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**ZAMBIA DEBT AND FISCAL  
POLICY REPORT**

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# EXECUTIVE SUMMARY

Zambia stands at a critical juncture where ambitious national development goals, aligned with the UN Sustainable Development Goals (SDGs) and Vision 2030, collide with the realities of a protracted debt crisis and recurrent climate shocks. This summary provides an analysis of Zambia's fiscal journey from 2017 to 2024, focusing on the transition from the Seventh (7NDP) to the Eighth National Development Plan (8NDP).

## 1. The Ambition-Reality Gap

Zambia's development plans initially prioritized massive infrastructure expansion funded by non-concessional commercial debt. However, the "triple threat" of declining copper prices, volatile exchange rates, and high interest rates transformed this ambition into a debt trap, leading to a sovereign default in 2020.

- **Policy Shift:** The 8NDP (2022–2026) marks a pivot from state-led construction toward a market-driven model, emphasizing Public-Private Partnerships (PPPs) and targeted value addition, particularly in agriculture.
- **Fiscal Austerity:** While the government successfully reduced the fiscal deficit from 9.3% in 2020 to 4.8% in 2024, this consolidation often came at the cost of "cannibalizing" social sector investments.

## 2. Shocks and Resilience (2020–2024)

Zambia's economy has been hit by a "perpetual crisis" cycle. The COVID-19 pandemic and severe droughts (2019 and 2024) have repeatedly derailed growth targets.

- **Climate Impact:** The 2024 drought caused a 7% real GDP contraction, forcing emergency budget realignments to fund food security and social protection.
- **Budgetary Friction:** The country operates a cash-budget system, meaning that during low-revenue months, the Treasury prioritizes debt and payroll, leaving "discretionary" sectors like health and education with significant funding shortfalls (underspending).

## 3. The Role of the IMF

The **IMF Extended Credit Facility (ECF)**, approved in 2022, has acted as a "fiscal anchor" to restore international credibility.

- **Social Floors:** A key innovation is the "Social Spending Floor," which protects minimum funding for the Social Cash Transfer (SCT). Beneficiaries increased from 616,464 in 2020 to 1.3 million in 2024.
- **The "Mirage of Recovery":** Despite meeting IMF targets, the real-world value of social protection has been eroded by the removal of fuel subsidies and high inflation, leading to a "survivalist" rather than "aspirational" development strategy.

#### 4. Sectoral Performance Highlights

Sector	Trend (2017-2024)	Key Driver
Education	High Volatility	Driven by "Free Education" policy but hindered by poor pupil-teacher ratios.
Health	Persistent Shortfalls	Infrastructure projects stalled due to liquidity constraints; high reliance on donors for drugs.
Agriculture	Strategic Pivot	Shift from input subsidies (FISP) to value-chain enhancement.
Social Protection	Scaled Up	Significant expansion of SCT, though adequacy is challenged by inflation.

## Section 1: The Ambition – Zambia's National Development Plans, Budgetary Allocations, and Debt

Zambia's commitment to national development and the Sustainable Development Goals (SDGs) is anchored in its long-term national planning, with Vision 2030 serving as the overarching blueprint. This vision is implemented through successive multi-annual plans, primarily the Seventh National Development Plan (7NDP) (2017-2021) and the Eighth National Development Plan (8NDP) (2022-2026), as focus for this analysis. These plans explicitly integrate and align their national goals with the SDGs, viewing them not as separate targets but as an integrated framework for socio-economic transformation.

The plans' focus on critical sectors like health, education, and social protection is a direct reflection of this commitment, as they set specific, measurable targets for poverty reduction, improved health outcomes, and universal access to social services and education.

However, the journey from these ambitious plans to reality has been significantly impacted by fiscal pressures and a challenging economic and political landscape. The underlying financial assumptions of the 7NDP proved unsustainable due to rising public debt, leading to limited resources for developmental programs. The subsequent 8NDP was formulated against this backdrop, explicitly acknowledging the need to address high debt levels and the impacts of the COVID-19 pandemic. In response, it shifted the financing strategy from a reliance on government revenue and loans to a more diversified model, emphasizing Public-Private Partnerships (PPPs) and other alternative financing mechanisms to fund major projects and rationalize government spending.

The country's fiscal journey is also intertwined with its engagement with international partners like the International Monetary Fund (IMF). The IMF Extended Credit Facility (ECF), approved in August 2022, has been a key driver of fiscal policy changes, guiding budgetary projections and a commitment to fiscal and debt sustainability. Under this program, the government has had to reprioritize spending, scale up social safety nets, and commit to domestic revenue mobilization, at times missing targets on expenditure arrears and social spending due to fiscal constraints.

This reality underscores the reality in which the domestic political economy and short-term pressures have often influenced the prioritization of visible projects over long-term, sustainable investments, highlighting the persistent challenge of aligning development ambitions with fiscal realities. This report starts with a review of

the ambitions of the country as set out in the 7th and 8th National Development Plans and then conducts an analysis of how the performance of these plans was impacted by the debt crisis.

## 1.1 Sectoral Ambitions and Global Commitments

Zambia's multi-annual development plans were linked to global and regional strategic frameworks, including the UN Sustainable Development Goals (SDGs), Zambia's Vision 2030, and the African Union's Agenda 2063. The government's ambition was to align public expenditure with these goals to drive socioeconomic transformation. The Seventh National Development Plan (7NDP), which covered the period from 2017 to 2021, and the Eighth National Development Plan (8NDP), covering the period from 2022 to 2026, were the primary multi-annual plans used to achieve these objectives.

- **Agriculture:** The agriculture, livestock, and fisheries sectors are central to Zambia's long-term Vision 2030. The ambition is centred on achieving food security and enhanced productivity, aligning with SDG 2 (Zero Hunger) [1]. The government's commitment was demonstrated by spending that sometimes exceeded the Comprehensive Africa Agriculture Development Programme (CAADP) benchmark of 10% of government expenditure, reaching as high as 14% in certain years.

The primary goals to achieve this vision include increasing agricultural productivity and the amount of land under cultivation and irrigation, boosting agricultural and agro-processed exports, and promoting agricultural mechanization by targeting 2 tractors per 100 hectares of arable land by 2030. The plan also sets specific targets for increasing the livestock population to 6 million and the fish population to 300,000 metric tons by 2030. A key focus is on preserving the agricultural resource base to ensure long-term sustainability.

As highlighted in Table 1 below, a comparative review of the 7NDP and 8NDP, adjusted to constant 2024 prices, reveals a fundamental policy pivot from broad-based input subsidies to targeted value addition. While the sector's total real-term allocation contracted by 56% (from K71.2 billion to K31.1 billion) due to fiscal consolidation, the composition of spending shifted aggressively. Resources for 'Production and Inputs' and 'Infrastructure' were reduced by over 90%, while the allocation for 'Enhancing Agriculture Value Chains' surged from K0.9 billion to K25 billion. This confirms a strategic transition away from state-funded cultivation and construction towards a market-driven model focused on processing and industrialization."

**Table 1: Agriculture, livestock and Fisheries Programmes 2017-2026**

<b>Programme Heading</b>	<b>2017–2021 (ZMW"000")</b>	<b>2022–2026 (ZMW"000")</b>
Improve Production and Productivity incl inputs	51,188,722	2,726,339
Enhance Agriculture Value Chains	936,269	25,039,418
Infrastructure Investment and Development	17,098,782	292,892
Livestock Development	931,007	1,788,479
Promote Diversification Within the Agriculture Sector	25,469	542,768
Promote Small-Scale Agriculture	309,466	293,236
Fisheries and Aquaculture Development	75,043	381,697
Agricultural Mechanization	535,706	3,825
Improve Access to Finance for Production and Exports	120,406	
	<b>71,220,871</b>	<b>31,068,654</b>

**Source:** Analysis of Vision 2030 7NDP and 8NDP Implementation Plans (Constant 2024 Prices)

- **Electricity:** Zambia's national development plans for the electricity sector are primarily focused on increasing generation capacity and expanding access to provide a reliable supply of power for both domestic and industrial use, thereby supporting the country's economic transformation in line with SDG 7. As of 2016, Zambia had installed a capacity of 2,714 MW of which 97 percent was from hydro and 3 percent from other sources. It was envisaged that other sources of energy which included geothermal, wind, solar and coal would grow to about 15 percent by 2030, with the aim to increase it to 4093 MW by 2026, with investment of 150MW per annum in line with demand. Additional investment in power generation was due to the country's overreliance on hydropower, which made it vulnerable to climate change.

A good example is the period preceding the 7NDP experienced a reduction in capacity of hydro power generation of 600MW, mainly attributed to poor rainfall. This shortfall resulted in significant power outages which had a devastating impact on economic growth. The implementation of renewable energy projects, however, faced hurdles like policy gaps and delayed financing, which undermined progress toward climate goals [1-4].

The Seventh National Development Plan (7NDP) (2017–2021) aimed to address inadequate and unreliable electricity supply, which it recognized as a major constraint to economic diversification. ."

The plan sought to increase electricity generation capacity from 2,714 MW to 3,747 MW and aimed to increase the national electricity access rate from 67% to 84% by 2026. The 8NDP reflects an aggressive 'Infrastructure Investment Cycle,' with total allocations quadrupling to K402 billion. The plan signals a decisive pivot toward climate resilience, increasing Renewable Energy funding by over 32,000% (to K5.8 billion) to break hydro-dependency. However, the focus is heavily industrial: 98% of the budget targets the main grid (Generation and Transmission), while direct funding for Rural Access has declined, implying a strategic reliance on off-budget partners for last-mile connectivity, as shown in Table 2 below.

**Table 2: Electricity Related Programmes 2017-2026**

Programme	Source of Funding	2017–2021 (ZMW"000")	2022–2026 (ZMW"000")
Enhance Generation, Transmission and Distribution of Electricity	GRZ, Loan, Secured Financing	87,221,991	393,522,951
Enhance Strategic Petroleum Reserves	GRZ/Strategic Reserve Fund	398,668	3,124,142
Promote Renewable and Alternative Energy	GRZ/Donors	17,858	5,874,031
Improve Electricity Access to Rural and Peri-Urban Areas	GRZ/Donors	9,380	6,706
		<b>87,647,897</b>	<b>402,527,830</b>

**Source:** Analysis of Vision 2030 7NDP and 8NDP Implementation Plans (Constant 2024 Prices)

**Social Protection:** Zambia's development agenda aims to ensure the provision of livelihood and empowerment by providing livelihood support and protection of the most vulnerable citizens from risks and shocks. The government's commitment was demonstrated by a significant increase in the sector's share of the national budget, from approximately 3.6% in 2021 to 7.4% in 2024, intended to align with the SGD targets for poverty reduction [5] and introduction of social policy programmes like the Social Cash Transfer.

A look at Vision 2030 highlights the country's sector plan which demonstrates a resilient 35% real-term growth in allocations (rising to K64.9 billion) in the social welfare programmes, driven by a massive consolidation of resources into direct welfare. The 'Enhance Welfare and Livelihoods' programme—which houses the Social Cash Transfer—tripled in value (from K12.4 billion to K41.9 billion), now consuming nearly 65% of the entire sector budget. This indicates a decisive policy shift away from broad, indirect support mechanisms like 'Reducing Developmental Inequalities' (which faced a sharp 77% cut) toward high-impact, direct cash assistance models to protect the most vulnerable against rising living costs.

**Table 3: Social Welfare Programmes 2017-2026**

<b>Programme</b>	<b>2017–2021 (ZMW"000")</b>	<b>2022–2026 (ZMW"000")</b>
Strengthening Coordination of Social Protection System	4,385	14,432
Enhance Welfare and Livelihoods of Poor and Vulnerable People	12,430,266	41,950,737
Reduce Developmental Inequalities	24,176,165	5,514,112
Increase Access to Decent and Affordable Housing	7,918,250	14,879,569
Reduce Vulnerability Associated with HIV and AIDS	3,347,830	2,511,759
	<b>47,876,897</b>	<b>64,870,609</b>

**Source:** Analysis of Vision 2030 7NDP and 8NDP Implementation Plans (Constant 2024 Prices)

- **Water and Sanitation:** Zambia's national development plans for the water and sanitation sector are consistently focused on improving access and ensuring sustainable management of water resources as a critical enabler for growth, health, poverty reduction and overall development. The long-term Vision 2030 sets an ambitious goal of achieving 100% access to clean water and 90% sanitation coverage by 2030, directly aligning with the UN Sustainable Development Goals (SDG 6) [6] and driving subsequent medium-term plans and government policies.

The 7NDP recognized that inadequate water and sanitation services were a major barrier to development, especially in rural and peri-urban areas. Its ambition was to improve water supply and sanitation infrastructure to increase access and reduce waterborne diseases. While specific percentage targets were not detailed in the main document, the plan's implementation focused on infrastructure development, including the construction of boreholes and water treatment facilities to expand the network and improve service delivery. The 8NDP also continues the strategic focus on the water sector, with nominal allocations nearly doubling from K10.8 billion to K20.3 billion. The 8NDP's ambition is to further increase access to clean and safe water and sanitation services through an integrated approach.

The plan outlines a massive investment program, the Zambia Water Investment Programme (ZIP), which aims to mobilize approximately US\$5.75 billion by 2030. This funding is to be sourced from a blended financing model that heavily relies on both public and private sources, including Public-Private Partnerships (PPPs), to attract the necessary investments. Table 4 provides an analysis of the estimated investment needs during this period, broken down into the NDP target periods.

**Table 4: Water and Sanitation Cost Estimates 2017-2026**

<b>Programmes</b>	<b>2017-2021 (ZMW)</b>	<b>2022-2026 (ZMW)</b>
Water supply and sanitation services improved infrastructure & systems strengthened	10,562,673	20,211,367
Enhance Research in Water Supply and Sanitation Services	29,433	69,484
Sustainable mechanism for financing of water and sanitation services established and operational	236,387	
	<b>10,828,493</b>	<b>20,280,852</b>

**Source:** Analysis of Vision 2030 7NDP and 8NDP Implementation Plans (Constant 2024 Prices)

**Roads:** Infrastructure development aims to facilitate trade and logistics (SDG 9). The 7NDP aimed to improve transport systems to position Zambia as a regional hub and address the constraints of inadequate road networks. Between 2017 and 2024, the plan was to construct at least 3500kms of road and rehabilitate over 140,000kms.

The 8NDP reflects a situation where nominal allocation on roads suggests growth. However, the data in Table 5 (Constant 2024 Prices) reveals a 17.6% reduction in real-term purchasing power for the combined road and transport infrastructure programs, falling from K79.55 billion in the 7NDP period to K65.52 billion for 2022–2026.

This contraction signaled a deliberate policy shift to move large-scale, capital-intensive road construction off the national balance sheet and onto Public-Private Partnerships (PPPs). By doing so, the government aims to maintain essential infrastructure development without further straining public debt. Perhaps the difference is in allocation towards "Canals, Bridges, and Harbour Construction" which saw a massive real-term increase—from K72 million to over K2.2 billion. This suggests a strategic pivot toward rural connectivity and specialized transport infrastructure in areas where private sector funding through PPPs is less viable.

**Table 5: Roads Related Programmes 2017-2026**

<b>Programme</b>	<b>Source of Funding</b>	<b>2017-2021 K'000</b>	<b>2022-2026 K'000</b>
Road Development and Maintenance	GRZ	79,482,452	63,237,571
Canals, bridges and labour construction and rehabilitation	GRZ	72,377	2,285,333
		<b>79,554,829</b>	<b>65,522,904</b>

**Source:** Analysis of Vision 2030, 7NDP and 8NDP Implementation Plans (Constant 2024 Prices)

- **Education:** Zambia's national development plans view education as a cornerstone of human capital development with a consistent focus on improving access, quality, and relevance to the needs of the economy. The ambition was to improve access and quality of services (SDGs 3 and 4), with budgetary allocations aimed at expanding infrastructure and enhancing human capital [7].

By 2030, the education plan aims to establish a comprehensive and diversified curriculum that is responsive to the social and economic needs of the community. Key goals for basic and high school levels include improving net enrolment rates to 99% for basic school and enhancing learning conditions by reducing pupil-to-teacher ratios to 40:1 and 25:1, respectively. The plan also seeks to ensure a pupil-to-textbook ratio of 1:1 at the basic level, reduce the average distance to schools for learners, and work toward the total elimination of illiteracy. Finally, it targets an annual 2% increase in university and skills training output, while also increasing equitable access and maintaining quality standards.

Table 6 highlights the projected allocation, which signifies a massive pivot, with allocation projected to increase to almost 10-fold (from K20.9 Billion to K182.5 Billion), driven almost entirely by the introduction of direct grants for Primary & Secondary Education (the "Free Education" policy). Per the NDPs, funding was expected to be sourced from a mix of traditional and alternative finance mechanisms, including Public Private Partnerships.

**Table 6: Education Related Programmes 2017-2026**

<b>Programme Category</b>	<b>2017-2021 K'000</b>	<b>2022-2026 K'000</b>
Primary & Secondary education		143,037,367
Student access to loans for university education increased	9,622,987	33,969,654
Early childhood education		2,776,085
Enhance Private Sector Participation	29,751	1,214,067
Infrastructure Development	5,931,022	1,375,356
Enhance Access to Skills Training - TVET	2,119,800	27,706
Bursary and programme support for poor and vulnerable	1,876,672	
Continuous Review of Curriculum	600,567	15,045
Research and Development	603,488	25,360
Teacher Training, Recruitment and Deployment Improved	133,583	3,060
Investment in adult learning & Inclusive Education	48,199	57,631
Evidence based decision making strengthened	26,511	
	<b>20,992,580</b>	<b>182,501,332</b>

**Source:** Analysis of Vision 2030 7NDP and 8NDP Implementation Plans (Constant 2024 Prices)

- **Healthcare:** Zambia's development ambitions on health is anchored on goals such as reducing both under-five and maternal mortality rates, with targets of 50 per 1,000 live births and 180 per 100,000 live births, respectively. The plan also focuses on improving access to healthcare by increasing the proportion of rural households living within 5km of a health facility to 80% and by significantly reducing the population-to-doctor and population-to-nurse ratios to 5,000 and 700, respectively.

To achieve these goals, the 7 and 8 NDPs not only projected infrastructural development essential in health delivery but also came up with programmes aimed at improving healthcare services and expand capacity to increase access to quality care. Key programs include strengthening public health through initiatives like maternal and child health care promotion, disease prevention, and epidemic preparedness. It also focused on enhancing food security and nutrition by promoting school feeding programs and micro-nutrient fortification. Another key area of focus is to stop the spread of HIV/AIDS, tuberculosis and malaria.

The total estimated cost for these programmes was projected at K 36 Billion, with projected increase in allocation in the 8NDP, reflecting scaled-up financial commitment to health security, surveillance, as well as food security and nutrition as shown in Table 7 below.

**Table 7: Health Related Programmes 2017-2026**

<b>Programme Area</b>	<b>2017-2021 K'000</b>	<b>2022-2026 K'000</b>
1. Medicines & Medical Supply Chain	3,753,970	31,905,244
2. Infrastructure, Equipment & Transport	6,696,152	10,985,902
3. Nutrition & Food Security	180,505	8,574,678
4. Human Resources (HR)	6,728,067	4,310,062
5. Public Health, Disease Control & Operations	13,836,124	4,589,784
6. Information Systems (M&E)	45,212	608,529
	<b>31,240,031</b>	<b>60,974,199</b>

**Source:** Analysis of Vision 2030 7NDP and 8NDP Implementation Plans (Constant 2024 Prices)

## 1.2 Financing the Programmes

Zambia's development plans were underpinned by a flawed assumption about the change in global financing landscape and the macroeconomic conditions at the time of conceiving the development aspiration. This is seen in a strategic shift away from traditional concessional financing following debt cancellation under the Highly Indebted Poor Countries (HIPC) initiative in 2005.

This led to a deliberate pivot toward less-restricted, non-concessional commercial debt from both external private creditors and the domestic market [7], influenced by both the Zambian government's policy choices and the changing global lending landscape. Policymakers perceived that multilateral loans carried restrictive policy conditionalities that limited the government's flexibility in implementing its development agenda. The government's desire to gain independence from these conditionalities drove a pivot toward less-restricted, non-concessional commercial debt from both external private creditors and the domestic market [7, 8, 10, 11].

While Zambia's policy choices were a key driver, the shift was also heavily influenced by changes in the global creditor landscape. Following the HIPC initiative, the global creditor landscape for many developing countries like Zambia underwent a significant transformation. Paris Club bilateral creditors (developed countries) largely shifted from offering concessional loans to providing grants, partly due to negative experiences with debt write-offs. Rich lenders like the Paris Club also moved away from financing large-scale infrastructure projects. This created a gap in the concessional lending market.

At the same time, while multilateral creditors like the World Bank and IMF continued to lend, Zambia's government may have found their conditionalities too restrictive or the loan amounts too small relative to development needs. This situation encouraged the country to seek alternative financing sources.

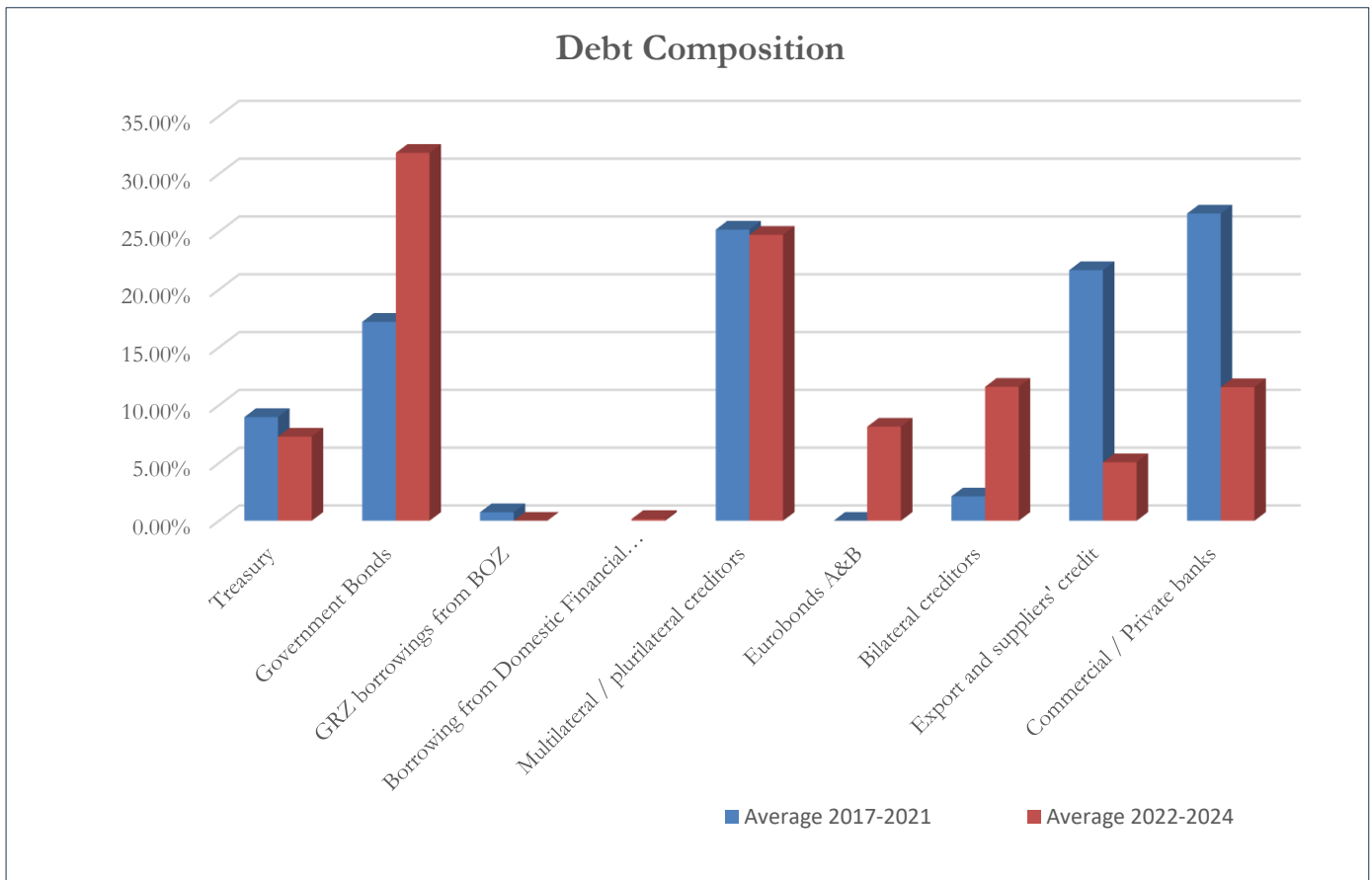
The resulting void was quickly filled by emerging creditors, most notably China, which provided large-scale infrastructure financing with fewer apparent conditionalities. Additionally, external and domestic private creditors entered the market, attracted by the high returns and the perception of Zambia's creditworthiness following the HIPC debt relief. This dynamic contributed to a dramatic increase in Zambia's debt from non-traditional sources.

This strategic shift was also heavily influenced by a political climate that leaned towards the desire to implement large-scale, highly visible infrastructure projects. These projects often required quick financing without the extensive due diligence and conditionalities associated with traditional development finance, making commercial loans more appealing.

This sharp increase in debt was driven by a notable change in the composition of Zambia's public debt. Figure 1 clearly shows the rise of non-concessional commercial and domestic borrowing. The composition of Zambia's public debt shifted dramatically, with commercial and domestic debt playing an increasingly prominent role, but also, exposed the economy to heightened refinancing risks and macroeconomic vulnerabilities.

The data on debt reveals a dramatic increase in both domestic and external borrowing from 2018 onwards. Domestically, borrowing from government securities alone increased from K20.2 billion in 2015 to K229.3 billion by 2024 at current prices (K20.2 billion in 2015 to K54.2 billion by early 2024 at Constant 2015 prices), while total public debt (which includes external debt) rose from K95.5 billion in 2015 to over K660 billion in 2024 (K95.5 billion in 2015 to K155.5 billion by early 2024 at Constant 2015 prices).

**Figure 1: Zambia’s Debt Composition 2015-2024**



**Source:** Authors’ analysis of Republic of Zambia’s Financial Reports 2015-2024

Zambia’s Vision 2030 came from a backdrop of tripling of the price of copper, cancellation of virtually all of external debt and a declining trend in inflation rates. It is worth noting that in the implementation framework of NDPs, the major funding source was stated as Government of the Republic of Zambia (GRZ), indicating the confidence in generating resources to achieve these objectives. Some key macroeconomic assumptions that proved to be inaccurate and contributed to the debt crisis include:

- Sustained High Copper Prices: The government’s plans were built on the assumption that high copper prices would continue to provide sufficient foreign exchange earnings to service the rising external debt [11,12]. However, after 2014, copper prices began to decline, straining the country’s fiscal position as it continued to borrow.

- Productive Use of Borrowed Funds: The assumption was that the borrowed funds would finance high return infrastructure projects that would generate revenue to repay the loans.

However, a significant portion of the debt was used for projects with unclear or long-term returns, and some was used for general government consumption. For example, over 40% of the \$750 million 2012 Eurobond was disbursed to ZESCO (the Zambian National Electricity Corporation) to finance the Kafue Gorge Lower Hydro Power Project. However, the project was commissioned after the bond had matured, failing to generate timely returns [12].

O Favourable Global Monetary Policy: The government was emboldened to enter commercial debts by low interest rates in the US, which made external borrowing more attractive. This led to the build-up of debt. However, when the US Federal Reserve began to raise interest rates, it triggered a crisis by increasing the cost of debt service and causing net portfolio outflows [11].

The government's plans, such as the 7NDP and 8NDP, aimed to achieve debt sustainability through a combination of fiscal consolidation, structural reforms, and a shift in financing sources.

- **Fiscal Consolidation:** Both the 7NDP and 8NDP aimed to reduce the fiscal deficit and limit borrowing. The 7NDP, for example, sought to bring the deficit to less than 3% of GDP by limiting domestic and foreign borrowing. The 8NDP had a similar goal of reducing the fiscal deficit to 3.6% of GDP by 2026 and containing domestic borrowing to less than 4.8% of GDP.

However, as the initial analysis shows, the government failed to adhere to this fiscal prudence. The government's need to "catch-up with the infrastructure backlog" resulted in large budget deficits becoming the norm from about 2011 onwards, a situation that had been building since the cash-budgeting era of the nineties.

- **Structural Reforms and Debt Management:** The plans also included structural reforms and a shift in debt management strategy. The government intended to use concessional resources as much as possible and only pursue non-concessional borrowing for projects with high rates of return. The 8NDP also planned to strengthen public finance management and enhance parliamentary oversight through revisions to the Loans and Guarantees (Authorisation) Act. Despite these stated intentions, the government's actions did not align with these plans.

For instance, the government issued three Eurobonds in quick succession to finance infrastructure, even as copper export earnings began to drop. Additionally, the legal framework for parliamentary oversight remained weak, allowing the executive to bypass proper checks and balances in contracting debt [12].

- **Diversification of Financing Sources:** Both plans aimed to diversify funding sources. The 7NDP relied on a mix of domestic revenues, grants, and controlled borrowing. The 8NDP aimed to leverage non-traditional sources like Public-Private Partnerships (PPPs) and green bonds to reduce reliance on traditional borrowing. However, the government's pursuit of these plans was undermined by a lack of transparency, particularly concerning borrowing from new creditors like China. The exact amount of Chinese debt was often unclear, making it difficult for domestic actors to ascertain the country's true debt situation. This opaqueness contributed to the debt build-up [13].

In summary, following the HIPC initiative, Zambia's external debt rapidly and unsustainably increased, reaching \$12 billion (130% of GNI) by 2019. This led to a default in 2020, just 14 years after the previous debt relief. This scenario was driven by flawed assumptions in the government's multi-annual plans for fiscal discipline. The plans failed due to a combination of external factors, such as volatile copper prices and shifts in US monetary policy, and internal issues, including a lack of transparency and ineffective parliamentary oversight.

### **1.3 Macroeconomic Assumptions and Debt Sustainability**

In this section analyzes the performance of key macroeconomic variables under the Eighth National Development Plan (8NDP) by comparing the plan's logical assumptions with the actual outcomes. It highlights the successes and challenges in achieving the targeted fiscal stability and economic growth. The viability for debt sustainability hinges on several key macroeconomic assumptions, all of which are interconnected. The data captured in Table 8 below presents the planning estimates of these measures, highlighting the difference between the plan's projections and the actual budgeted performance.

**Table 8: Macro Economic Indicators for 8NDP 2022 – 2026**

Macroeconomic Indicator	Baseline	Annual Targets	Annual Targets	Annual Targets	Annual Targets	Annual Targets
		2022	2023	2024	2025	2026
Real GDP growth (%)	4.6	3.6	3.6	4.3	4.5	4.7
GDP at Constant prices (2021) (ZMW, millions)	144,090	147,525	152,506.50	158,467.20	165,188.00	172,686.60
CPI inflation (end of period)	21.1	7	6-8	6-8	6-8	6-8
Share of Non-Traditional Earnings (NTEs) earnings as % total export earnings	24.9	>30	>30	>30	>30	>30
Trade balance (US\$ billion)	-1.52	-0.177	Positive	Positive	Positive	Positive
Public Debt (% of GDP)	>100	-	-	-	-	<65
Domestic revenue to GDP ratio (%)	17.5	>18	21.8	22.3	22.9	23
Overall fiscal deficit, including grants (% of GDP)	5.3	<3	7.7	5	3.1	2.5
Gross international reserves (months of Import cover)	>3	>2	>3	>3	>3	>3
Share of non-mining to GDP (%)	78.3	>80	>80	>80	>80	>80
Current account balance, including grants (% of GDP)	2	< (2.4)	>2	>2	>2	>2

**Source:** 8NDP Implementation Plan, ZamStats/MoFNP, BOZ

#### • Real GDP Growth:

The plan assumes a consistent increase in Real GDP growth from 3.6% in 2022 to 4.7% by 2026. Multi-annual plans show a fluctuating but generally positive trend, with growth at 3.5% in 2022, 4% in 2023, and a notable increase to 4.8% in 2024. This aligns with the NDP's foundational assumption that economic growth will increase the size of the economy and, in turn, reduce the debt burden.

#### • Public Debt and Fiscal Prudence:

The 8NDP worked on an assumption of a dramatic reduction of Public Debt burden from over 100% of GDP in 2022 to less than 65% by 2026.

#### •The Overall Fiscal Deficit and Domestic Revenue Mobilization:

The 8NDP contains a significant contradiction in its fiscal targets for 2022-2026. While the plan for domestic revenue mobilization is characterized by a steady and consistent upward trajectory, moving from 17.5% to a targeted 23.0% of GDP, the plan for the overall fiscal deficit is notably volatile. The deficit is not planned to decrease linearly; instead, it is set to rise from a planned

5.3% in a base year to a planned 7.7% in 2024 before a dramatic drop to 2.5% in 2026. This disconnect between a consistently increasing revenue plan and a fluctuating fiscal deficit plan reveals that the government's spending targets are not fully synchronized with its revenue goals, undermining the overall logic of a smooth path toward fiscal consolidation.

The plan aims for a continuous and robust increase in government revenue, which should naturally lead to a consistent reduction in the deficit (assuming constant or controlled expenditure). However, the plan for the deficit itself shows an increase in a key period (2022-2023). This implies a planned rise in government expenditure during that time that is large enough to outpace the planned increase in revenue.

In a logically sound fiscal plan, a steady increase in revenue would be the primary driver of a steady decrease in the deficit. The fact that the 8NDP plans for revenue to grow consistently while the deficit grows for a year before shrinking suggests that the government's spending and revenue targets are not fully synchronized. This makes the overall fiscal consolidation strategy less predictable and highlights that the plan is built on an assumption of significant and fluctuating non-revenue factors (most likely expenditure) that will influence the final fiscal balance. The plan for the deficit is therefore inherently unstable, despite the stability of its revenue mobilization component.

### 1.3.3: Macroeconomic Performance

Table 9 shows actual macroeconomic indicators for 2019–2024, which reveal a contrast between operational fiscal discipline and a volatile, ballooning debt burden. The government achieved a remarkable reduction in the fiscal deficit, bringing it down from a crisis peak of 9.3% in 2020 to just 4.8% in 2024, supported by resilient GDP growth of roughly 4% and a robust recovery in import cover. However, this deficit reduction masked an expansion in the debt stock.

The debt-to-GDP ratio underwent a volatile trajectory, surging from 34.00% in 2017 to a peak of 80.10% in 2020. While there was a notable reduction to 56.40% in 2022, the ratio surged again to 73.70% in 2023. This disconnect implies that despite efforts to reduce the fiscal deficit, external factors—such as rising interest rates and currency fluctuations—drove the total debt burden faster than repayment efforts or fiscal consolidation could control it. Consequently, the ambition of the multiannual plans remains constrained, as the target of reducing debt to less than 65% by 2026 has yet to be realized.

Furthermore, the data indicates that this fiscal consolidation was achieved through severe austerity that cannibalized social development. While donor grants provided a temporary buffer in 2022 (peaking at 5.42% of GDP), their sharp decline to 1.61% in 2024 forced the government to make deep cuts to maintain fiscal targets in the face of rising debt costs. Consequently, spending on critical human capital sectors was slashed between 2023 and 2024: Education fell from 3.90% to 2.74%, Health Care from 2.92% to 2.19%, and Agriculture from 1.84% to 1.24%. This confirms that the burden of servicing an enlarged debt stock has effectively crowded out essential public investment, forcing a stark trade-off between satisfying fiscal metrics and funding the real economy..

**Table 9: Macro Economic Performance Indicators for 2019 – 2024**

	2019	2020	2021	2022	2023	2024
Tax % GDP	17.19%	16.91%	18.84%	18.14%	17.68%	17.23%
Grants % GDP	0.57%	0.84%	2.41%	5.42%	4.84%	1.61%
Debt % GDP	50.2%	80.1%	71.5%	56.4%	73.7%	69.6%
Fiscal Deficit % GDP	6.5%	5.5%	9.30%	6.70%	7.70%	4.80%
Import Cover (Months)	2.1	2.4	4.4	3.8	3.7	4.6
Interest Rates	11.7%	19.2%	16.4%	9.9%	13.1%	16.7%
Domestic Revenue % GDP	18%	22%	18%	21%	20.9%	22%
GDP Growth Rate	2.0%	-3%	3.6%	5.2%	5.4%	4%
Sector Spending						
Education % GDP	3.39%	2.75%	3.12%	2.81%	3.90%	2.74%
Health Care% GDP	2.07%	2.14%	2.20%	2.17%	2.92%	2.19%
Agriculture% GDP	0.69%	1.07%	1.30%	2.05%	1.84%	1.24%
Social Protection% GDP	0.55%	0.01%	1.08%	0.97%	1.38%	1.31%
Water and Sanitation% GDP	0.05%	0.31%	0.30%	0.20%	0.16%	0.09%
Roads% GDP	0.90%			1.36%	0.18%	0.71%
Electricity% GDP	0.04%	0.09%	0.15%	0.06%	0.21%	0.10%

**Source:** Analysis of MoFNP Financial Reports and BOZ Annual Reports

#### 1.4 Multi-Annual Plans and Ambition

The period leading up to 2017 was marked by a deepening economic crisis in Zambia. Concerns were already being raised on the level and sustainability of Zambia's debt and unrealistic expectations in meeting the country's development agenda. For instance, as early as 2015, concerns were being raised about the sustainability of the country's debt due to a "quadruple crisis". This crisis included an 80% depreciation of the local currency, a severe electricity crisis, and a widening fiscal deficit that had grown from about 1% of GDP in 2011 to 6% by 2015. The situation was exacerbated by the issuance of three Eurobonds totalling US\$3 billion to fund infrastructure projects and a decline in international copper prices [11, 12].

Concerns also grew over the lack of transparency regarding Chinese loans to Zambia. It was estimated by the onset of the 8NDP the debt to China at around US\$4 billion, highlighting that the country was increasingly relying on high-interest commercial and non-concessional loans [13].

This lack of transparency, coupled with mismanagement of public finances, created an environment ripe for corruption and inflated project costs, with possible consequences of including debt default could lead to vulture funds and international creditors taking over Zambia's mineral resources [14]. The Zambian government was seen as fully responsible for the crisis, having ignored warnings from local economists, the opposition, and external advisors.

The 2021 general elections yielded a political transition from the Patriotic Front (PF) to the United Party for National Development (UPND). The Zambian government's strategy, as reflected in its annual budget speeches from 2017 to 2024 and in the shift in sectoral priorities from 7NDP to 8NDP described in Section 1.1, shifted away from expansionary development. Instead of relying on ambitious external fundraising, the government chose to prioritize internal reforms, fiscal discipline, and a more sustainable, domestically focused development model.

However, this defensive posture raised significant questions regarding the ambition of the plans themselves. When viewed against international benchmarks, such as the Sustainable Development Goals (SDGs), the targets set during this period appear modest and constrained. The period from 2017 to 2024 reflects a period of fiscal dualism across consecutive administrations. While the 2030 Agenda calls for aggressive scaling of social protection, universal health coverage, and quality education, the subsequent execution through annual Finance Acts was increasingly constrained by debt-servicing obligations.

The transition from the 2017–2021 planning cycle to the post-2021 framework marks a shift where austerity moved from a 'reactive necessity' in annual budgets to a 'formalized policy pillar' in the national strategy. The necessity of servicing an unsustainable debt burden forced a trade-off: the government could prioritize fiscal survival or developmental ambition, but not both. Consequently, the plans from 2017 to 2024 represent a "survivalist" strategy rather than an aspirational roadmap toward the SDGs.

## Summary of Reasons for Curtailed Ambition in External Funding

- **Debt Crisis and Unsustainable Borrowing** The heavy debt burden was a central factor limiting development. The government viewed national debt as a "constitutional and statutory obligation," which effectively cannibalized resources meant for the SDGs. An official from the Ministry of Finance explained that the "higher the national debt, the more likely it is to adversely impact public investment, especially in key priority sectors such as the social sector, as well as looking at infrastructure".

This was directly felt in sectors like health, where facilities could not be completed "because of lack of funding". The government's focus shifted from contracting new debt to managing existing obligations to "release cash" for development, and officials emphasized the importance of transparency in new borrowing arrangements.

- **Emphasis on Fiscal Discipline and Credibility:** Successive budgets prioritized restoring fiscal credibility. The government aimed to contain expenditure and enhance domestic revenue mobilization to reduce the fiscal deficit. The goal was to demonstrate a commitment to spending within means, which naturally depressed the ambition of development projects compared to what was required for poverty alleviation. An official from the Ministry of Finance stated that fiscal policy decisions were shaped by "the political side of things, the structural economic challenges as well as pressure from our cooperating partners".

- **Preference for "Homegrown" Solutions:** The government prioritized its own economic recovery programs, such as "Zambia Plus," as the primary drivers of growth. External support from institutions like the IMF was seen as a complement to these domestic efforts, not a foundation. This approach was particularly evident as the government engaged with the IMF for a program that would anchor debt restructuring, but only after implementing its own internal reforms. This inward-looking strategy, while sovereign, limited the scale of resources available for ambitious multi-year planning.

- **Unreliability of External Grants:** The 2018 budget speech noted that revenues were below target in 2017 partly due to the "non-disbursement of grants from cooperating partners". This unpredictability discouraged the government from building ambitious plans reliant on donor aid.

- **Strategic and Concessional Borrowing:** Instead of broad, ambitious external fundraising, the government became more selective. It canceled non-concessional loans and focused on securing highly favorable, long-term concessional loans from multilateral creditors for specific, high-priority projects. This was intended to build the country's capacity to service debt once it was restructured without adding to the debt burden. While prudent for debt management, this significantly reduced the volume of capital available for broad-based development initiatives.

- **Decentralization of Local Development:** In a significant policy shift, the government focused on decentralization, specifically by increasing the Constituency Development Fund (CDF) to empower local communities. The Center for Trade Policy and Development noted that this approach, while slow in some areas, was politically sensitive and designed to fund local infrastructure and create jobs using local labor, thereby reducing the need for large, centrally managed projects.

The government believes that CDF is a "game changer in many respects, including rural roads". However, critics note it may also be a way to manage lower central ambitions by shifting the burden of development execution to local levels, using smaller, labour-intensive projects rather than large-scale national infrastructure.

Table 10 below provides excerpts in budget speeches during this time, that provide the basis for the summary above.

**Table 10: Revenue Raising Rationale in Budgeting**

Year	Reason Category	Summary of Reasons	Excerpts of Budget Speeches
2017	Strategic & Homegrown Approach	The government's "Zambia Plus" program was a homegrown initiative, intended to be a foundation for stability rather than relying on external support. The Minister of Finance explicitly stated that no financing arrangements with the IMF had been agreed upon.	"Sir, turning the economy around requires that we make hard choices and implement difficult reforms." "I would like to reiterate that 'Zambia Plus's is a home-grown Economic Recovery Programme to be complemented by external support from our Cooperating Partners, including the International Monetary Fund (IMF)." "Sir, I would like to clarify that Zambia has not yet discussed any programme with the IMF. Therefore, there are no conditions or financing arrangements that have been agreed upon."

Year	Reason Category	Summary of Reasons	Excerpts of Budget Speeches
2018	External Factors & Fiscal Crisis	A revenue shortfall in 2017 was partly attributed to the "non-disbursement of grants from cooperating partners". This highlighted the unreliability of external grants. The government aimed to counter this by focusing on fiscal consolidation and slowing down the accumulation of new debt.	"Revenues and grants are projected to be below target by... on account of...the non-disbursement of grants from cooperating partners." "I will subsequently outline the measures we are undertaking to comprehensively deal with the issue of debt." "Slow down the contraction of new debt to ensure debt sustainability."
2019	Fiscal Crisis & Debt Management	The government pursued fiscal consolidation to address unsustainable debt and deficits. It aimed to increase domestic revenue to 18.7% of GDP and limited expenditure to reduce the fiscal deficit to 6.5% of GDP. The share of external grants was a small 2.2% of the total budget.	"The budget that seeks to progressively reduce the fiscal deficit, maintain a sustainable debt position and safeguard the vulnerability of our society." "The proposed measures will ensure that domestic revenue as a proportion of GDP increases to 18.7 percent from 17.7 percent in 2018." "Total resources... Domestic revenues account for 64.6 percent, while 2.2 percent is support from cooperating partners."
2020	Fiscal Crisis & Debt Management	The budget prioritized restoring fiscal health by addressing the debt overhang and dismantling domestic arrears. The government committed to postponing or canceling some pipeline loans and ceasing the issuance of new guarantees to reduce the debt burden. The strategy was centered on a "doing more with less" approach.	"The Budget... prioritize creating fiscal space, ensuring debt sustainability and dismantling domestic arrears." "The government will slow down external debt contraction; postpone or cancel some pipeline loans; cease the issuance of guarantees." "I have increased the allocation towards dismantling of arrears to K2.3 billion in 2020 from K437 million in 2019."
2021	Fiscal Crisis & Strategic Approach	The government's new Economic Recovery Programme was a homegrown strategy to address a growing external debt of US\$11.97 billion. It explicitly stopped contracting new commercial external debt, canceling US\$1.1 billion in pipeline loans, and saving US\$280 million from re-scoping projects. The focus was on local solutions and resilience.	"Government has developed a medium-term Economic Recovery Programme...It also contains measures to restore debt sustainability." "Government remains committed to restoring public debt sustainability...contraction of new commercial external debt has been stopped." "Sir, so far, US1.1billionpipelineloanshavebeencancelledandUS280.0 million has been saved from the re-scoping of projects."
2022	Fiscal Crisis & Strategic Approach	The new administration inherited an economy with "extreme indebtedness" and a fiscal deficit of 10.4% of GDP. It anchored its strategy on a new IMF-funded program to facilitate debt restructuring and release cash. A key, domestically focused policy was to take development "closer to the people" by significantly increasing the Constituency Development Fund (CDF) to K25.7 million per constituency.	"This Government has inherited an economy suffering from the effects of extreme indebtedness and COVID-19." "The fiscal deficit, on a cash basis, is projected at K39.0 billion or 10.4 percent of GDP..." "The New Dawn Administration is actively engaging the International Monetary Fund for a funded programme... Once attained, Zambia will be able to engage creditors to restructure its debt..." "The anchor... for the New Dawn Administration is taking resources closer to the people. To this end, we have significantly increased the Constituency Development Fund or CDF to K25.7 million per constituency compared to K1.6 million allocated in 2021."
2023	Fiscal Crisis & Debt Management	With an IMF-supported program in place, the government's focus was on using this anchor to unlock resources from other	"The Programme with the IMF has enabled Government to make progress in resolving the debt crisis. It has also helped to unlock resources from bilateral and multilateral development

Year	Reason Category	Summary of Reasons	Excerpts of Budget Speeches
		development partners and engage creditors on debt restructuring. It secured a US\$300 million concessional loan from the World Bank for farm block development, framing it as money borrowed on "very soft terms to create jobs and make money". This was a strategic use of external funds for productive purposes, rather than general expenditure.	partners to support our development agenda." "I am pleased to report that we have secured US\$300 million from the World Bank for the development of farm blocks..." "This is money we are borrowing on very soft terms to create jobs and make money for Zambia."
2024	Fiscal Crisis & Strategic Approach	The government's external debt was now "under control" after a restructuring agreement. The new budget focused on "Unlocking Economic Potential" by increasing domestic revenue to 79% of the budget. It continued to prioritize Public-Private Partnerships and further increased the CDF to K30.6 million per constituency to empower local communities and reduce reliance on external debt for infrastructure projects.	"Madam Speaker, Zambia's external debt is now under control following the debt restructuring agreement reached earlier this year." "The focus of the 2024 Budget is, therefore, to promote economic growth through enhanced private sector investment, increase production and productivity, and improve public service delivery." "I propose to increase the allocation to CDF to K4.8 billion...each constituency will receive K30.6 million from the current K28.3 million."

## 1.5: Conclusion

Zambia's development ambitions, particularly its ability to pursue external funding, have been significantly curtailed by a multi-faceted crisis of debt, fiscal mismanagement, and political pressures. The most prominent reason for this was the sheer scale of the nation's public debt, which was consistently described as a "constitutional and statutory obligation" that adversely impacted public investment in essential sectors like health and infrastructure. This reality forced the government to pivot away from ambitious fundraising and instead focus on managing existing obligations to "release cash" for development. This is evident from an official of the Ministry of Health who said, "some facilities that were started cannot be completed because of lack of funding". This context also reveals that, for many years, the government's approach was a strategic shift away from non-concessional loans towards more highly favourable, long-term concessional financing from multilateral partners.

The government's response, especially after 2020, was anchored in a renewed emphasis on fiscal discipline and homegrown solutions rather than a reliance on external funding. The political economy dictated that while certain reforms—such as phasing out fuel subsidies could be implemented, others in sensitive sectors like agriculture had to be approached with caution.

This political dimension, where, as one key informant put it, "the agricultural sector is where the votes come in from," illustrates a key constraint on the pace of reform. The government also prioritized domestic initiatives like the Constituency Development Fund (CDF), aiming to empower local communities and create jobs directly, effectively reducing the need for large, centrally managed projects that often depended on external loans. This strategy was seen as a "game changer in many respects" for local development, including rural roads.

In summary, Zambia's multi-annual plans, while setting ambitious goals aligned with global commitments like the SDGs, were continuously challenged by a volatile economic landscape and a deep-seated fiscal crisis. A conscious shift in strategy moved the focus from borrowing for development to a more disciplined, domestically funded, and transparent approach.

This recalibration of external partnerships meant that foreign support became a complement to internal reforms rather than a substitute for sound fiscal management. This new path aimed to address the nation's infrastructure and development needs in a manner that was financially sustainable and politically viable. However, the IMF's praise for Zambia's "broadly satisfactory" performance and commitment to reforms can be a "mirage of recovery". While macroeconomic indicators may show positive trends, the cost is often borne by the most vulnerable through cuts to social spending.

The protracted and back-and-forth negotiations under the G20 Common Framework, which kept the Zambian economy in a "standstill for over 3.5 years," highlight the weaknesses of the international financial architecture. This process demonstrates that the system is not designed for a timely resolution but rather to manage creditor interests. Ultimately, while Zambia has moved toward a more disciplined and domestically funded approach, its ability to fully address its infrastructure backlog and development needs remains constrained by an international financial system that prioritizes debt repayment over true financial sustainability and self-determination.

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## Section 2: Shocks - Analysis of the Impact of Shocks on Zambia's Fiscal Landscape

Zambia's macroeconomic landscape from 2019 to 2024 was significantly shaped by a series of internal and external shocks, which often derailed the government's multiannual plans and budgetary objectives. While initial economic strategies were designed to foster growth and stability, recurrent challenges such as adverse weather conditions, global commodity price volatility, and the unprecedented COVID-19 pandemic forced repeated course corrections.

These shocks had a direct impact on key economic indicators, causing frequent revisions to fiscal targets and monetary policy stances. The Government of Zambia (GRZ) and the Bank of Zambia (BoZ) consistently responded with measures aimed at fiscal consolidation, debt management, and buttressing the financial sector against further instability.

An analysis of annual performance against stated objectives reveals a clear pattern: ambitious growth, inflation, and fiscal deficit targets were frequently missed as shocks materialized. For instance, severe droughts in 2019 and 2024 negatively impacted the agriculture and energy sectors, directly leading to a contraction or slowdown in GDP and a surge in food and electricity prices.

The COVID-19 pandemic in 2020 amplified existing vulnerabilities, pushing the economy into a recession and culminating in a sovereign debt default. Furthermore, global commodity price fluctuations, particularly for copper, and a strong US dollar combined with pressures from servicing external debt regularly contributed to the Kwacha's depreciation and inflationary pressures, making it difficult for the BoZ to maintain price stability within its target band.

Despite these setbacks, the period also highlights moments of resilience and strategic shifts. Economic recovery began to take hold in 2021 and 2022, with GDP growth exceeding expectations, international reserves reaching historic highs, and inflation trending downwards. This was largely a result of favourable external conditions, successful fiscal consolidation efforts, and a positive change in market sentiment. While challenges persisted, the government's and the BoZ's responses, such as the "Zambia Plus" economic recovery program and the establishment of facilities to support key sectors, demonstrate a consistent, though often challenged, commitment to navigating a turbulent economic environment.

## 2.1 Key Impacts of Shocks and Government Responses (2020-2024)

Key Informant Interviews with government officials and civil society organizations provide additional context on how these shocks impacted government operations and service delivery.

### • Political and Fiscal Pressures

The government's fiscal policy and public investment priorities have been heavily influenced by a combination of political, structural, and external pressures. The national debt, considered a "constitutional and statutory obligation," often forced the government to reduce resources for public investment in critical sectors like health and infrastructure. An official from the Ministry of Health confirmed this, stating that many planned health facilities could not be completed "because of lack of funding".

### • Climate Shocks and Service Delivery

Climate shocks, such as drought, directly impacted agricultural production and food security. This led to a need for government interventions and adaptations. According to an official from the Ministry of Education, the government has responded by promoting investments in climate initiatives and exploring alternative funding options like grants and green bonds to avoid increasing the debt burden.

### • Inefficiencies and Mismanagement

Officials also highlighted internal inefficiencies and issues that hampered effective service delivery. A Ministry of Health official noted that many new medical equipment purchases "don't last" and that there is "some kind of inefficiency" in the procurement and supply chain process for medical supplies. This results in costly outsourcing to the private sector. Similarly, an official from the Ministry of Education noted a key challenge in enforcing good behaviour among teachers, particularly the practice of "teachers shunning rural places" despite large investments in the education sector [1].

### • Challenges in Policy Reforms

While the government has initiated economic reforms, their implementation has sometimes been slow due to political factors. An official from a Civil Society Organization (CSO) explained that reforms in the agricultural sector, such as the transition to an e-voucher system, have been sluggish because the sector is politically sensitive. As the official put it, "any citizen would understand that the agricultural sector is where the votes come in from" and "you don't want to sort of mess around with the agricultural sector" for fear that "the farmers might rebel". This suggests a balancing act between implementing necessary reforms and managing public perception and political support.

Table 11 provides a summary of the multi-annual plans, and a chronology showing the shocks in each year, and how the GRZ and BOZ responded to these shocks.

**Table 11: Macroeconomic Objectives vs. Actual Outcomes 2017-2024**

Year	Indicator	Planned	Actual	Performance against Target
2017	Real GDP Growth	At least 3.4%	4.10%	Exceeded. Economic growth was stronger than projected.
	End-Year Inflation	No more than 9.0%	6.10%	Met. Inflation fell within the target range set by the Bank of Zambia.
	Overall Fiscal Deficit	No more than 7.0% of GDP	6.1% of GDP (preliminary), but likely to be revised upwards to above 7.0%	Missed (after revision). The deficit was likely to be revised upward due to higher than projected foreign loan drawdowns.
2018	Domestic Borrowing	No more than 2.0% of GDP	4.9% of GDP (at K11.9 billion)	Missed. Domestic financing was significantly higher than planned due to lower than programmed external financing.
	International Reserves	At least 3 months of import cover	2.9 months of import cover	Missed. Reserves declined primarily due to external debt service payments.
	Real GDP Growth	At least 5.0%	3.70%	Missed. Growth picked up but was lower than the target.
	End-Year Inflation	6.0% to 8.0%	7.90%	Met. Inflation was broadly within the target range for most of the year.
	Overall Fiscal Deficit	No more than 6.1% of GDP	7.6% of GDP	Missed. The deficit was higher than projected due to increased spending on capital projects and interest payments.
	Domestic Borrowing	No more than 4.0% of GDP	not explicitly stated as a percentage of GDP, but total domestic debt in the form of Government securities increased by 20.5% to K58.3 billion	Missed (based on available data). The outstanding stock of government securities increased by 20.5%.
2019	International Reserves	At least 3 months of import cover	1.8 months of import cover	Missed. Reserves continued to decline, falling short of the target.
	Real GDP Growth	At least 4.0%	2.00%	Missed. Growth slowed down due to adverse weather, electricity load shedding, and a decline in agriculture and mining output.
	End-Year Inflation	6.0% to 8.0%	11.70%	Missed. Inflation breached the upper bound and ended the year significantly higher than the target range.
	Overall Fiscal Deficit	6.5% of GDP	8.2% of GDP	Missed. The deficit was higher than planned due to higher-than-programmed spending on capital projects and external debt service.

Year	Indicator	Planned	Actual	Performance against Target
	International Reserves	At least 3 months of import cover	2.1 months of import cover	Missed. Reserves declined and remained below the target.
	External Debt Stock	Reduce the pace of debt accumulation and ensure sustainability	Increased to US	10.23billionbyruid-year andUS11.7 billion by year-end
2020	Real GDP Growth	At least 3.0% (initial), revised to -4.2%	-3.00%	Missed. The economy contracted for the first time since 1998, though the recession was less severe than the revised projection.
	End-Year Inflation	6.0% to 8.0%	19.20%	Missed. Inflation was well above the target range, mainly due to Kwacha depreciation and rising energy prices.
	Overall Fiscal Deficit	5.5% of GDP	14.2% of GDP	Missed. The deficit was significantly higher than planned due to increased spending and weakened revenue from the COVID-19 pandemic.
	International Reserves	At least 2.5 months of import cover	2.4 months of import cover	Missed. Reserves declined and fell slightly short of the target due to external debt service payments.
2021	Real GDP Growth	At least 1.8%	3.60%	Exceeded. The economy rebounded strongly, surpassing the target.
	End-Year Inflation	Reduced towards the 6-8% target band	16.40%	Missed. Inflation remained above the target band throughout the year.
	Overall Fiscal Deficit	9.3% of GDP	9.0% of GDP	Exceeded. The deficit was slightly lower than the target due to strong revenue performance.
	International Reserves	At least 2.5 months of import cover	4.4 months of import cover	Exceeded. Reserves rose significantly, largely due to an IMF SDR allocation.
2022	Real GDP Growth	At least 3.5%	5.20%	Exceeded. Economic growth was faster than the target, driven by strong performance in several sectors.
	End-Year Inflation	Single digits by year-end (9.9%)	9.90%	Met. Inflation successfully fell within the single-digit target.
	Overall Fiscal Deficit	No more than 6.7% of GDP	7.8% of GDP	Missed. The deficit was higher than planned due to increased spending, particularly on agricultural inputs.
	International Reserves	At least 3 months of import cover	3.8 months of import cover	Exceeded. Reserves were above the target, boosted by project receipts and an IMF Extended Credit Facility disbursement.
2023	Real GDP Growth	At least 4.0%	5.40%	Exceeded. The economy grew at a faster pace than planned.

Year	Indicator	Planned	Actual	Performance against Target
	End-Year Inflation	Within the 6-8% target band	13.10%	Missed. Inflation remained above the target range, influenced by Kwacha depreciation and higher food prices.
	Overall Fiscal Deficit	No more than 7.7% of GDP	5.7% of GDP	Exceeded. The deficit was lower than projected, reflecting fiscal consolidation efforts.
	International Reserves	Above 3.0 months of import cover	3.7 months of import cover	Exceeded. Reserves increased and surpassed the target, aided by IMF and World Bank disbursements.
2024	Real GDP Growth	At least 4.8%	4.00%	Missed. Growth was below the target due to the severe drought, which affected agriculture and electricity generation.
	End-Year Inflation	6.0% to 8.0%	16.70%	Missed. Inflation remained well above the target band, driven by rising food and electricity prices.
	Overall Fiscal Deficit	4.8% of GDP	3.5% of GDP	Exceeded. The deficit was lower than the target due to expenditure containment measures.
	International Reserves	Above 3.0 months of import cover	4.6 months of import cover	Exceeded. Reserves increased and surpassed the target, supported by IMF disbursements and project receipts.
	Domestic Borrowing	No more than 2.5% of GDP	2.2% of GDP	Exceeded. The government successfully limited its domestic borrowing to below the planned figure.

**Source:** Analysis of BOZ Annual Report 2017-2024, GRZ Budget Speeches 2017-2024

To better understand why the multi-annual plans, differ from actual performance, Table 12 provides a chronology of "layered crises" that had profound impacts on its fiscal stability and ability to implement its development plans.

Table 12: Timeline of Shocks 2020-Present

Year	Category of Shock	Impact	Timeline	Impact on Budget Cycle
2020	Climate	Poor rainfall in the 2018/2019 rainy season led to reduced agricultural production and lower electricity generation, contributing to a slowdown in economic growth to 2% from an initial projection of 4%.	Effects were felt throughout 2019, leading to a downward revision of the growth forecast.	Execution (2019): These shocks created challenges for implementing the 2019 budget, leading to higher-than-programmed debt payments and subdued economic growth.  Preparation (2020): The 2020 budget was prepared in response to these challenges, with a focus on creating fiscal space and ensuring debt sustainability.
	Commodity Prices	A fall in global demand resulted in lower prices for copper (averaging \$6,091/t compared to \$6,723/t in 2018) and crude oil (averaging \$63/barrel compared to \$71/barrel) during the first eight months of 2019. This led to a decline in copper export earnings and subdued economic growth.	January to August 2019.	
	Exchange Rate & Interest Rates	The Kwacha depreciated by 9.4% against the US dollar. This contributed to higher-than-programmed external debt service payments. Inflation rose to 9.3% by August 2019, driven by higher food prices and the Kwacha's depreciation, leading to an increase in the policy rate to 10.25%.	The depreciation occurred from December 2018 to August 2019.	
	Financial Sector	Tight liquidity conditions, attributed to external debt servicing and the accumulation of domestic arrears, also contributed to subdued economic growth.	Throughout 2019.	
2021	COVID-19 Pandemic	The pandemic was a health crisis that also severely impacted the economy, causing a contraction in global business activity, job losses, and lower domestic revenue collections. This led to a projected negative real GDP growth of	4.2% in 2020, the first recession since 1998.	Execution (2020): The pandemic severely disrupted budget execution, leading to a rise in the fiscal deficit and

Year	Category of Shock	Impact	Timeline	Impact on Budget Cycle
	Commodity Prices	Prices were volatile in 2020, with copper averaging \$5,500/t in the first half (compared to \$6,200/t in 2019) and crude oil averaging \$41/barrel (compared to \$66/barrel) due to reduced global demand and supply-chain disruptions.	The fall in prices was noted in the first half of 2020, with a recovery starting later in the year.	major expenditure realignments.  Preparation (2021): The 2021 budget was a direct response to these shocks, with a theme of "Stimulate Economic Recovery and Build Resilience" and a new Economic Recovery Programme.
	Exchange Rate & Inflation	The Kwacha depreciated by	41.9% against the US dollar between December 2019 and September 2020. Inflation exceeded the 6-8% target, averaging 15.0% in the first 8 months of 2020, driven by the Kwacha's depreciation and higher food prices.	
2022	COVID-19 Pandemic	The economy was recovering from the pandemic, but lingering effects and successive waves continued to create uncertainty. The tourism sector was still severely hit, requiring an extension of relief measures for another year.	The effects were still being felt throughout 2021.	Execution (2021): Revenue performance was favorable, but overspending on subsidies and election-related costs created an unfavorable overall budget performance and fiscal deficit.
	Commodity Prices	As the global economy recovered, commodity prices maintained an upward trend. The average price of copper was	\$9,194 per tonne from Jan-Sept 2021, compared to \$5,834 in 2020. Crude oil prices also rose to an average of	Preparation (2022): The 2022 budget was designed to leverage the positive economic signals (commodity boom, recovery) while addressing the persistent challenges of high debt, inflation, and fiscal deficits.
	Exchange Rate & Inflation	The Kwacha appreciated by	22.4% between December 2020 and September 2021, mainly due to improved portfolio investment flows. However, consumer price inflation averaged	
2023	Global Economic	Three notable events dragged global growth down in 2022: the Russia-Ukraine conflict, partial COVID-19 lockdowns in China, and tighter financial conditions in advanced economies. These events led to a downward revision of global growth to 3.2% from 6.1% in 2021.	The effects were felt throughout 2022.	Execution (2022): The budget faced external headwinds, particularly on commodity prices and supply chains.

Year	Category of Shock	Impact	Timeline	Impact on Budget Cycle
	Commodity Prices	Weaker global growth contributed to a decline in commodity prices, with copper weakening to an average of	\$7,422/t in September 2022 from \$9,550/t in December 2021. Crude oil prices also rose to an average of \$104.97/barrel in the first half of 2022, causing higher domestic fuel prices.	Preparation (2023): The 2023 budget was prepared with the theme "Stimulating Economic Growth" to address these outstanding issues and consolidate recent stabilization gains.
	Domestic Production & Climate	Economic growth in 2022 was projected to slow to 3.0% (from 4.6% in 2021), mainly due to lower output in agriculture caused by a late onset of rain, drought, and flash floods.	The slowdown was evident in 2022.	
2024	Global Economic	Global economic growth was expected to slow to 3.0% in 2023 from 3.5% in 2022 due to the Russia-Ukraine war, monetary tightening, and adverse climate effects. This led to a downward trend in commodity prices.	The effects were felt in the first nine months of 2023.	
	Commodity Prices	Copper prices declined to an average of	\$8,589 per metric tonne (from \$9,084 in 2022) and crude oil prices reduced to an average of \$82.8 per barrel (from \$104.6 in 2022) during the first nine months of 2023. This contributed to a narrowing of the trade surplus.	
	Domestic Production	Economic growth was projected to slow to 2.7% in 2023 from 5.2% in 2022. This was mainly attributed to reduced production in the mining sector due to operational challenges and flooding. This also impacted foreign exchange inflows.	The slowdown was noted in 2023.	
	Exchange Rate & Inflation	Inflation edged upwards to	12.0% in September 2023 from 9.9% in December 2022, driven by increased prices for maize and meat products and the depreciation of the Kwacha.	

**Source:** Analysis of Yellow Books 2019-2024, BOZ Annual Report 2019-2024, GRZ Budget Speeches 2019-2024

## Primary and Budget Balance

The Budget Balance represents the difference between a government's total revenue and its total expenditure, including interest payments on debt. The data, represented by the green line, shows a persistent negative balance or deficit for most of the period. This means the government consistently spent more than it collected, necessitating further borrowing. A notable exception is the year 2020, which shows a significant surplus. This surplus is likely a direct result of the Debt Service Suspension Initiative (DSSI), which temporarily halted interest payments on external debt, thus improving the overall budget balance.

## The Primary Balance and Debt Burden

The Primary Balance (represented by the green line in Figure 2) has remained largely positive for nearly a decade. This indicates that, excluding debt service obligations, the government's core revenue has generally been sufficient to cover its non-interest operational expenditures. While the primary balance has been a surplus since the onset of the 7<sup>th</sup> NDP, the data points to a decline toward 2024. This negative trajectory is concerning because a shrinking primary surplus suggests that fundamental spending is beginning to outpace revenue generation, even before debt is factored in.

This deviation is particularly notable given that the IMF program typically conditions its support on maintaining a positive primary surplus, with interpretation of failing to meet this suggesting underperformance in revenue generation or government struggling to shed off non-interest spending, often exacerbated by external shocks like the 2024 drought and the necessity of maintaining minimal social protection floors. It should be noted that the budget deficit figures presented here may differ from central bank (BOZ) reporting. While BOZ typically utilizes an accrual basis, the data in Figure 2 reflects Government of the Republic of Zambia (GRZ) financial reports, which utilize a cash basis. This distinction is critical for understanding budget execution: while accruals represent economic theory and obligations, the cash basis reflects the liquidity management and lived reality of the treasury—highlighting what was actually paid versus what was owed.

The Budget Balance (represented by the orange line) tells a different story to the primary balance. While the primary balance is improving, the overall budget remains in a persistent deficit, projected at approximately 3.0% of GDP by the end of 2024. The gap between these two lines represents Interest Payments.

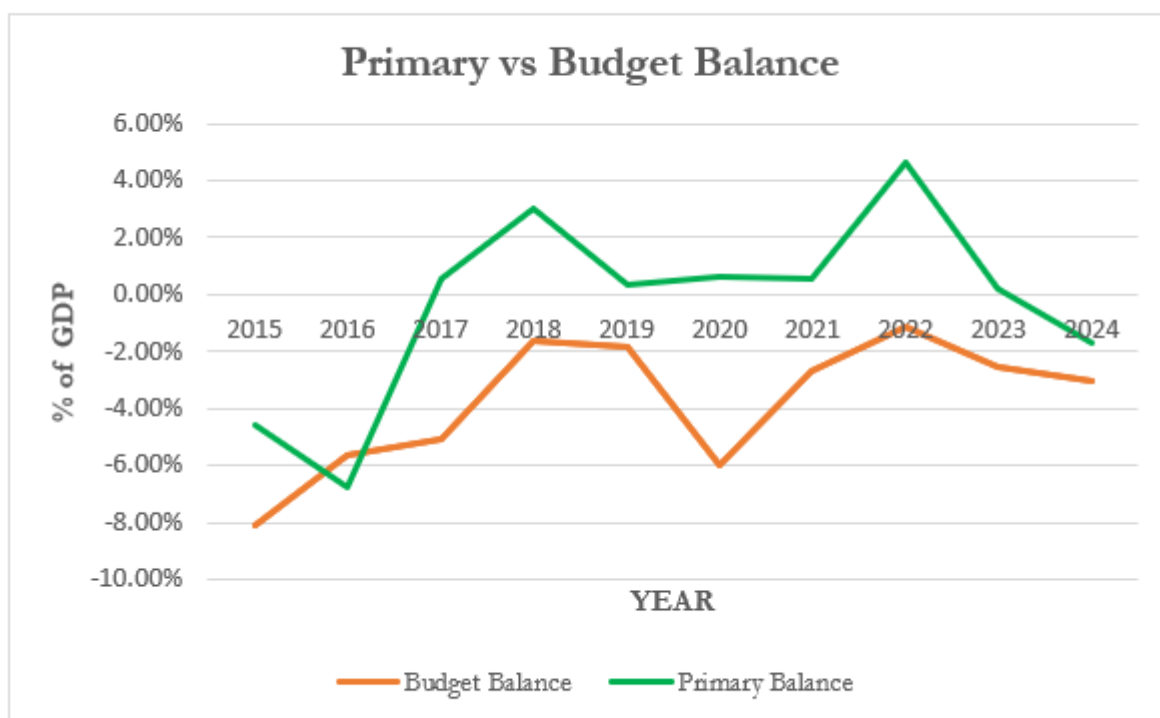
Historically, this gap was driven by high debt service costs. Notably:

- The 2020 Stability: Despite the COVID-19 "spending push," the primary balance remained relatively stable because the collapse of the construction and roads budget effectively froze many capital projects, resulting in a reallocation of funds rather than a massive net expenditure increase.
- The 2022 Interest Spike: A huge gap remained in 2022. While the Debt Service Suspension Initiative (DSSI) provided relief for bilateral debt, it did not cover commercial or domestic debt. Consequently, interest payments remained high as the government continued to service its domestic securities.
- 2023–2024 Convergence: Interestingly, interest payments (the gap) appear to narrow in 2023 and 2024 despite rising global interest rates. This is largely attributed to debt restructuring efforts aimed at securing rates below market peaks and a strategic shift in liquidity management.

We observe a sharp deterioration of the Primary Balance (green line), which plummeted from a healthy surplus of approximately 4.6% in 2022 to a deficit of about 1.7% in 2024. Consequently, the gap between the Primary Balance and the Overall Budget Balance (orange line) has narrowed significantly toward the end of 2024. In previous years (like 2022), a large gap existed, indicating that high interest payments were the main cause of the budget deficit. However, by 2024, this dynamic shifted.

The narrowing gap coupled with the decline of both lines into negative territory suggests that the fiscal deterioration is no longer just about debt service costs. Instead, the government has slipped into a primary deficit, meaning that core revenue is no longer sufficient to cover even basic non-interest expenditure. This convergence indicates that fiscal slippage—likely driven by the drought response and revenue shortfalls—has become the dominant driver of the deficit, rather than interest payments alone.

**Figure 2: Primary Vs Budget Balance 2015-2024**



Source: Author's analysis of Republic of Zambia's Financial Reports 2015-2024

## 2.2 Main Fiscal Measures Taken in Response to Shocks

Between 2020 and 2024, Zambia's government implemented a series of fiscal measures to navigate significant economic challenges, including a crippling debt crisis, the global COVID-19 pandemic, and the impacts of climate change. Each year's budget addressed the most pressing issues of the time, demonstrating a strategic shift from immediate crisis management to long-term economic transformation.

The fiscal policies evolved from stabilizing a volatile economy and addressing the pandemic's fallout to focusing on debt restructuring, increasing social spending, and fostering private sector investment. This period saw key initiatives such as increasing the Constituency Development Fund (CDF) to empower local communities, recruiting a record number of public workers, and providing targeted tax incentives to stimulate growth in critical sectors like mining and agriculture. These measures were designed to unlock the country's economic potential, create jobs, and improve the livelihoods of its people. Table 13 below provides a list of shocks and the fiscal measures taken in response to them.

**Table 13: Fiscal Measures in Response to Shocks 2020-Present**

Year	Primary Shocks and Challenges	Fiscal Measures and Responses
2020	Global Slowdown, High Debt, Climate Change, COVID-19. The economy faced a contraction due to the global economic slowdown, an inherited debt burden, and domestic issues like adverse weather affecting agriculture and energy. The COVID-19 pandemic further exacerbated these issues, leading to lower revenue collection.	<p><b>Increased Spending to Mitigate Shocks:</b> The budget addressed climate change by investing in climate-smart agriculture and irrigation projects to reduce reliance on rain-fed farming. To tackle the pandemic, the budget was realigned to increase resources for the health sector.</p> <p><b>Revenue and Debt Management:</b> The government maintained the existing Value Added Tax (VAT) system after public consultation, opting to improve compliance rather than introducing a new sales tax. A COVID-19 bond was issued to raise domestic funds for dismantling arrears, paying VAT refunds, and supporting small and medium-sized enterprises (SMEs). The government also aimed to slow down debt accumulation.</p>
2021	Ongoing COVID-19 Pandemic, Elevated Debt Crisis, and Rising Inflation. The economy was still recovering from the pandemic, with sectors like tourism being hit particularly hard. Inflation was high, averaging 15.0% in the first eight months of the year, driven by energy and food prices. The national external debt stock increased to US\$11.97 billion.	<p><b>Social and Economic Support:</b> The government launched an Economic Recovery Programme to stimulate growth and protect the vulnerable. The number of households on the Social Cash Transfer Programme was increased to 994,000, and the transfer value was raised. The budget also allocated K1.1 billion to the Food Security Pack Programme.</p> <p><b>Debt and Tax Measures:</b> The government actively engaged with the G20's Debt Service Suspension Initiative to secure debt relief. To aid the tourism sector, corporate income tax for hotels and lodges was reduced from 35% to 15%.</p>
2022	Extreme Indebtedness, Lingering COVID-19, and High Cost of Living. The new administration inherited an economy with unsustainable debt levels, a constrained fiscal space, and high inflation. The fiscal deficit was projected at 10.4% of GDP. The government's challenge was to rebuild the economy, create jobs, and improve livelihoods.	<p><b>Fiscal Prudence and Social Investment:</b> The government committed to restoring fiscal and debt sustainability and engaged with the IMF for an Extended Credit Facility (ECF) program. A key measure was a dramatic increase in social spending. The government hired 30,000 teachers and 11,200 health personnel to address staff shortages. The Constituency Development Fund (CDF) was increased to K25.7 million per constituency from K1.6 million, and its scope was broadened to include bursaries and empowerment schemes.</p> <p><b>Tax and Revenue:</b> The PAYE tax-exempt threshold was raised to K4,500. Mineral royalty deductibility for corporate income tax was reintroduced to attract investment in the mining sector.</p>
2023	Global Inflationary Pressures, Domestic Food Supply Shocks. Global growth was down due to international conflicts and financial tightening, affecting commodity prices. Domestically, food prices, particularly maize, rose due to the late onset of rains and other weather-related issues, driving up inflation. The country's debt situation was a major constraint.	<p><b>Expenditure and Debt Resolution:</b> The budget prioritized stabilizing the economy by securing an IMF ECF arrangement, which anchored the debt restructuring process. The government aimed to reduce the fiscal deficit to 7.7% of GDP from 9.8%. To tackle inflation and food prices, the government standardized VAT on petrol and diesel, arguing this would free up resources from inefficient subsidies to fund social programs like free education.</p> <p><b>Social Measures:</b> The allocation for dismantling domestic arrears was increased to K6.8 billion. Pension arrears under the Public Service</p>
		Pensions Fund were cleared, and the government began to address the backlog for the Local Authorities Superannuation Fund.
2024	Drought and its Impact on Food and Energy, Currency Depreciation, Cost of Living. The economy experienced a slowdown due to reduced mining production and the adverse effects of drought, which impacted agriculture and electricity generation. Inflation edged up to 12% driven by food prices and the depreciation of the Kwacha. The government's theme was "Unlocking Economic Potential" to build on its recent stability.	<p><b>Targeted Interventions and Growth:</b> The government aimed to reduce the fiscal deficit to 4.8% of GDP and limit domestic borrowing. It increased the allocation to the Constituency Development Fund (CDF) to K4.8 billion, a 7% increase from 2023, to support community projects and entrepreneurship.</p> <p><b>Food and Energy Security:</b> To address high meal prices, the government released maize stocks from the Food Reserve Agency (FRA) for community milling. It also provided incentives for local manufacturers to produce fertilizer, which had seen a significant price reduction. The government invested heavily in farm blocks, roads, and irrigation infrastructure to boost agricultural production and reduce climate vulnerability.</p>

Source: Analysis of BOZ Annual Report 2019-2024, GRZ Budget Speeches 2019-2024

## 2.3 Sectoral Performance

The data reveals that government spending across all seven key sectors discussed earlier consistently fell short of budget allocations from 2017 to 2024. This trend highlights the persistent fiscal pressures and the gap between development ambitions and financial realities. Despite increases in planned budgets over the years, actual expenditures were constrained, a pattern consistent with the fiscal consolidation and debt management strategies.

This is as a result of Zambia operating a cash budget system which means that if tax payments are low and debt payments high in a particular month, treasury does not release funds to ministries. For example, in the case of a sector like education, the ministry may have the administrative capacity to build a school, implement the plan etc, but if funds are not released, the variance appears and is disguised as underspending. Below is a breakdown of the performance for each sector. Results are presented in constant 2024 prices/real terms:

### Sectoral Performance: 2017-2024

Figure 3 and Table 14 show that there were fiscal volatility and evidence of fiscal contraction in 2024. While the 2021–2023 period showed signs of recovery and increased spending in key sectors, 2024 marks a sharp reversal, with the economy (GDP) contracting by 7% and nearly every major sector facing double-digit spending cuts.

1. The fiscal cliff is explicit from the contraction in most sectors in 2024. This coincides with a 7% decline in real GDP and enactment of austerity measures across all sectors covered in the analysis:

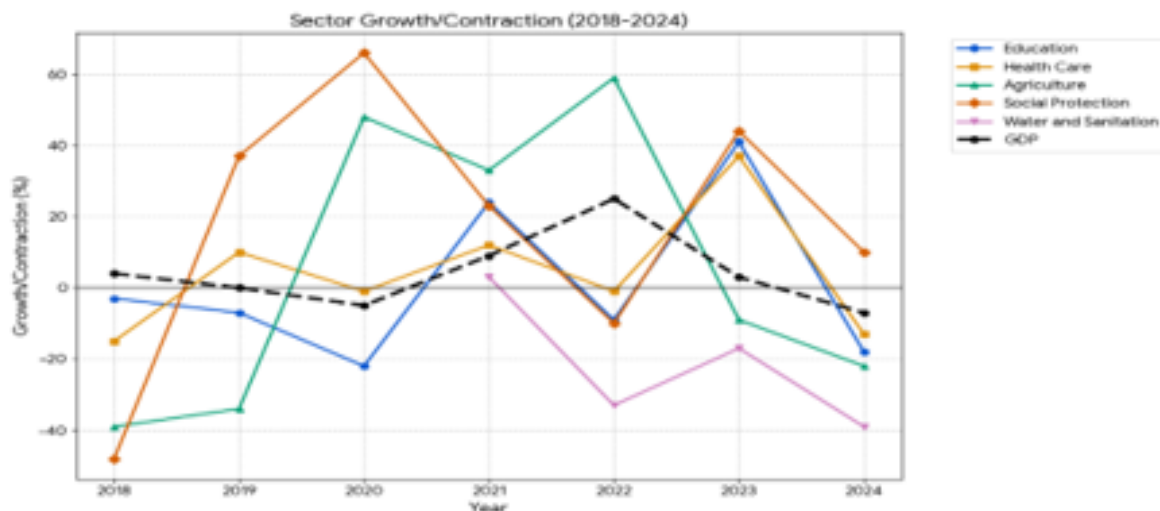
- **Human Capital Reversal:** After a massive surge in 2023 (where Education grew 41% and Health 37%), both sectors faced deep cuts in 2024 (-18% and -13% respectively). This unreliable/stop go funding creates instability, making it difficult to sustain the improvements made in the previous year.
- **Productive Sector Collapse:** Agriculture contracted 22% in 2024. Given the backdrop of the drought in the previous year, withdrawing funding from the sector during a crisis likely exacerbated the economic contraction.

2. Social Protection: Social Protection is the only primary sector (outside of the volatile Roads category) to register growth in 2024 (+10%).

3. There is also instability in infrastructure planning:

- Water and Sanitation: This sector contracted for three consecutive years (2022–2024), with the cuts intensifying to -39% in 2024.

**Figure 3: Sectoral Performance-2024<sup>1</sup>**



**Source:** Analysis of BOZ Annual Report 2019-2024 & GRZ Financial Reports

**Table 1: Fiscal Measures in Response to Shocks 2020-Present**

Sector	Growth/Contraction						
	2018	2019	2020	2021	2022	2023	2024
Education	-3%	-7%	-22%	24%	-9%	41%	-18%
Health Care	-15%	10%	-1%	12%	-1%	37%	-13%
Agriculture	-39%	-34%	48%	33%	59%	-9%	-22%
Social Protection <sup>1</sup>	-48%	37%	-98%	12184%	-10%	44%	10%
Water and Sanitation	-	-	-	3%	-33%	-17%	-39%
Roads	-	-	-	-	-	-87%	360%
Electricity	-4%	-8%	107%	88%	-57%	231%	-45%
GDP, constant 2024 price	4%	0%	-5%	9%	25%	3%	-7%

**Source:** Analysis of BOZ Annual Report 2019-2024 & GRZ Financial Reports in Constant 2024 Prices

## 2.5 Conclusion

Zambia's multi-annual plans set ambitious goals, but their implementation was continuously challenged by a volatile economic landscape and a deep-seated fiscal crisis. A strategic shift moved the focus from borrowing for development to a more disciplined, domestically funded, and transparent approach. This recalibration meant that foreign support became a complement to internal reforms rather than a substitute for sound fiscal management. This new path aimed to address the nation's infrastructure backlog and development needs in a way that was financially sustainable and politically viable.

However, the IMF's praise for Zambia's "broadly satisfactory" performance and commitment to reforms can be a "mirage of recovery". While macroeconomic indicators may show positive trends, the cost is often borne by the most vulnerable through cuts to social spending. The protracted and back-and-forth negotiations under the G20 Common Framework, which kept the Zambian economy in a "standstill for over 3.5 years," highlight the weaknesses of the international financial architecture.

This process demonstrates that the system is not designed for a timely resolution but rather to manage creditor interests. Ultimately, while Zambia has moved toward a more disciplined and domestically funded approach, its ability to fully address its infrastructure backlog and development needs remains constrained by an international financial system that prioritizes debt repayment over true financial sustainability and self-determination.

Analysis of actual data, captured in Figure 4 and Table 14 suggests that the fiscal consolidation in 2024 was not achieved through gradual efficiency gains, but through a shock contraction. The government essentially erased the spending growth of 2023 to manage the economic shrinkage of 2024, sacrificing investment in Health, Education, and Agriculture while attempting to maintain a basic safety net through Social Protection.

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## Section 3: IMF to the Rescue?

### 3.1 The IMF Program's Impact on Fiscal and Sectoral Policy

The IMF program, initiated in 2022, marked a fundamental policy shift for Zambia, moving the government away from an unsustainable fiscal trajectory and toward fiscal consolidation. This change was a direct response to the debt crisis that saw the country default in 2020 and a clear departure from the government's pre-negotiation budget plans. The IMF's Extended Credit Facility (ECF) arrangement was approved by the IMF Board of Directors on August 31, 2022, nearly two years after Zambia's sovereign debt default in November 2020. The program was set for a duration of 38 months, running from 2022 to 2025.

#### 1. Policy Shift and Fiscal Balances

Prior to the IMF engagement, the government's budget plans were based on an "expansionary fiscal policy," where the government consistently spent more than it was collecting, leading to debt accumulation and unsustainable debt levels. The fiscal deficit for 2020 was projected to rise to an unsustainable 14.2% of GDP against an original target of 5.5%. This policy shift necessitated a fundamental change toward fiscal consolidation because, in the words of a government informant, "the path at which we were was unsustainable".

This policy change, whose primary goal was to restore macroeconomic stability and reduce the budget deficit, was primarily achieved through:

- Expenditure Rationalization: This included the "removal of fuel subsidies, as well as the moving towards the cost-reflective electricity tariffs".
- Revenue Mobilization: The government undertook to strengthening the Zambia Revenue Authority's (ZRA) ability to collect revenues by encouraging them to introduce electronic tax systems as well as widening the tax base.

The government's commitment to fiscal consolidation is evident when comparing budget targets (See Table 11 in Section Two). The 2021 budget aimed for a fiscal deficit of 9.3% of GDP, while the first budget under the new administration, for 2022, set a lower target of 6.7% of GDP. Although the actual deficit for 2022 was higher than planned at 7.8% of GDP, partly due to the war in Ukraine affecting the cost of agricultural inputs, the 2023 deficit ended at 5.7% of GDP, below the target of 7.7%.

A notable consequence of the IMF reforms was a disconnect in understanding of fiscal consolidation at the ministry level. The Ministry of Finance, focused on broader economic objectives and using tools like performance-based budgeting to control spending, often clashed with line ministries. These ministries, with their deep understanding of their sectors, felt their ability to deliver programs was compromised by external expenditure ceilings. This created a tension where the Ministry of Finance, rather than the ministry directly responsible for a sector like health or education, ultimately determined the funding for social impact programs as explained by an informant.

“And these figures have been coming from what we submit as the ministry in conjunction with the Ministry of Finance and National Planning. Because they look at our performance, for instance, the current performance this year, they will assess our performance, then they will come up with ceilings, they will set ceilings. Then they will advise the ministry that these are the ceilings for the following year”.

## **2. Reprioritization of Sectoral Spending**

The shift in fiscal policy had a direct influence on public investment priorities, and this was reflected in interviews with different ministries. Those representing sectors like infrastructure and energy expressed a positive view of the changes, as the new budget allocations favoured their areas. In contrast, ministries focused on social protection may have had different experiences. This reprioritization resulted in tangible investments, such as increased funding for roads, water, and sanitation, which a Ministry of Finance official presented as a positive step.

In contrast, the Ministry of Health has faced significant challenges. A representative from the Ministry of Health noted that public investment in the sector has been hampered by limited fiscal space and a lack of funding. As a result, several health facilities that were started could not be completed. A government-sponsored project to build 120 mini-hospitals and five Level One hospitals has been repeatedly postponed due to insufficient funding. The Ministry of Health also relies heavily on external partners for drug procurement, with partners supplying almost half of the required drugs. A situation that was recently painfully brought home with the shutting down of the United States Agency for international Development (USAID).

Therefore, it appears that while some sectors like roads and water have seen positive shifts in allocation, other social sectors like health continue to face significant challenges due to debt constraints and limited fiscal space.

Key informants from various ministries provided details on how different sectors were affected.

- **Healthcare**

- Public investment in the health sector has been constrained by a lack of funding and limited fiscal space.
- Several planned health facilities remain uncompleted because of insufficient funding.
- A government-sponsored project to construct 120 mini-hospitals and five level one hospitals has been repeatedly postponed due to a lack of funds.
- The Ministry of Health has relied heavily on partners to procure drugs, with partners supplying almost half of the required drugs.

- **Education**

- The government has prioritized human capital development, with a focus on recruiting teachers and healthcare personnel.
- In 2022, the government was able to recruit 30,000 teachers and 11,000 healthcare personnel.

- **Social Protection**

- The government has increased allocations for social protection to mitigate the impact of climate-related shocks.
- In response to the 2023-2024 drought, the government realigned the 2024 budget to provide additional resources for social protection through an emergency cash response.
- Other measures included a cash-for-work program to help citizens

### • Electricity

○ The government is encouraging investment in alternative energy sources, such as solar power, to reduce reliance on hydropower and "cushion ourselves from climate risk".

### • Roads, Water, and Sanitation

○ Allocations for roads and water sanitation have increased.

○ Funding for water sanitation increased from 175 million to almost 1.1 billion.

○ Following a drought, additional resources were allocated to water and sanitation.

### • Agriculture

○ The government engaged commercial farmers to produce food using irrigation.

○ Long-term plans include a shift to year-round production and the use of "climate smart technologies".

○ The government created a "sustainable agriculture finance facility" and "shock loans" to help farmers access financing, irrigation facilities, and machinery.

Table 15 below provides an analysis of budget allocation and actual spending for the seven sectors, with detailed explanations of the rationale for reprioritization of resources. Explanations on logic of allocation is drawn from analysis of Budget Speeches, BOZ Annual Financial Reports, the Yellow books and GRZ Financial Reports between 2020 and 2024.

Table 15: Sectoral Performance 2017-2024

Sector	2017			2018			2019			2020		
	Budget ZMK "Mill"	Actual ZMK "Mill"	Difference ZMK "Mill"	Budget ZMK "Mill"	Actual ZMK "Mill"	Difference ZMK "Mill"	Budget ZMK "Mill"	Actual ZMK "Mill"	Difference ZMK "Mill"	Budget ZMK "Mill"	Actual ZMK "Mill"	Difference ZMK "Mill"
Education	25,540.36	22,624.71	-2,915.65	24,331.06	21,942.42	-1,094.97	26,530.34	20,336	-3,099.47	17,813	15,789	-1,171.39
Health Care	14,796.52	13,202.99	-679.51	15,585.25	11,243.12	-1,990.44	16,131.21	12,401	-1,866.51	16,777	12,290	-2,597.34
Agriculture	14,684.77	10,329.84	-1,857.03	14,124.65	6,322.94	-3,576.32	12,761.26	4,153	-4,306.79	10,588	6,129	-2,581.91
Social Protection	6,994.00	4,712.47	-972.89	4,915.42	2,428.44	-1,140.03	4,371.03	3,324	-524.47	60,4416	55.26	-2.69
Water and Sanitation	922.10	249.2144	-286.94	N/A	N/A		3,970.59	273,8064	-1,849.71	4,966.09	1,793.18	-1,837.34
Roads	N/A	N/A		N/A	N/A		12,818.64	5,394	-3,714.56	N/A	N/A	
Electricity	272.03	270.64	-0.59	551.3937	260.2737	-133.45	372.4567	238.1916	-67.18	2,429.46	492.15	-1,121.83

Sector	2021			2022			2023			2024		
	Budget ZMK "Mill"	Actual ZMK "Mill"	Difference ZMK "Mill"	Budget ZMK "Mill"	Actual ZMK "Mill"	Difference ZMK "Mill"	Budget ZMK "Mill"	Actual ZMK "Mill"	Difference ZMK "Mill"	Budget ZMK "Mill"	Actual ZMK "Mill"	Difference ZMK "Mill"
Education	25,812.72	19,516.74	-6,295.98	23,236.07	17,734.72	-4,314.99	28,521.84	25,021.40	-3,044.22	21,943	20,447	-1,496.09
Health Care	18,181.14	13,746.58	-4,434.56	17,873.91	13,642.10	-3,319.22	21,340.08	18,721.05	-2,277.69	17,634	16,296	-1,338.29
Agriculture	19,067.75	8,159.22	-10,908.53	16,595.18	12,944.13	-2,863.70	15,078.21	11,810.03	-2,842.23	12,752	9,235	-3,517.31
Social Protection	8,978.34	6,788.43	-2,189.91	8,043.26	6,138.94	-1,493.65	10,054.46	8,820.50	-1,073.14	10,989	9,740	-1,249.56
Water and Sanitation	3,206.27	1855.726	-1,350.54	2,557.47	1238.961	-1,034.17	2,161.60	1034.211	-980.45	1,561.15	635.78	-925.36
Roads			0.00	8,658.69	8,579.82	-61.86	1,196.47	1,150.91	-39.62	8,694.02	5,296	-3,397.82
Electricity	1,377.97	925.8323	-452.14	1,702.91	398.2912	-1,023.28	1,957.45	1,316.91	-557.06	1,501.21	730.69	-770.52

Source: Analysis of Yellow Books 2019-2024, BOZ Annual Report 2019-2024, GRZ Budget Speeches 2019-2024, Constant 2024 Prices

- **Social Spending:** The government opted to increase social spending in education, health, and social protection to protect vulnerable populations from the effects of the fiscal reforms. The 2022 Budget Speech explicitly stated, "through this Budget, we will increase support to the social sectors and social protection programmes". This was a deliberate choice, with a government informant explaining: "...ramped up social spending in order to protect our people from the reforms which were being undertaken like fuel subsidy, increased transport costs so people needed more money now to meet their cost of living." The rise in fuel prices led to higher transportation costs, impacting the overall cost of living and necessitating increased social spending to support vulnerable households.

A prime example of this is the free education policy that was rolled out in 2022. As shown in Table 15 above, there was consistent underspending across all sectors, but the under-expenditure in social sectors like Education and Health in 2022 and 2023 was substantial. However, the government has been making strides to improve the situation, with the difference between the budget and actuals decreasing from 2022 to 2024 for both sectors. This is likely due to the "mass recruitment of teachers country-wide" and "employment of additional health workers" that bolstered the performance of these sectors in 2022.

- **Public Investments:** The IMF program emphasized efficiency and prioritization over the volume of projects. According to a key informant, the focus is now on "how efficient and the rate of return" of projects, rather than just "how many projects you are doing". This necessitated an audit to halt "low impact projects" that were financed from external borrowing to limit the debt burden. The 2023 Budget Speech highlights that despite these efforts, debt levels are still rising due to the necessity of carrying over some advanced projects from the previous administration and financing essential services like education and health with concessional loans from multilateral partners.

- The significant difference between the budgeted and actual spending on Roads and Electricity in all three years (2022-2024) shown in Table 15 reflects the government's approach of cautious spending in non-social sectors, especially after a period of over-expenditure on infrastructure by the previous administration. This is particularly evident in the huge variance in road spending in 2024.

### 3. Reforms in Public Investment and Debt Management

The IMF program also catalysed significant reforms to improve transparency and accountability, particularly in how the government contracts and manages debt.

- **Public Debt Management:** A new Public Debt Management Act was developed and enacted, which provides a legal framework for better debt management even though the initiative to pass such an Act long predated the IMF program. A key informant stated that this new law "provides for us to be presenting for the next fiscal year, how much we intend to borrow and from whom, then Parliament has to approve". The informant confirmed that this reform "has brought oversight in the contraction of debt". This is a critical change, as earlier legal frameworks had provisions that allowed the Minister of Finance to contract debt without parliamentary authorization, which contributed to the debt crisis.
- **Public Investment Reforms:** The government has introduced measures to improve the efficiency and transparency of public investments, including project appraisal and selection. The focus is now on projects with a high rate of return and better value for money.

#### 3.2 IMF Social Spending Agreements: Initial vs. Fourth Review

To analyze the execution of social policy under the IMF ECF, this study compares the Quantitative Performance Criteria (QPC) and Indicative Targets (ITs) established in the 2022 Request for Arrangement against the outturns recorded in the 2024 Fourth Review. Under the Technical Memorandum of Understanding (TMU), 'Social Spending' is defined as a ring-fenced fiscal aggregate comprising government outlays on the Social Cash Transfer, Food Security Pack, Empowerment Funds, Water and Sanitation, Pension transfers, and the Health and Education sectors.

It is essential to recognize that the ECF monitoring framework is iterative rather than linear, with each review serving as a compliance audit against recalibrated benchmarks rather than a static trend analysis. As illustrated in Table 16 below, the 'Status' of these programs reflects the government's adherence to period-specific targets that were fundamentally reset during the 2024 review cycle to accommodate exogenous shocks—specifically the historic drought. Consequently, meeting a 'Status' milestone in 2024 signifies technical compliance with re-baselined emergency floors (which expanded the spending floor from K6.2 billion to K50 billion) rather than a simple progression toward the program's initial 2022 developmental goals

**Table 16: IMF Social Spending Agreements: Initial vs. Fourth Review**

Programme / Reform Area	Initial Agreement (August 2022)	Status & Update (Fourth Review - Dec 2024)
1. Social Cash Transfer (SCT)	Target: Increase beneficiaries to 994,000 households. Reform: Increase transfer value to K 200 (from K 150); K 400 for disabled members.	Status: Scaled up. Update: Beneficiaries increased to 2.3 million. Transfer value doubled to K 400/month (top-up) for all beneficiaries. Note: Top-up expires June 2025.
2. Emergency Cash Transfer (ECT)	Not in original program.	Update: New program introduced for drought response. Target: Cover 957,000 beneficiaries affected by drought.
3. Cash for Work (CFW)	Not in original program.	Update: New program introduced for temporary income. Allocation: K 2.0 billion provision in 2024 budget. Note: Expires June 2025.
4. School Feeding Program	Target: Scale up Home-Grown School Feeding from 39 to 59 districts.	Status: Further expansion. Update: Expanded to 106 districts (adding 37 drought-affected districts). Allocation: K 0.5 billion budgeted for 2025.
5. Education Hiring	Target: Recruit 30,000 teachers in 2022.	Status: Ongoing. Update: Hire 4,200 teachers in 2024; Plan to hire 2,000 in 2025. Goal: Improve teacher-pupil ratio (avg 1:55 in 2024).
6. Health Hiring	Target: Recruit 11,000 medical staff in 2022.	Status: Ongoing. Update: Hire 4,000 health workers in 2024; Plan to hire 2,000 in 2025.
7. Pensions	Target: Clear outstanding pension arrears accumulated by end-2021.	Status: Reform planning. Update: Evaluating options to reform public pension schemes for financial sustainability.
8. Spending Floor (Indicative Target)	2022 Target: K 6.2 billion 2023 Target: K 6.3 billion	2024 Target: K 50 billion (End-Dec). 2025 Proposal: K 42 billion (End-Sept). 2025 Budget Floor: K 50 billion.

Source: Initial and Fourth Review of the IMF Extended Credit Facility (ECF)

### 3.3. IMF's Social Spending Floor in Budgetary Discussions

The government confirmed that it used the IMF's social spending floor policy as a key point of leverage in negotiations. The informant stated, "we also, of course, used the compliance of the IMF on protecting social spending floor policy" as a means to protect vital sectors. This approach was successful because the IMF, as an institution, has evolved its stance where social floors are a prerequisite on program approval. The informant noted that the IMF has since realized that while undertaking economic reforms, "there are these effects. So how do we cater for these effects? It's by increasing the social spending aspect when we're implementing IMF programs."

This is a departure from previous structural adjustment programs that "really sent a lot of people into poverty without any social safety net programs." However, this success requires a critical lens. Critics argue these "social floors" often act as a 'fig leaf' for broader austerity, protecting a narrow budgetary island while the wider public sector contracts. This is because while the government used these floors to hire staff and scale cash transfers, the real value of that spending was eroded by inflation and the removal of fuel subsidies. In the end, while the "floor" ensures technical survival, it falls short of the robust developmental spending envisioned in original national plans.

It would therefore follow that the government and the IMF engaged in a collaborative process where they, as put by an official from the Ministry of Finance "normally engage, then agree, okay, this is how much we see as spending on social spending. So, we can't go below that". However, the logic of the 'floor' is inherently dual-natured. On one hand, it provided the necessary fiscal framework for the government to repurpose funds freed from inefficient subsidies into social sectors. On the other hand, as critics of austerity argue, these floors often function as a recalibrated minimum rather than an expansionary ceiling. While the IMF did not oppose the government's push to protect social spending, agreement was reached within the limits of the program, indicating meeting this floor served as a technical compliance milestone, ensuring that vital sectors were protected from the most severe impacts of reform, even if the real-world value of that protection remained under constant pressure from inflation and external shocks.

However, despite the statements pointing to increase in social protection targets spending (See Table 16), analysis of the broader sector performance captured in Table 15 points a more nuanced picture. That is, the IMF's social spending floor policy, while a useful tool in negotiations, was not as effective in fully shielding ministries from execution challenges. Even during the IMF program years (2022–2024), we observe that substantial gaps remained between budgeted amounts and actual cash execution in Health and Education.

This suggests that while the IMF policy was a successful 'negotiation tool' for ring-fencing specific social safety nets, it was less effective at ensuring the full operational funding of the broader social service delivery system, which remained constrained by limited capacity and fiscal contraction. The reasons for this appear to be rooted in a combination of public perception and persistent challenges with inefficient management and a lack of capacity. Specifically, they included:

#### **a. Public Perception and Policy Ownership**

A key hurdle was that the public did not fully embrace the reforms. An official from the Ministry of Finance's Economic Management Department noted that the general public often viewed the IMF-backed reforms as "externally imposed by the fund". This perception was a challenge for the government, even though they claimed the reforms were their own. This public resistance created slow progress in implementing changes, such as tax policy reforms, which are critical for domestic revenue mobilization to fund the budget.

#### **b. Inefficient Spending and Mismanagement**

The interviews also revealed that even when funds were directed toward social sectors, a number of inefficiencies hampered their effectiveness.

- **Supply Chain Weaknesses:** An official at the Ministry of Health pointed to the inefficiency of the supply chain. They stated that a lot of money is lost due to "preferences" (i.e., patronage) and a lack of a secure electronic tracking system for supplies.
- **Poor Project Management:** The same official highlighted issues with infrastructure projects, mentioning that some were built to a "sharp standard" and that medical equipment did not last long, suggesting a lack of proper supervision and procurement issues, compounded by insufficient maintenance budgets to sustain the assets.
- **Capacity Constraints:** A representative from the Ministry of Finance's Public Investment Department stated that the primary challenge was "poor project development," which they attributed to a lack of skills and capacity in ministries. This meant that some projects were not properly planned and failed to achieve their intended goals. This issue persisted because the sensitization efforts for these new tools and guidelines were still ongoing.

### 3.4. Fiscal Constraints and the Strategy for Debt Restructuring

Given the fiscal reforms, one would expect GRZ to craft actions that were to safeguard vulnerable citizens. A key informant from the Ministry of Finance explained that the government had to "engage the Fund and explain to them that in as much as we are doing this, these reforms have got an impact on these social sectors and also the poor". However, responses from KIIs suggest that the Zambian government did not have the leverage to demand less stringent conditions, despite the clear need for increased social spending. When it became clear that debt restructuring was unavoidable, the Zambian government did not push for a larger deficit or more debt relief to fund increased social spending. This decision was driven by severe fiscal constraints, the demands of the IMF's debt sustainability framework, and the need to prioritize credibility with a diverse group of creditors.

The situation was starkly likened, by one informant, to a person "drowning" who is "struggling to come out but there is nothing". The government's fiscal position was severely limited, with up to 90% of the budget going towards salaries and debt servicing, leaving only 10% for other operations and development activities. In our assessments of the KIIs, reasons included:

#### a. Limited Fiscal Space and Creditor Perspectives

The government's ability to demand more debt relief was severely limited by its dire financial situation. The interviews highlight that the majority of the budget was already allocated to non-discretionary spending.

O "So it was limited, no fiscal space actually to undertake this social spending, because like I said, 90% of our budget used to go to salaries and debts and this, then you only remain with 10%." Now, 10% wasn't even sufficient for ministries and other spending agencies to do their normal operations." Official in the Ministry of Finance, Economics Management Department.

O "So creditors wouldn't be in support of social spending because others believe you're not targeting your social protection properly so why should I give you a haircut." Official Ministry of Finance, Economics Management Department.

O "For example, Zambia, we have a limited fiscal space. So now with your limited fiscal space do you want to continue providing inefficient subsidies or you have to remove them? So that has been the main topic to become efficient." Another official from the Ministry of Finance.

The government advocated either maintaining social spending or "increase it so that the poor and the vulnerable are protected from these reforms." This push was particularly challenging given the severe fiscal constraints. The respondent noted that prior to the program, there was "no fiscal space actually to undertake this social spending, because like I said, 90% of our budget used to go to salaries and debts". This highlights the limited fiscal manoeuvrability the government faced in a period of debt distress and high-interest payments.

### **b. The Need for Credibility**

The government also had to deal with a varied group of creditors who did not all support increased social spending. The IMF program was deemed crucial for restoring trust with creditors. The government had to demonstrate its commitment to fiscal sustainability before it could receive more favourable terms.

Ultimately, the government's main goal was to secure an IMF program to, in their logic, restore credibility and demonstrate a commitment to fiscal responsibility. An informant from the Ministry of Finance explained the country's difficult financial position, noting that with unsustainable macroeconomic imbalance it didn't make sense to increase social spending. He emphasized the principle of "produce first, and then you spend." The IMF program, he added, was a crucial turning point, as it signified a new level of commitment that gave international partners the confidence to "start loosening up" their restrictions.

### **c. Political Versus Donor Priorities**

The interviews also reveal a conflict between what is politically popular and what is fiscally responsible in the eyes of donors. This push-and-pull dynamic further complicated negotiations for debt relief. As clearly put by a key informant in the Ministry of Finance "so for donors, for them, it's the issue of expanding the tax base. As well as removing exemptions. So there are these push and pullbacks which happen between the two. The other one is supporting increasing the taxes. No, we can't increase the taxes, but how are you going to fund your services if you can't increase your taxes or expand your tax base, what comes out is the resistance in the reform process."

### **d. Historical Context and Policy Shift**

This fiscal crisis did not emerge in a vacuum. It was the culmination of a decade of pro-cyclical expansionary fiscal policy where high levels of public spending were maintained during periods of economic growth, leaving the state with no buffer when shocks occurred. A key informant from the Ministry of Finance explained that the previous administration focused on infrastructure development. This led to a situation where there were "no productive assets" from the borrowing to service the debt, leaving the government in a position of extreme fiscal fragility. This borrowing was also heavily influenced by external factors, such as the US monetary policy, which facilitated the issuance of Eurobonds during periods of low interest rates.

The government's decision to prioritize fiscal consolidation over making ambitious spending demands was therefore a strategic pivot. It was a necessary move to signal a fundamental policy shift and restore the trust that had been lost.

## **3.4 Conclusion**

In summary, while Zambia's multi-annual plans set ambitious goals, their execution was defined by a continuous recalibration largely because of the volatile economic landscape and financial crisis. A conscious shift in strategy moved the focus from unsustainable external borrowing to a domestically funded approach. However, this recalibration was not merely a matter of transparency; it was a strategic attempt to create fiscal space by removing long-standing subsidies on fuel and electricity. This move was essential to satisfy the rigidity of the IMF's macroeconomic austerity while simultaneously funding the "social floors" required to prevent a total collapse of the welfare system.

The data illustrates that the IMF's ECF functioned as an iterative monitoring framework rather than a static trend analysis. As evidenced by the 2024 review cycle, benchmarks were reset to accommodate exogenous shocks—most notably the historic drought. This collaborative process between the government and the IMF ensured that social spending remained protected as a "technical compliance milestone." However, the logic of the "floor" remains dual-natured: it provided a vital safety net for programs like the Social Cash Transfer (SCT), yet it often functioned as a restrictive minimum rather than an expansionary ceiling.

Ultimately, a significant contradiction remains in the sectoral outcomes. While the government met hiring targets in education and health to satisfy the spending floors, the "real-world" value of this protection was undermined by the neglect of non-wage operations. The lagging procurement of medical supplies and school materials reveals that technical adherence to IMF targets does not always translate to quality service delivery. In this context, foreign support has become a complement to internal reforms, but the struggle to balance wage-heavy compliance with substantive operational impact remains the primary challenge for Zambia's fiscal management.

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## Section 4: Spending Hits the Ground – An Analysis of Social Sector Spending

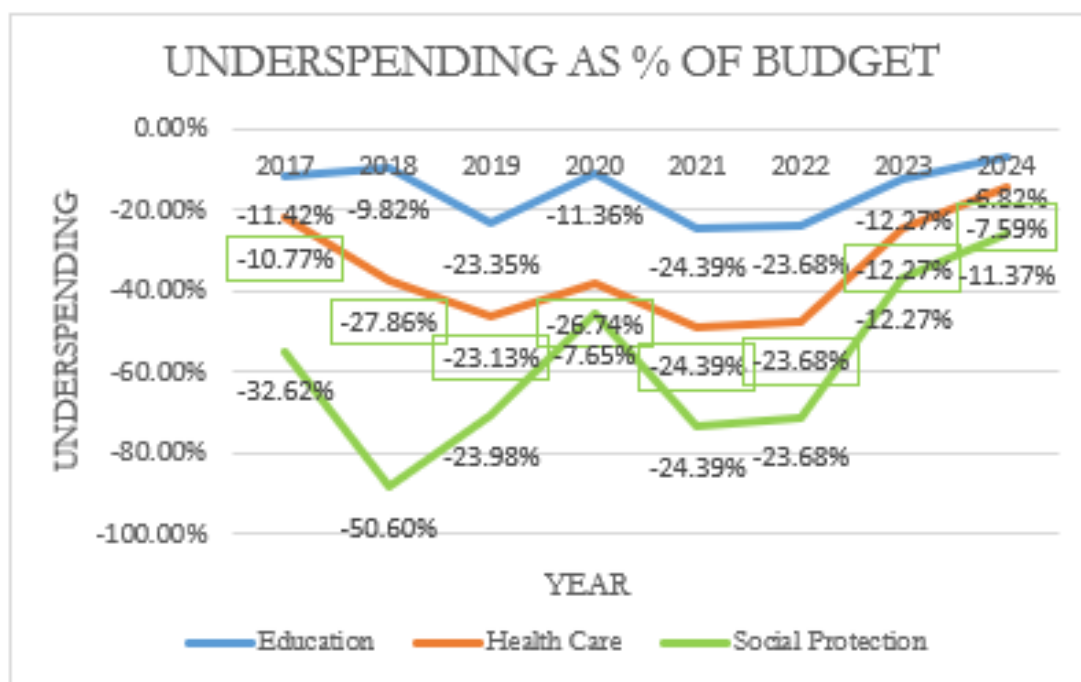
This section provides an in-depth analysis of the efficiency and effectiveness of government spending in the three key social sectors: education, health, and social protection. It examines the persistent discrepancies between budget allocations and actual spending, assesses the extent to which spending is targeted at the poor, and evaluates performance against common efficiency metrics. The analysis draws on a combination of quantitative data from financial reports, key informant interviews, and academic/public policy literature.

### 4.1 Discrepancies Between Budget Allocations and Actual Spending

An analysis of budget allocations and actual spending across the three social sectors shows consistent underspending since the onset of the 7NDP. This trend has continued even during the IMF conditionalities suggesting discrepancies go beyond the IMF measures, rather a structural problem in the budget to implementation process. Figure 4 provides an analysis of the underspending as a percentage of the budget set in the line ministry. Representing efficiency as the percentage of underspending in a sector's budget can provide a clearer picture of spending effectiveness.

A lower percentage of underspending could suggest that a ministry or agency is better at utilizing the funds allocated to it. Conversely, a high percentage of underspending might indicate that the allocated budget was not fully utilized for the intended purposes. As mentioned earlier, another reason for underspending is the shaped by administrative weakness of the cash budget system. The variance between budget and outturn—often disguised as underspending—is fundamentally a liquidity issue. When the Treasury prioritizes debt obligations and payroll during low-revenue months, it creates a 'bottleneck' that prevents the release of funds for operational necessities.

**Figure 4: Underspending in the Social Sectors**



Source: Analysis of Yellow Books, BOZ Annual Report & GRZ Budget Speeches 2017-2024

The data (Figure 3) reveals a consistent and significant pattern of underspending across all three social sectors from 2017 to 2024. It shows underspending was highest in Social Protection, reaching a peak of 50.60% in 2018. Health Care consistently experienced high underspending, averaging around 25%, while Education, though performing slightly better, still had significant shortfalls of 10% to 25% annually.

Given the persistent underspending, we sought to make sense of this trend through an analysis of KIIs, budget speeches, and BOZ annual reports to understand the logic on a sector-by-sector basis.

• **Education**

While the education sector has had the lowest percentage of underspending among the three, it still shows significant shortfalls, hovering between 10% and 25% annually. The KIIs point to systemic issues as a contributing factor. An official from the Ministry of Finance's Economic Management Department noted that the dominant factors influencing fiscal policy between 2020 and 2024 were structural economic challenges and pressures from cooperating partners. This environment led to cash rationing and unpredictable releases during execution. Consequently, even though budget lines were approved, the actual liquidity was often unavailable to meet these commitments, creating a gap between the budget and actual expenditure. The KII with the Ministry of Finance's Department for Public Investments mentioned that bureaucratic processes, particularly in procurement, can cause delays and contribute to underspending. This suggests that even with budget allocations for educational programs and infrastructure, administrative inefficiencies can prevent the timely disbursement of funds.

## • Health

The health sector has consistently experienced high underspending, averaging around 25% for most of the period shown in Figure 4. An official with Ministry of Health directly links this discrepancy to a "lack of funding" that prevented the completion of planned health facilities. This explanation highlights a critical fiscal disconnect while budgets are allocated on paper, the actual cash disbursement often fails to materialize. Due to the tight fiscal environment, the Treasury frequently employed cash rationing, withholding the liquid funds necessary to execute these planned capital projects. Further, we observe that the underspending is a structural weakness of the cash budget system and hierarchy of fiscal priorities on-discretionary' expenditures—specifically debt service and the public sector wage bill—which must be settled regardless of revenue performance.

In situations where external shocks such as droughts manifest, capital projects such as health facility construction, are classified as discretionary, they are the first to be withheld. This creates a 'fiscal disconnect' where a ministry may have the administrative readiness to execute a project, but the cash never materializes because it was 'crowded out' by the pre-existing commitments to debt and payroll. Thus, the underspending in Figure 4 is less a measure of departmental efficiency and more a measure of the health sector's vulnerability to the Treasury's monthly liquidity constraints.

Additionally, the health official also pointed to significant inefficiencies in the supply chain and procurement of medical equipment, noting that new equipment often has a short lifespan and leads to costly outsourcing to the private sector. These issues, which cause financial losses and poor value for money, are a form of inefficiency that directly impacts a ministry's ability to fully utilize its budget.

## • Social Protection

The social protection sector has experienced the most significant and volatile underspending, reaching a peak of 50.60% in 2018. This trend is explained by a key insight from the Ministry of Finance's Economic Management Department. This metric does not necessarily imply a lack of demand or administrative incapacity; rather, it largely reflects the non-disbursement of pledged donor funds that had been factored into the national budget. An insight from the Ministry of Finance's Economic Management Department explains this dynamic: cooperating partners and creditors were often hesitant to support increased social spending, believing that the social protection programs were not being effectively targeted at the poor. This external pressure to demonstrate fiscal prudence, especially during debt restructuring negotiations, created a barrier to utilizing the full budget.

## 4.2 Measures to Address Spending Discrepancies and their Critiques

The Zambian government has undertaken several key initiatives to address the persistent discrepancies between budget allocations and actual spending. However, a review of the Key Informant Interviews (KIIs) reveals that the effectiveness of these measures is not without its challenges. This section reviews the measures that have been undertaken, then assesses their real-world impact and suggests ways to strengthen them. Measures include:

- **Public Finance Management Act**

The Public Finance Management Act aims to create a robust framework for managing public funds and strengthening accountability. An informant with the Ministry of Finance's Budget Office notes that the Act provides for more consistent execution of debt sustainability analyses and outlines processes to ensure debt sustainability, with Parliament's approval now required for borrowing.

Critique: While the Act provides a legal framework, its effectiveness is challenged by external shocks and the reality of on-the-ground implementation. An official from the Budget Office acknowledges that resource mobilization can face challenges, "For instance, we might have a climate challenge which might affect cash flows to the Treasury". This suggests that even with a strong legal framework, external factors can hinder its effectiveness.

- **Electronic Government Procurement (E-GP) System**

The E-GP system is intended to reduce bureaucracy and corruption, thereby streamlining the procurement process and ensuring more efficient use of funds. The Ministry of Health, in particular, recognizes the need for such a system. An official from the Ministry's Planning and Budget Department expresses a desire for an electronic system to "track our supplies from first up to the last mile".

Critique: Despite the government's intentions, interviews suggest a fully effective system is not yet in place. An official from the Ministry of Health implied that the current supply chain is a significant source of financial loss. The official noted that "we lose a lot of money in terms of unified use," highlighting the inefficiencies caused by the lack of a single, integrated system for managing supplies. This challenge, along with a lack of proper supervision, can lead to the construction of sub-standard infrastructure. An official from the Ministry of Finance's Budget Office also confirmed that while measures have been implemented to contain wasteful spending, these are still ongoing efforts.

- **Public Investment Plan**

The Ministry of Finance publishes an annual Public Investment Plan to promote transparency by detailing all ongoing and planned public projects, including their financials, contractors, and funding sources. An official from the Ministry's Department of Public Investments states that this plan is a key tool for avoiding cost overruns and limiting debt. Prioritization of projects that have passed an appraisal process is intended to ensure they are viable and aligned with national goals.

Critique: While the plan exists and is published, its effectiveness is questioned in practice. A Ministry of Health official notes that even with planned projects, many facilities that were started could not be completed due to a lack of funding. This suggests that the planning and budgeting process, even with the Public Investment Plan, does not always guarantee the necessary funds for project completion, leading to a number of unfinished projects.

- **IMF Extended Credit Facility (ECF) Arrangement**

The IMF ECF Arrangement and ongoing debt restructuring efforts are central to increasing fiscal space and restoring creditor confidence. An official from the Ministry of Finance's Economic Management Department notes that the program has supported the government financially and technically and has helped restore credibility and investor confidence. The official also states that the program has "enhanced social spending" and enabled the government to protect the poor from reforms.

Critique: Despite these benefits, a civil society representative expresses scepticism, stating that the reforms were "not conditions that the government would have actually ever dreamt of implementing on their own". The interviewee points to the removal of fuel and electricity subsidies as an example, which went against the ruling party's campaign promises. The CSO representative also notes that while social spending has increased, a trade-off has been made, as the IMF program requires the Bank of Zambia to maintain a minimum level of foreign reserves, which "means that the Bank of Zambia cannot dip into that foreign exchange to intervene into the market whenever the exchange rate is depreciating". This has led to a depreciation of the currency and a rising cost of living. By limiting the BoZ's ability to intervene in the foreign exchange market, the policy essentially prioritizes Net International Reserves (NIR) targets over exchange rate stability. As the Kwacha depreciates, the fiscal impact is two-fold: first, the cost of imported essential commodities, such as medicines and educational materials, inflates beyond the allocated budget; and second, the domestic cost of servicing external debt—and the fuel required for rural service delivery—spikes.

### 4.3 Targeting and Pro-Poor Spending

While donors treated targeting as a critical measure of the program's compliance and effectiveness, this approach is not without controversy. Advocates for universal social protection argue that targeted programs are inherently prone to errors, making it difficult to minimize false inclusions and exclusions. Nevertheless, because the specific financing agreements were predicated on these targeting metrics, the perceived failure to meet them resulted in the withdrawal of external support. The government's plans and policy shifts have sought to improve the pro-poor nature of spending, particularly through its recent fiscal reforms.

Table 17 presents a summary of social assistance programmes initiated by the Government of the Republic of Zambia (GRZ) to address social inequalities. This data is derived from the detailed analysis offered in the WIDER Working Paper 2024/91, covering the period since the onset of the Eighth National Development Plan (8NDP).

Table 17: Social Assistance Programmes 2020-2025

Sector & Scheme	Institutional Features & General Objectives	Population Coverage	Notes & Developments by Year
<b>Social Protection</b>			
Social Cash Transfer (SCT)	Established in 2003, this government-funded program (with donor support) aims to protect extremely poor and vulnerable households by providing non-contributory payments. Payments for people with disabilities are double the standard amount.	It targets female-headed, child-headed, chronically ill, disabled, and elderly-headed households. Coverage was at 616,464 households in 2020 and grew to 1.3 million households in 2024.	2020: The number of beneficiaries was 616,464. 2021: The monthly transfer value was <u>K110</u> and the program expanded to cover 994,000 households. 2022: The monthly transfer value increased to K200, with K400 for disabled persons. The government's share of spending on the SCT was 65%. The remaining 35% was funded by Cooperating Partners (CPs), primarily the World Bank, with additional support from UNICEF, the European Union, and bilateral partners including Ireland, Sweden, and the UK. 2023: The number of beneficiaries reached 1.1 million. 2024: The initial allocation was K4.1 billion, but a supplementary budget added K5.2 billion in response to drought, bringing the total to K9.3 billion. The government's share of spending rose to 71%. The number of beneficiaries reached 1.3 million. 2025: The allocation for the SCT is K8.2 billion, which is a 100% rise in nominal terms from 2024's initial budget. The transfer values are set at K800 for standard households and K1,200 for disabled households. This budget includes over 950,000 new beneficiaries from the temporary Emergency Cash Transfer (ECT) program. After June 2025, the allocation is expected to revert to previous levels as the ECT program ends.
Food Security Pack (FSP)	This government-funded program, running since 2000, aims to empower poor and	Targets vulnerable but viable farmer households. Coverage was expanded to	2024: The program's coverage was expanded to 242,000 households in all 116 districts. The government provides agricultural inputs to households
	vulnerable but viable farmer households with agricultural inputs and livelihood skills. The program requires a 10% payback from beneficiaries after assistance.	242,000 households in all 116 districts in 2024.	which have lost their productive assets due to climate-related conditions.
Public Welfare Assistance Scheme (PWAS)	The oldest welfare program, established in 1950. It provides social support for needs such as the repatriation of stranded clients, secondary education requirements, and baby formula. It does not cater to large-scale emergency needs.	As of June 2024, it supported 27,257 incapacitated households with in-kind support and recommended 859 vulnerable students for tertiary education bursaries. The target groups also include <del>orphans</del> neglected children, minor disaster victims, and single-headed households.	2024: The government received 100% of its funding from the GRZ. As of June, it had supported 27,257 incapacitated households and recommended 859 vulnerable students for tertiary education bursaries.
<b>Health Care</b>			
National Health Insurance Scheme (NHIMA)	Launched in 2019, operated by the Ministry of Health. Contributions are 2% of basic income for formal employees and an average of K50 per family per month for informal workers. The scheme aims to provide universal access to quality insured healthcare services for all Zambians.	As of June 2024, combined coverage stood at over 4.6 million members and beneficiaries, representing 23% of the population. Registration among SCT beneficiaries has also been promoted.	2019: The scheme was launched. 2023-2026: The NHIMA Strategic Plan for this period aims to achieve Universal Health Coverage (UHC) and aligns with the Eighth National Development Plan. 2024: The combined coverage stood at over 4.6 million members and beneficiaries, representing 23% of the population. Registration for SCT beneficiaries was promoted.
<b>Education</b>			
Girls' Education, Women Empowerment and	Effective in 2016, this project is a cooperation between the World	The KGS program supports over 150,000	2020: Additional funding was secured from the World Bank to expand coverage. By December 2021, a total

Livelihood (GEWEL) (includes Keeping Girls in School - KGS)	Bank and the government. The KGS component provides school fees for female secondary students from SCT households to increase their access to education and ensure sustained learning.	girls, with plans to expand to 262,444.	of 58,974 beneficiaries had been sponsored since the project's inception. 2022: The program's expansion plans were highlighted in the budget. 2024: The project will be phased out as of December 2024 and achieved strong results in poverty reduction and human capital outcomes. It also provided a supplementary grant to a number of SCT beneficiaries to improve consumption and resilience.
Home Grown School Meals (HGSM)	Revived in 2003 by the government and the World Food Programme, the Ministry of Education is responsible for its implementation. It provides one cooked meal a day to learners to reduce poverty and malnutrition.	As of 2024, the program benefits over 2 million learners in about 5,200 schools across 70 districts. In 2020, the program covered 1 million learners in 39 districts.	2020-2024: A national strategy was in place for this period. 2024: In response to a severe drought, the government upscaled the program from early childhood to secondary education in 37 affected districts to ensure children continued attending classes and did not miss school due to hunger and starvation.
<b>Agriculture/Livelihoods</b>			
Farmer Input Support Programme (FISP)	Started in 2002 and supported by the government. Its primary goal is to improve the accessibility of agricultural inputs (seeds, fertilizer) at a reduced cost for small-scale farmers.	It is operational in all 10 provinces and 116 districts, with a beneficiary target of 1,024,434 small-scale farmers for the 2023/24 farming season.	2023/24: The program used two modalities: Electronic vouchers (e-Voucher) in Central and Lusaka provinces and Direct Input Supply (DIS) in the other eight provinces.
<b>Other Social Insurance</b>			
Public Service Pension Fund (PSPF)	A mandatory social insurance scheme for formal sector public employees, established in 1996. It pays retirement, medical retirement, and death benefits.	An estimated 95,000 beneficiaries as of 2023, with 13% of the elderly covered.	2022: The government committed to ensuring timely payments and clearing pension arrears. The government announced it had cleared all dues up to December 2021. 2024: The government allocated K9.1 billion to the Zambia Revenue Authority to enhance domestic revenue mobilization.
Extension of coverage to the informal sector through NAPSA	Initiated in 2017 with a Statutory Instrument in 2019 to extend pension schemes to the informal economy. It offers voluntary social insurance benefits like retirement, invalidity, survivors, and maternity.	It initially targets key informal worker associations like the Bus and Taxi Drivers Association. The current number of enrolled members is not publicly available.	2017: The initiative was started to extend pension schemes to the informal economy. 2024: NAPSA included a <u>Weather Index Insurance (WII)</u> and access to credit facilities to tailor benefit packages for members.

Source: Author analysis and WIDER Working Paper 2024/91). United Nations University World Institute for Development Economics Research. <https://wider.unu.edu/publication/wp2024-91-social-protection-humanitarian-contexts.pdf>

### 4.3 Efficiency Metrics in Social Spending

The efficiency of public spending is a crucial measure of whether resources are effectively converted into intended outcomes. The government's performance on these metrics has been mixed, with reforms currently underway to address long-standing challenges that have often been exacerbated by fiscal constraints. Table 18 below provides a comparative overview of key efficiency metrics and government performance in the social sectors.

**Table 18: Social Assistance Metrics**

Sector	Metric	Government Performance	Source(s) of Data
Social Protection	Execution Rate	The execution rate is poor, with high and volatile underspending. The provided figure shows underspending as high as 50.60% in 2018.	Author Analysis of Ministry of Finance and National Planning (MoF&P) Estimates of Revenue and Expenditure; UNICEF budget briefs; government and donor reports on social spending.
	Targeting & Coverage	SCT coverage grew from 616,464 households in 2020 to 1.3 million in 2024, but this still doesn't cover all who are in extreme poverty. The increased number, however, reflects a commitment to protecting the vulnerable from the effects of fiscal reforms.	Ministry of Community Development and Social Services (MCDSS) program data; Living Conditions Monitoring Survey (LCMS).
	Transfer Adequacy	SCT transfer value was K200/month from 2022 to early 2024, which is insufficient to combat inflation and reduce poverty. A "small but still an increase" in cash transfer amounts was noted. However, more analysis is needed to provide a clear assessment of whether these transfers are sufficient to lift people out of poverty.	MoF&P budget speeches; MCDSS data; UNICEF budget briefs.
Education	Pupil-to-Teacher Ratio	High at the primary level, with a value of 42.06 in 2017 against a global average of 21.75. This is higher in rural areas and community schools.	Ministry of Education (MoE) statistics; UNESCO data.
	Completion & Progression	Grade 7 completion rate was 97% in 2019. The Grade 12 completion rate was 32% in 2020, and the Grade 9 transition rate was 63% in the same year.	MoE statistics; Zambia Education Statistical Bulletin.
	Learning Outcomes	Minimum proficiency level Low, with Grade 1 literacy at 43% and Grade 4 literacy at 48–50% in 2021.	MoE; World Vision reports on education.
Health	Benefit Incidence	Not pro-poor: urban and wealthier populations receive a greater share of health subsidies.	Ministry of Health reports; World Bank Public Expenditure Reviews; household surveys.
	Resource Allocation	Distribution of subsidies doesn't align with reported illness rates across provinces.	Ministry of Health reports; World Bank Public Expenditure Reviews; household surveys.
	Coverage (NHIMA)	As of June 2024, the NHIMA covered over 4.6 million members and beneficiaries representing 23% of the population.	Ministry of Health reports; National Health Insurance Management Authority (NHIMA).

## Section 4 References

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