UNDERSTANDING THE IMPACT OF THE REMOVAL OF FUEL SUBSIDIES ON THE ZAMBIAN ECONOMY

Research Dissemination Meeting Report

Golden Bridge Hotel Lusaka

19nd December, 2013

1.0 Introduction

Consumer Unity and Trust Society (CUTS) International, Lusaka, in partnership with the Agricultural Consultative Forum (ACF), Economics Association of Zambia (EAZ) and the Zambian Voice (ZV) held a dissemination meeting at golden bridge on Thursday 19th December, 2013. The meeting was held in form of a press briefing to disseminate the findings of the research project entitled "Understanding the Impact of the Removal of Fuel Subsidies on the Zambian Economy: A Case of Lusaka (Lusaka and Kafue districts) and Western Provinces (Mongu and Kaoma)".

2.0 Deliberations

During the proceedings, a speech was delivered by Chilufya Tayali, Executive Director, Zambian Voice. The speech contained the position of the partner organisations on the findings of the research report – which could be accessed on the project website at http://www.cuts-international.org/ARC/Lusaka/LECOP.

2.1 The briefing sparked a number of questions from the media represented. Expected questions such as how the government was to spend the savings from the subsidy removal (and whether there was a saving or not) were raised.

In response, it was made clear that, at the time the decision was being made by government to reform the fuel subsidy; there was already a deficit on expenditure and thus it was impossible for government to have a saving in 2013.

However, in terms of estimates, the partners indicated that government was by end of 2013 expected to spend about K 1.3 trillion. At the time the subsidy removal was being initiated, government had already spent about K 500 billion. It was clear that this move saved government from spending around another K 700 billion for 2013, though at the expense of ordinary people. Going by this projected expenditure, the partners indicated that government would have around K1.2 trillion for 2014 – and hoped that this should go towards addressing specific demands of the ordinary people. Disturbingly, partners disclosed that the said subsidy was not budgeted for in the 2013 budget though expenditure was recorded – a situation they called a mockery to economic management.

2.2 Another the other question which ensued from the participants was on how the subsidy removal had or would affect agricultural yields. In response, it was cautiously indicated that the yields would not be affected if the measures identified in the 2014 budget were to be implemented effectively and religiously. Despite this answer, the partners raised alarm that the first months of the removal of the subsidy had affected diesel consumption and the incurred costs were later passed on to consumers – as reflected in the raise in inflation in the first few month of the subsidy removal.

2.3 The follow up question was with regard to which category of people (rich or poor) were affected more – as per findings of the study. In response the partners indicated that, generally, among the common arguments that are normally given to support subsidy removal was the fact that the poor do not normally benefit from it as they were a privilege of the rich. However, the partners indicated that, realising that the subsidy that was being provided was not targeted, the removal of the subsidy would always have inflationary pressures which even the poor cannot escape from. It was indicated that, on average, the impact of the subsidy removal on expenditure increases with income. However, when this change in expenditure was calculated relative to the average income, the impact of the subsidy removal was more significant on the low income earners than the relatively rich. The partners explained that for the lowest income earners, the study revealed that the change in expenditure constituted about 29.9% of their average income, while for the low income group this represented about 18% of their income. It was explained that the change in expenditure only constituted about 14% of the middle income's average monthly income and about 12% of the rich's income. Assuming that the lowest income earners were classified as poor, the partners indicated that this implied that the impact was felt more by the poor than the rich.

2.4 In view of the preceding question under 2.3 and the subsequent response thereof, the follow up question which ensued was on whether the project partners would consider recommending to government to rescind the decision or advise government to increase borrowing to cover the deficit. In response to the latter, the partners indicated that, although borrowing was an agenda for several governments in the world (especially countries facing developmental challenges/deficits), it was unrealistic to advise government to borrow but to encourage it improve on its domestic resource mobilisation. This, according to the partners should entail re-engineering the whole tax system and its administration in order for the country to yield optimum tax revenues especially from its natural resources. However, the partners were cognisant of the fact that having an overhaul of the tax system in Zambia might be a long term measure. The partners indicated that it was important that the country started/continued to institute key measures that would ensure that there were no revenue leakages and that the revenue collected was optimum or moves towards optimality. And commenting to the question on calling upon government to rescind its decision, the partners hastily responded by indicating that any subsidy removal would generally have inflationary impacts on the economy.

They explained that fuel subsidy was introduced at a time when the economy was doing relatively well and in line with the single digit inflation target under the SADC macroeconomic convergence framework. Thus, the partners indicated that the timing of the removal of the fuel subsidy can generally not be faulted and cited the current downward trend in inflation as an example. However, the partners stressed that despite the said development and the inflation trend eventually comes back to normal, the damage in terms of impact on poverty would be permanent.

2.5 The other question the media asked hinged on the contemporary issue of mealie meal pricing which continue with no signs of plummeting. The partners indicated that, although any fuel subsidy benefits the agriculture sector as fuel constitutes an important input for agricultural production, it would be inaccurate to attribute the fuel subsidy removal as the major cause of the exacerbating mealie meal prices. The participants were reminded of the agricultural consumption and production subsidy reforms which were implemented at the same time of the fuel subsidy removal – and did not rule out the impact of this decision on the performance of the sector and the pricing structure. Further, the partners also alleged that the sector was to not immune from anticompetitive behaviour - which also have impact on pricing. They indicated that distortions arising from anticompetitive behaviour among players in the value chain (mainly supply chain) can cause both high domestic trade margins and high storage and transport costs. These tend to increase differences between farm-gate and retail prices. The partners called on all none state actors working on business regulation (competition policy) related issues to support the work of the competition and consumer protection commission and thereby improving the business regulatory environment.

3.0 Conclusion

In ending the partners thanked all the participants present and stressed the importance of the topic at hand and the need for such stakeholder engagement over such issues.