal lobbying and processes that generate or shape policies and regulations.

#### *Tax policy proposals published in the print media*

Table 4 below shows the number of tax proposal by tax types distilled from the 160 tax related articles and stories in the three newspapers over the period between 2006 and 2008. Again, professional and business associations made the largest number of tax proposals (99 tax proposals). Of these 26 were on income taxes, 29 on value added tax, 27 on customs and excise duties and 17 were on non-tax revenue measures such as fees, charges and levies. The proposals from professional and business associations show no bias towards any tax type. This reflects the diversity of interests these associations represent. Companies, on the other hand made a total of 48 proposals, of which 17 were on income tax, 13 on VAT, 11 on customs and excise and 7 on non-tax revenue measures. Companies may choose to lobby unilaterally for their preferred policies, either because they are large or have unique circumstances and preferences that may not be adequately represented by the business associations they belong to. Unlike the tax proposals channelled through the formal budget process where most of the tax proposals were on customs and excise duties, coverage of tax issues in print media tended to concentrate on income taxes and all of them were on company tax and none on PAYE and withholding taxes.

**Table 4: Total number of tax proposals published in the articles by tax type**

State and Non-state Actors	Number of proposals				Total number of Proposals
	Income Taxes	Value Added Taxes	Customs & Excise	Non-tax revenues	
Professional Associations	26	29	27	17	99
Companies	17	13	11	7	48
Government	3	0	0	0	3
Civil Society Organisations	0	0	0	0	0
Individuals	12	5	7	5	29
International Bodies	1	0	0	0	1
<b>Total</b>	<b>59</b>	<b>47</b>	<b>45</b>	<b>29</b>	<b>180</b>

The tax proposals tended to be general and often called for a reduction in company tax rates so as to reduce the cost of doing business by the private sector. There were 3 proposals from government bodies all on income tax particularly on taxation of companies listed on the Lusaka Stock Exchange. None of the articles in the newspapers concerning civil society organisations covered a specific tax type but 29 tax proposals were made by individuals, out of which 12 were on income tax, particularly PAYE, 5 on VAT and 7 on customs and excise duties. It is not surprising that the majority of individuals who lobbied unilaterally were more concerned with the high PAYE rates which they sought government should reduce to provide tax relief to the working class. There was only one tax proposal from international bodies covered in the print media.

*Public expenditure proposals published in the print media*

We also analysed the proposals on public expenditures as covered in the three daily newspapers. These proposals were grouped according to pro-poor sectors being education, health and sanitation, agricultural development and food security, entrepreneurship development, and social welfare, and non-pro-poor proposals. Table 5 indicates that 59 percent of all proposals covered in print media between 2006 and 2008 were pro-poor, while 41 percent were either neutral or not pro-poor. This compares favourably with annual budget allocation, where an average of 45 percent of the budget was allocation to pro-poor sectors while the remainder 55 percent finances non-pro-poor programmes (see table 4a in the appendix). Of the 59 percent of proposals made in favour of pro-poor programmes, the largest proportion (23%) of proposals were on Education, followed by proposals on agriculture and food security at 11 percent and social welfare at 10 percent. Health and Sanitation, and Entrepreneurship each accounted for 7 of the total fiscal policy proposals published in the print media.

Consistent with tax policy proposals published in the media, pro-poor expenditures proposals dominated much of the debate in the print media during the period under review. Most of these articles presented policy views and proposals from civil society organisations, and few independent experts. It was somewhat difficult to establish how effective these lobbying activities were in terms of influencing expenditure allocations of governments during this period.

**Table 5: Expenditure policy proposals published in the print media, 2006-2008**

Nature of Proposal	Sectors	Number	Percent
Pro-poor expenditure proposals	Education	25	22.9%
	Health and Sanitation	8	7.3%
	Small scale agricultural	12	11.1%
	Entrepreneurship	8	7.3%
	Social Security & Welfare	11	9.2%
Total pro-poor exp. proposals	All	64	58.7%
Not pro-poor expenditure	All	45	41.3%
Total public Expenditures proposal	All	109	100.0%

What appears to be clear is that civil society organisations prefer to voice their policy concerns through the media, which may be a reflection of limited opportunity available to them to formally engage with government or politicians on fiscal issues or they simply lack of capabilities to utilise formal budget consultation process, or simply as a matter of strategy if they believe that politicians will listen to them when they escalate their policy concerns in the public media in order to catch the public eye and influence perceptions of the voters. However, these articles and debates are often poorly presented and argued in the press and therefore less convincing to policy makers and voters. Capacity building for civil society organisation and the media in areas of fiscal management can improve relations between them and government and subsequently fiscal policy decision-making.

Table 4a in the appendix shows an increase in budget allocations to pro-poor sectors from 37 percent in 2006 to 47 percent and 45 percent in 2007 and 2008 respectively. One is therefore inclined to believe that lobbying for pro-poor expenditures by non-state actors including donors may have positively influenced budgetary allocations to pro-poor sectors.

## 5 CONCLUSION

The objective of this paper is to analyze the role that non-state actors play in shaping the budget outcomes, examine their lobbying strategies and assess their effectiveness in influencing the adoption of pro-poor tax and expenditures policies in Zambia. We have examined how state-business relations have developed in the last couple of years, showing significant growth in the number of interest groups registered with government and their increased interest in the fiscal governance of the country. We have also reviewed the budget processes, especially the efforts made by government to encourage non-state actors to formally submit budget proposals to be considered in the preparation of the budget. Further, in a bid to promote transparency and accountability, government publishes its medium term expenditure forecasts, all budget submissions received, and the budget as it is presented and approved by Parliament.

The analysis of the budget process and the nature of state-business relations indicate that although the President spearheaded the establishment of the Zambia Business Council to consolidate engagements with the private sector through the Zambia Business Forum, this institutional arrangement is not formalized and is not backed by any legal framework and has not sufficiently been institutionalized to guarantee continuity and effectiveness. It may be worthwhile to explore the possibility of having the Zambia Business Council formally reporting to the President through the Office of the Economic Advisor or directly to Parliament. There is also need to institutionalize this arrangement and organizational structures of the Zambia Business Council to ensure that it is more formally established with clear mandates and reporting channels. On the other hand, the Zambia Business Forum requires deeper reforms to enable it to function



more effectively as a cohesive and stable private sector organisation. This may in part require affiliated associations to coordinate their lobbying activities through the Zambia Business Forum. This will strengthen its lobbying efforts and ensure that the Forum speaks with one voice on issues of national policy.

One key objective of the study was to establish whether the current budget process provides adequate scope for productive engagement of non-state actors in formulating the national budget and whether participation of non-state actors in the budget process has led to the adoption of pro-poor tax and expenditures policies in Zambia. Firstly, an analysis of registration data has revealed significant growth in the number of interest groups, including business and civil society organizations formed following political and economic liberalization in 1991. This suggests an increasing interest of non-state actors to actively participate in political and economic governances of the country. Secondly, an analysis of tax and expenditure proposals submitted to government suggests that those through the Ministry of Finance and National Planning have also increased reaching 42 submissions containing 249 different proposals. Most of these proposals did influence tax policy and budget outcomes, but those submitted through line government ministries, departments and agencies have a greater chance of being adopted in the budget than those submitted directly to the tax policy committee in the Ministry of Finance and National Planning, unless when these are competently presented and justified. This means that the capacity to articulate policy proposals is important in influencing fiscal policy decision-making, but other political and institutional factors also come into play.

Thirdly, we have also shown that tax proposals that appeal to the public interest—those that have demonstrable positive redistribution effect and poverty reduction potential but which impose minimal losses in government revenue were more likely to be adopted and approved by parliament. This implies that state-business relations that produce fiscal proposals and interventions that show great potential to stimulate and accelerate economic growth and poverty reduction will actively be embraced in the budget and can be utilized to further induce budget reforms and state-building. There is greater scope for strengthening existing state-business relations and the formal institutional arrangements for encouraging participation of non-state actors in the budget process, but participation of civil society organizations has been insignificant. Rather, civil society has tended to utilize the print media to support or oppose fiscal policy proposals. The effectiveness of this channel in influencing policy is unclear at the moment. What is rather clear is that they can do much better if they also utilized the formal budget process to influence government to formulate and implement more pro-poor budgets.

Lastly, we have shown that most of the approved proposals submitted by non-state actors improved budget outcomes for the poor, but non-state actors need to strengthen their capacities to understand, prescribe and debate their tax policy proposals more competently. In terms of influencing government expenditure allocations, lobbying by civil society for more pro-poor budget allocation is not sufficient to produce desired welfare outcomes. It is important that this is followed by adequate lobbying to ensure that pro-poor allocations are released and resources efficiently spent as budgeted.

These results indicate that there is scope for non-state actors to influence the adoption of pro-poor budgets by building effective state-business relations. We have shown that tax proposals channelled through government departments, civil society organizations and professional and business associations were more likely to be adopted in the budget and, if formulated to enhance the welfare of the poor, would contribute to poverty reduction and help to attain the respective Millennium Development Goals. By virtue of their active representation at the various stages of the budget process, bureaucrats assist to shepherd tax proposals submitted through their departments through the budget process. They are also able to utilize their technical and professional skills to knock such proposals into shape and make them more appealing to politicians. This makes government bureaucrats important agents that non-state actors can target

in lobbying for pro-poor fiscal policies and specifically pro-poor expenditure allocations. Those non-state actors, especially civil society organizations, that have been less successful in getting their proposals adopted in the budget need to beef up their technical skills and lobbying strategies. Donors can play an important role in helping to build required capacities and competences of non-state actors to enable them to more effectively lobby for sound tax and expenditures policies, by enhancing their skills in information gathering, sharing and utilization, and thereby help to strengthen the policy dialogue and state-building for poverty reduction.

Overall, this study has attempted to show that building effective state-business relations improves information flow between state and non-state actors and builds the capacity of non-state actors to dialogue with government on fiscal matters. The direction of their influence depends on fiscal proposals being supported and advanced as well as political market factors that influence interest group competition for policy favors (Becker, 1983). Some proposals will certainly enhance the welfare of the poor while others may induce private transfers and consolidate resources and benefits in the few dominate individuals and firms that are more adequately accommodated in the policy and regulation that finally gets adopted. In this case, the resulting regulatory capture can deepen the already high income inequality and poverty in the country. However, regardless of the overall impact of lobbying activity on public decision-making, it appears that building effective state-business relations improves policy dialogue, promote democratic governance and state-building and consequently leads to improvements in the country's fiscal performance.

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APPENDIX

**Table 1a: Income tax budget measures in 2008 budget**

<b>Budget Measure</b>	<b>Number of Proposals</b>	<b>Source of tax Proposal(s)</b>	<b>Description of tax proposal accommodated in the budget</b>
Increase PAYE threshold from K 500, 000 per month to K600, 00 per month and maintain the marginal tax rates at same levels	5	3= business/ professional associations, 2= civil society	Average proposal was to raise the PAYE threshold between K800,000--K900, 000
Increase tax credit applicable to persons with disabilities to K600, 000 pa	2	1= business 2= civil society	-Increase Tax Credit for persons with disabilities from K72,000 to K600,000 pa - removed tax from all business concerns owned by blind and disabled persons
Allow mortgage interest to be deductible for tax purposes	1	1=business Association	Personal mortgage interest paid to be deductible on employee payroll
Increase low cost housing unit capital expenditure limit for tax purposes from K10m to K20m	1	1=business association	Increase capital allowance limit for low cost housing from K10m to K20m
Reduce the withholding tax rate applicable on interest earned on individuals' bank savings accounts from 25% to 15% and abolish the exempt threshold.	5	2=business associations  1=civil society  2=govt agencies	-Abolish 15% withholding tax on residential rentals, -Increase exempt portion of interest on bank savings for individuals from K62,500 to K100,000 per month -Reduce withholding tax rate from 15% to 10% -Remove rental income from turnover tax and make the 15% withholding tax as final tax for individuals
Increase allowable deduction for any employer who employs differently-abled person from K500, 000 pa to K1m pa	1	1= association	-Increase allowable deduction for organisations who employ persons with disabilities from K500,000 pa to K1,000,000 pa
New mining tax regimes	1	Govt	Comprehensive mine tax regime proposed by cabinet and approved by parliament.
<b>Total</b>	<b>15(17%)</b>	<b>8 assocn, 5 civil, 2 govt</b>	

Table 2a: Budget measures on customs and excise duty in the 2008 budget

<b>Budget Measure</b>	<b>Number of Proposals</b>	<b>Source of tax Proposal(s)</b>	<b>Description of tax proposal accommodated in the budget</b>
Reduce customs duty on the following: (a) dyestuffs under glycerine under from 5 percent to free; and (b) mechanical horses for semi-trailers from 15 percent to 5 percent.	5	3=govt agencies 1=business association 1=company	-Reduce duty on tubes, pipes, hoses made of plastics from 25% to 5% -Remove customs duty on dyestuffs (synthetic organic colouring matter -Remove customs duty on glycerine -Harmonise duty rates on mechanical horses -Exempt Saro Agro Industry Ltd from paying customs duty on machinery, equipment, accessories and parts thereof for motor cycles, bicycles and trailers assembly as per SI No. 9 of 2006
Concessions to the industry by reducing duty on other musical instruments and art equipment	1	1= govt dept	-Reduce import on Musical Instrument.
Export levy of 15 percent on the export of copper concentrates and cotton seed	1	1=civil society/church	Introduce a 15% export levy on unprocessed copper concentrates
<b>Total</b>	<b>7</b>	<b>4 govt, 1 company, 1 civil</b>	<b>na</b>

**Table 3a: 2008 Budget Measures on VAT Vs Proposals from Interest Groups**

Budget Measure	Number of Proposals	Source of tax Proposal(s)	Description of tax proposal accommodated in the budget
Zero rate books for VAT purposes	1	1= business Association	-Make books zero rated to enable local manufacturers to be at par with imported books on which there is no duty or VAT
Exempt infant formula for VAT purposes	1	1= govt agency	Amend the Value Added Tax (Exemptions) (Amendment) (No.3) Order, 2006 Statutory Instrument No.43 of 2006 to exempt infant formulas.
extend the list of zero rated supplies to include new activities such as elephant back safaris, steam train excursions and walking with lions	1	1= govt agency	-Zero-rate supplies of third party tour packages; amend SI 109 of 1996 to include categories of other supplies in tour packages and zero rate domestic tour packages
Reduce the Value Added Tax standard rate from 17.5 percent to 16 percent.	12	4= Govt dept 2=civil society 4=business assocn 2=companies	-Reduce VAT rate to 10%--15% (average 13 %) across the board -Remove Import VAT the import VAT on the importation of borehole specified civil engineering equipment -Reduce VAT rates for all tourism services to 14%, etc.
<b>Total</b>	<b>15</b>	<b>5 assocn, 6 govt, 2 civil, 2 companies</b>	

**Table 4a: Expenditure on Pro-poor Programs, 2006-2008**

	2008		2007		2006	
	Allocation (K' Billion)	Percent of total Expenditure	Allocation (K' Billion)	Percent of total Expenditure	Allocation (K' Billion)	Percent of total Expenditure
<b>Agriculture*</b>	800.5	5.80%	1064.8	8.80%	580	5.70%
<b>Environmental Protection</b>	95.7	0.70%	103.3	0.90%	43.3	0.40%
<b>Housing and Community Amenities</b>	830.6	6.0%	802.7	6.70%	292	2.90%
<i>Water Supply and Sanitation</i>	399.4	2.90%	331.1	2.80%	182.5	1.8%
<i>Other Housing &amp; Community Amenities</i>	431.1	3.10%	471.6	3.90%	109.4	1.1%
<b>Health</b>	1,586.60	11.50%	1,289.50	10.70%	1098.4	10.70%
<b>Recreation and Culture</b>	174.1	1.30%	137.1	1.10%	29.7	0.30%
<b>Education</b>	2,118.50	15.40%	1,807.00	15.0%	1647.4	16.10%
<b>Social Protection</b>	577.7	4.20%	460.6	3.80%	45.7	0.40%
<b>Expenditure on Pro-poor Programmes</b>	6183.7	45%	6467.7	47%	3736.5	37%
<b>Total Expenditure</b>	<b>13,761.40</b>		<b>12,034.40</b>		<b>10236.8</b>	

