Analysis of Zambia's IMF Programme and Fiscal Austerity Impacts on National Government Policy and Commitments to Free Education

FINAL REPORT

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actionaid

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Executive Summary

The recent debt crisis which has affected most economies has witnessed the resurgence of the International Monetary Fund (IMF) to provide financing for Economic Stimulus Programme (ESP). The war in Ukraine is adding to the strain on public finances even as countries are still reeling from the pandemic. About 60 percent of low-income developing countries are already at high risk of or in debt distress. The economic shocks from the war in Ukraine only add to their challenges. Continued support from the international community will be critical for these countries.

Zambia, under the G20 Common Framework for Debt Treatments is now considered as a case study by many, borrowed US$1.3 billion under the Extended Credit Facility (ECF) in 2022 to address 'structural imbalances' in her economy. This was two years after Zambia defaulted on its debt service interest payments, making it the first post covid-19 pandemic default case. Action Aid Zambia accordingly commissioned this study to ascertain the implications of the recent IMF-supported programme and its agreed policy changes and conditionalities on the poor and vulnerable in Zambia.

Zambia's last Programme with the International Monetary Fund (IMF), a Poverty Reduction and Growth Facility (PRGF), expired in 2011 (IMF, 2019e). Zambia's exit from an IMF Programme in 2011 was greeted with high hopes and expectations. Many believed that Zambia could be back on a path of sustainable growth and prosperity. A shift from a conservative fiscal policy stance to an expansionary fiscal policy position that set Zambia on a path of excessive overspending and borrowing. Infrastructure development was mostly financed by external and domestic borrowing and the notable infrastructure projects were roads, energy, and agriculture.

This report establishes that the pro-cyclical contractionary fiscal and monetary policy approach[1] is likely to worsen unemployment, lower economic growth rates and tax revenues. Furthermore, for households, a cost reflective electricity tariff may present new challenges of increased deforestation through increased consumption of charcoal and firewood. This would exacerbate the effects of climate change and erode progress in attaining access to clean energy. The report also highlights that Government's allocation to free education grants will marginally reduce from 0.3 percent of GDP in 2022 at the start of the IMF Programme to 0.2 percent of GDP in 2025 as the IMF Programme closes. Finally, the report highlights that the Zambia's IMF-supported Programme lacks gender-specific taxes and is pro-regressive taxation which has a more adverse impact on the most vulnerable in society especially women.

The report also explores alternative policy considerations available to the Government of Zambia and provides some specific recommendations for the attention of all stakeholders.

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[1]A 'procyclical fiscal policy' can be summarised simply as governments choosing to increase government spending and reduce taxes during an economic expansion, but reduce spending and increase taxes during a recession.

SECTION 1

INTRODUCTION

SECTION 1: INTRODUCTION

Zambia's first encounter with the IMF dates to 1973. Since then, Governments of Zambia have entered 12 similar forms of loan arrangements with the IMF, with the 2022 Programme being the 13th. Before the recent one, 2011 was the last year of an IMF-supported Programme in Zambia, whose main objective was to resolve Zambia's balance of payments (BOP) and restore macroeconomic stability. This means that throughout the period of the deep and painful economic, structural and public sector reforms, from the 1990s until Zambia stabilized in the late 1990s and established sustained real GDP growth after 2000, the IMF walked with Zambia throughout the journey (Mungomba, Cheelo and Hatoongo, 2020).

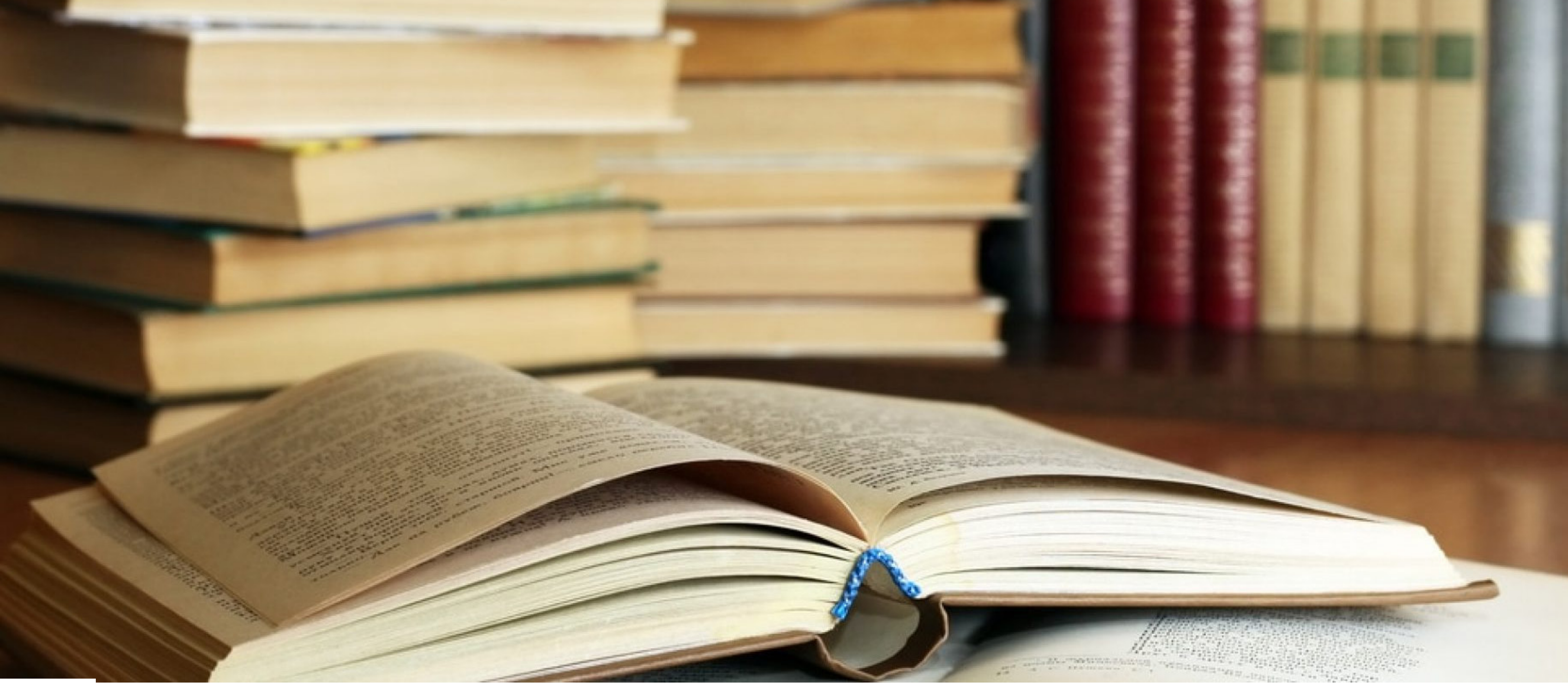
While some analysts consider the policies of the IMF as a necessary evil rather than a preferred strategy, most criticise IMF-supported Programmes in Zambia as ineffective, and unjustifiably restrictive of Government spending. Zambia's 2022 U-turn to the IMF has, thus, raised numerous questions given the concerns about the expected impacts of IMF conditionalities on the Zambian economy and people's welfare. Against this backdrop, ActionAid Zambia commissioned this study to analyse the IMF Programme and its Fiscal Austerity Impacts on National Government Policy and Commitments to Free Education. This report seeks to establish the facts about IMF conditionalities attached to the loan; and investigate the gendered impacts of these conditionalities.

General Objective

To build further evidence on the fiscal austerity and generate evidence to be used to monitor the IMF programme with the aim to advice on national government public service delivery including commitments to free education. The generated evidence will enable ActionAid Zambia to capacitate and support civil society organizations to meaningfully engage in evidence-based dialogue with the duty bearers to influence policy decisions and will be practical enough to be taken forward by anti-austerity and education advocates to contribute to changing the policy landscape.

Specific Objectives

- Identify the fundamental policy and legislative changes influenced by the IMF's three-year agreement with the Zambian government
- Asses the effect of Extended Credit Facility's conditions on the progressivity of taxation regime in Zambia
- Provide a gendered analysis of the fiscal adjustments and shifts in government spending proposed over the short and medium term and the extent to which social sectors, particularly education, are prioritised.
- Provide fair, pro-poor, anti-austerity alternatives to complement national development polices



Methodology

The methodology involved a desk analysis that involved gathering both quantitative and qualitative data focusing on the implications of the Zambia's IMF-Supported Program. In this regard, secondary sources of data were mostly used. In addition, a review of national statistical data, relevant administrative documents and reports from both Zambian Government and IMF were considered. Further, documentation of Zambia's past experiences with regards IMF-Supported programs were reviewed. In particular, the secondary literature reviewed include reports on IMF-supported Programmes such as the Structural Adjustment Programme (SAP), the Heavily Indebted Poor Countries (HIPC) Initiative, and the Poverty Reduction and Growth Facility (PRGF). In addition, official statistics/records from the Ministry of Finance and National Planning, the Zambia Statistics Agency, the Bank of Zambia, the World Bank and IMF were sourced. The secondary literature was supported by discussions with officials from the Ministry of Finance and National Planning (MoFNP), Ministry of Education, Zambia National Union of Teachers, and others. Both qualitative and quantitative data collection methods were employed.

The analysis culminated into the development of a report, which was subjected to a stakeholder validation process. Stakeholders comprising Government ministries (including quasi-government institutions), civil society organisations, academia and development partners participated in the stakeholder consultative meeting to validate the findings. Data and information for this study ranged from 1965 to 2022 and the analysis was undertaken over a period of about two months.

Besides Section 1 which covers the introduction, objectives and the methodology of the study, the rest of the report is structured as follows. Section 2 looks at the historical perspectives of the IMF - Zambia relationship while, Section 3 explores the motivations for the Zambian Government's decision to opt for the recent IMF loan and the associated conditionalities. In Section 4, we illustrate how the recent IMF Programme will impact Zambia's economy, with a particular interest on the provision of free education as well as the gendered impact. Section 5 explores anti-austerity alternatives to complement national development policies while the study recommendations and conclusion are provided in Section 6.

SECTION 2

ZAMBIA-IMF HISTORICAL PERSPECTIVE

SECTION 2: ZAMBIA-IMF HISTORICAL PERSPECTIVE

In October 1964 at the time of independence, the United National Independence Party UNIP Government, Zambia's first governing political party, inherited a relatively healthy state of foreign reserves. These were further buttressed by sufficient earnings from copper exports, which still remains the chief forex earner for the nation till date. This combined pool of resources enabled the country to undertake several expansionary development programmes. The country embarked on an ambitious infrastructure development programme that saw most roads and bridges, industries and firms being built with the help of state resources (AFRODAD PRSP Series 2003).

However, these economic fortunes did not last long as the country succumbed to the external shocks of the early 1970s when its economic mainstay, copper, suffered from an all-time price low at the London Metal Exchange (LME). At the same time, the price of industrial inputs, mainly petroleum products, more than doubled at the international markets (Ibid).

To save and cushion the economy from its precarious financial situation government began to borrow heavily from both the domestic and international money markets to meet its budgetary obligations. In 1983, it became obvious that the economy was headed for total collapse unless economic reforms were done. The government accepted its first conditional assistance from the IMF as it took on Structural Adjustment Programmes (SAPs). Through the 1980s and 1990s, the IMF led structural-adjustment austerity programmes to support Zambia's embattled economy at various times (AFRODAD PRSP Series 2003).

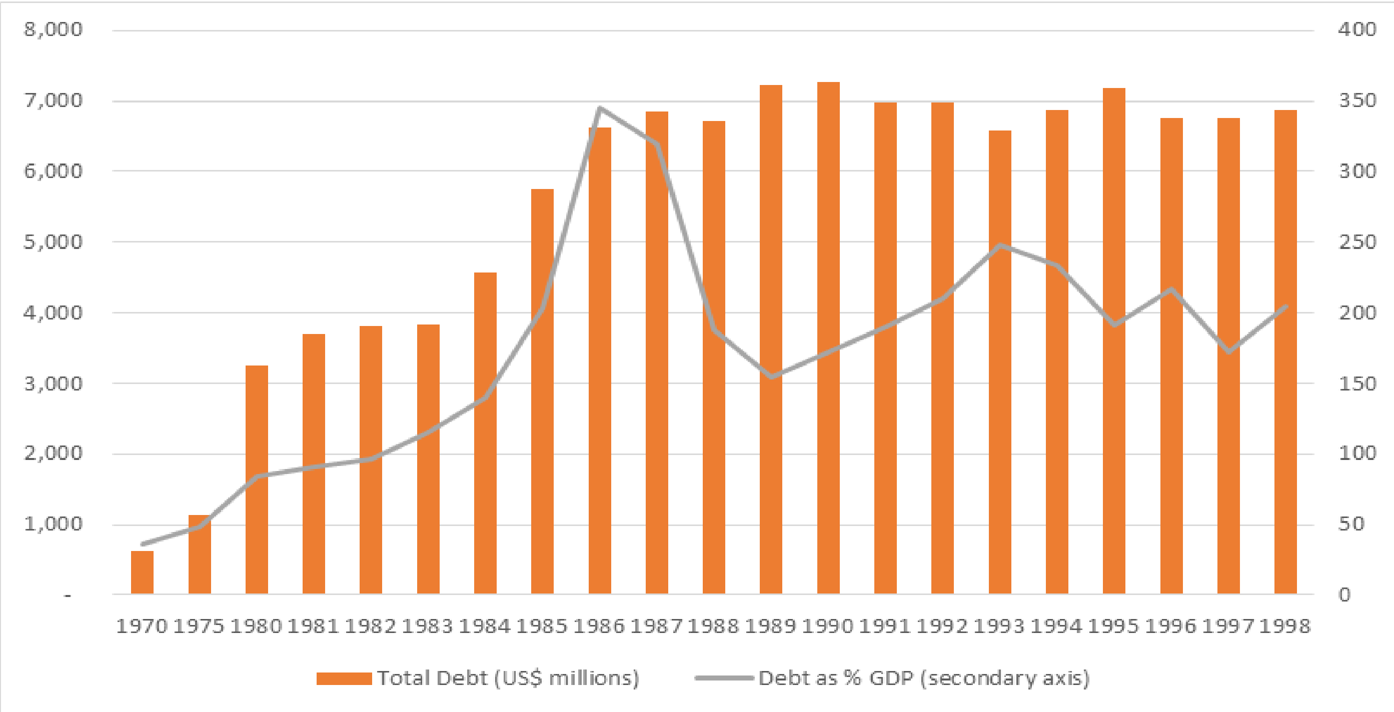
The SAPS were created to respond to problems Zambia and many other low-income countries faced. These policies were most times met with backlash to the austerity measures from the people, leading to poor implementation, or occasionally complete abandonment, by the Government. Furthermore, UNIP showed a lack of commitment in implementing stabilisation and structural adjustment policies between 1973 and 1991. On many occasions the government failed to fulfil the agreed targets and had the agreements suspended or cancelled. Thus, the demand for democracy in many African countries, including Zambia, was also an expression of opposition to the effects of structural adjustment. The 1983 agreement involved, among other things, the devaluation of currency, limiting wage increases to 5 percent, decontrol of prices of essential commodities and removing subsidies on maize and fertilisers. The most comprehensive economic adjustment policies were implemented in October 1985. The centrepiece of the 1985 programme was adopting the foreign exchange auction system. Other measures included liberalisation of agricultural marketing, public sector reform and a reduction in civil service employment (Simutanyi, 1996).

The policies affected these groups in different ways. First, they were generally unpopular. They alienated segments of society which were potentially the most threatening to the government, namely the urban elites and unionised formal sector workers who had benefitted from the earlier policies of price and foreign exchange controls, rising real wages and food subsidies. Second, the programme never enjoyed the full backing of the political leadership, which was not willing to defend a programme it did not believe in (Callaghy 1991).

For instance, the overall effect of the auction system was a devaluation of the local currency and escalation of the cost of living of the urban wage earners. It led to the deterioration in workers' living conditions. Prices of essential commodities sky-rocketed and workers agitated for wage increases. When the government removed the maize subsidy in December 1986 urban dwellers protested against price rises through demonstrations and riots (Van de Walle & Chiwele 1990).

Following a change of Government in 1991, the new Government, the Movement for Multi-Party Democracy (MMD) committed to adopting the SAPs for a new program which ran from 1991 to 1996. Subsequently, the government started discussing the possibility of privatising copper mining, largely – but not exclusively – due to pressure from the IMF and World Bank. Privatisation of ZCCM was a condition repeatedly attached to several loans from both these institutions and was a pre-condition for Zambia to qualify for debt relief through the highly indebted poor countries (HIPC) initiative. In 1999, with the Zambian government still reluctant to privatise ZCCM, 'major donors withheld some $530 million in aid until the government conceded (Abi Dymond, 2007). At the end of the program, approximately 70 percent of Zambians were living in abject poverty. Despondency and misery were rampant while the relative social and economic stability was upset. General health standards and quality of life declined. Much of the country's Gross National Product was being used to service foreign debt instead of for economic investment (Kaemba, 1999).

Figure 1: Historical (1970-1998) total public debt and debt-to-GDP ratio for Zambia



Essentially these problems manifested themselves in high import bills occasioned by high fuel prices and further compounded by falling commodity prices on the international markets (Mungomba, Cheelo and Hatoongo 2020). The literature on the effects of IMF Programmes and conditionalities on African economics is quite extensive (Heidhues & Obare, 2011; Kawewe & Dibie, 2000; Messkoub, 1996; Naiman & Watkins, 1999; Saasa, 1996). Generally, most observers in the literature argue that the IMF and World Bank's structural adjustment Programmes (SAPs) in the 1980s and 1990s yielded some far-reaching negative social and economic impacts in Africa. In fact, developing countries worldwide implementing IMF Enhanced Structural Adjustment Facility (ESAF) Programmes in the 1980s experienced lower economic growth than those outside of these Programmes (Naiman & Watkins, 1999).

It is worth highlighting that during the SAP period between 1980 and 1990, the Zambia's economic growth was the second lowest in the Southern African Development Community (SADC) after Mozambique. Over the period 1990 to 1999, it had the least average annual growth rate in the SADC region at 1 percent and this was also below the Sub-Saharan Africa (SSA) rate of 2.4 percent (AFRODAD PRSP Series 2003). At best, Zambia's relationship with the IMF has resulted in stabilization and economic growth, as evidenced in 2010 when the economy grew at 10.3 percent (Cheelo 2021), which, however, occurred at the expense of employment and poverty reduction as evidenced in the era of Structural Adjustment Programmes (SAPs). At worst, the pursuance of such policy prescriptions has led to socio-economic hardships and political instability (Saasa 2002).

Reportedly, while African countries urgently needed to increase healthcare, education, and sanitation spending, IMF SAPs compelled them to reduce such spending. As such, the average amount of per capita government spending on education declined between 1986 and 1996. From a historical perspective, many observers express notable misgivings about the socioeconomic effects of the IMF's involvement in Zambia and other African countries in the 1980s and 1990s (Mungomba, Cheelo and Hatoongo 2020).

Table 1: Zambia-IMF History of Lending Commitments as of January 31, 2023 in (In thousands of SDRs)

	Facility	Date of Arrangement	Expiration Date	Amount Agreed	Amount Drawn
1	Standby Arrangement	4-May-73	3-May-74	19,000	19,000
2	Standby Arrangement	30-Jul-76	29-Jul-77	62,000	8,500
3	Standby Arrangement	26-Apr-78	25-Apr-80	250,000	250,000
4	Extended Fund Facility	8-May-81	3-Jul-82	800,000	300,000
5	Standby Arrangement	18-Apr-83	17-Apr-84	211,500	144,000
6	Standby Arrangement	26-Jul-84	7-Feb-86	225,000	80,000
7	Standby Arrangement	21-Feb-86	15-May-87	229,800	35,000
8	Structural Adjustment Facility Commitment	6-Dec-95	5-Dec-96	181,750	181,750
9	Extended Credit Facility	6-Dec-95	5-Dec-98	701,682	661,682
10	Extended Credit Facility	25-Mar-99	28-Mar-03	278,900	237,520
11	Extended Credit Facility	16-Jun-04	30-Sep-07	220,095	220,095
12	Extended Credit Facility	4-Jun-08	29-Jun-11	220,095	220,095
13	Extended Credit Facility	31-Aug-22	30-Oct-25	978,200	139,880
	Total			4,378,022	2,497,522

Source: Constructed from https://www.imf.org/external/np/fin/tad/

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SECTION 3

ZAMBIA'S U-TURN TO IMF AND ASSOCIATED CONDITIONALITIES

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3.1 What Drove Zambia Back to the IMF?

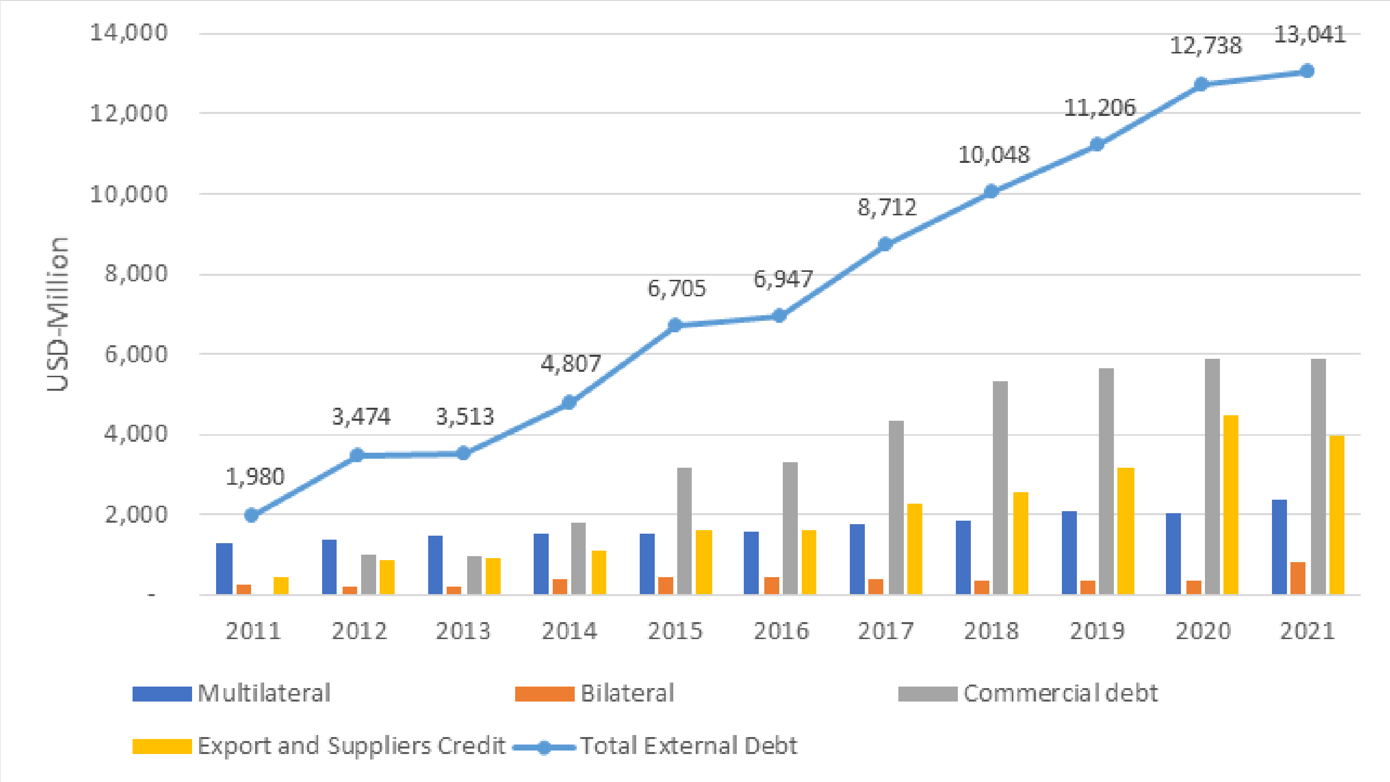
Zambia's last Programme with the International Monetary Fund (IMF), a Poverty Reduction and Growth Facility (PRGF), expired in 2011 (IMF, 2019e). At that time, the country had established sustained macroeconomic stability and robust growth underpinned by conservative fiscal and monetary policies as well as a conducive business environment for private sector development (ZIPAR, 2018). Zambia's exit from an IMF Programme in 2011 was greeted with high hopes and expectations. Many believed that Zambia could be back on a path of sustainable growth and prosperity. These hopes were, however, short lived, as in 2015, barely five years later, Zambia found itself in the same web it had escaped from. Recourse to the IMF is almost always a last resort.

In 2011, Zambia graduated from a low-income to lower middle-income country. The reclassification meant that Zambia's access to concessional financing was largely limited and that the country could now borrow commercially internationally; and in quick succession, issued three Eurobonds totalling US$3 billion between 2012 and 2015. The borrowing appetite was driven by an ambitious infrastructure-led development agenda in both Zambia's 6NDP and revised 6NDP following the change of Government in 2011 when the Patriotic Front (PF) formed Government taking over from the MMD. This resulted in a shift from a conservative fiscal policy stance to an expansionary fiscal policy position that set Zambia on a path of excessive overspending and borrowing. Infrastructure development was mostly financed by external and domestic borrowing and the notable infrastructure projects were roads, energy, and agriculture.

While borrowing for infrastructure was intended to achieve sustainable pro-poor development, there were at least two implications of increased borrowing. Firstly, according to official government statistics, government borrowing as a percentage of Gross Domestic Product (GDP) increased from 5.6 percent in 2012 to 18.4 percent in 2013 before reducing to 13 percent in 2014. Secondly, between 2012 and 2015, the Zambian government faced recurring fiscal deficits attributed to debt repayments due to increased government borrowing for infrastructure projects and declining government revenues due to a decline in copper prices (Sichiwema, 2021). Road construction projects in Zambia have been known to overrun the design schedule and incur costs higher than planned and budgeted.

Following this expansionary path, Zambia's external public and publicly guaranteed (PPG) debt more than quadrupled and the country's debt burden was assessed as unsustainable in the 2019 IMF Article IV Consultation. Reflecting the 2019- 2020 financing challenges, Zambia fell into arrears on external debt service and defaulted on its Eurobonds in 2020. Principal and interest arrears reached $2.2 billion by end-2021, and $2.4 billion by end-March 2022 The stock of public external debt amounted to US $14.87 billion as at end-June 2022. Of this amount, Central Government external debt was US $13.25 billion while guaranteed and non-guaranteed external debt for State Owned Enterprises was US $1.50 billion and US $113.69 million, respectively (2023 National Budget Speech, MoFNP).

Figure 2: Zambia's External Debt Portfolio 2011-2021



Source: Authors own compilation from official Government of The Republic of Zambia (GRZ) statistics

Following this rise in the stock of public debt, Zambia's external debt and debt servicing burdens have soared (See Figure 3), putting the country in debt distress, a fact confirmed by the 2019 IMF Debt Sustainability Analysis. The COVID-19 pandemic exacerbated the acute economic and social challenges facing the country, as a result, defaulting on its Eurobonds since November 2020 while also accumulating arrears to other creditors excluding the multilateral creditors. In the last two years, the Government has since been trying to get lenders, such as the finance company BlackRock, to cancel the debt. Additionally, the IMF Programme was also believed, by the Government and other stakeholders, to be pivotal to the country's debt restructuring process.

Table 2: Effects of Debt on Social Spending

Category	2015	2016	2017	2018	2019	2020	2021	2022	2023
General Public Service	25.8%	36.1%	27.9%	36.1%	36.0%	41.6%	48.3%	49.9%	39.5%
o/w: Debt Service	44.0%	37.0%	64.0%	55.0%	75.0%	77.0%	80.0%	31.7%	46.1%
Defence	7.0%	5.9%	5.0%	4.9%	5.8%	6.2%	4.7%	4.4%	4.9%
Public Order & Safety	4.7%	3.5%	3.6%	3.0%	3.3%	3.8%	2.6%	2.0%	3.1%
Economic Affairs	27.3%	24.9%	31.2%	24.1%	23.8%	20.6%	18.0%	19.5%	20.9%
Environmental Protection	0.4%	0.3%	1.0%	1.3%	1.0%	0.6%	0.8%	0.6%	0.6%
Housing & Community Amenities	1.7%	0.9%	1.3%	1.1%	2.6%	3.3%	1.9%	1.4%	1.5%
Health	9.6%	8.3%	8.9%	9.5%	9.3%	8.8%	8.1%	8.0%	10.4%
Recreation, Culture & Religion	0.7%	0.5%	0.5%	0.6%	0.3%	0.4%	0.1%	0.1%	0.3%
Education	20.2%	17.2%	16.5%	16.1%	15.3%	12.4%	11.5%	10.4%	13.9%
Social Protection	2.7%	2.4%	4.2%	3.2%	2.5%	2.4%	4.0%	3.6%	4.9%

Source: Constructed from Government Economic Reports.

These developments required immediate solutions, consequently, a heated debate among different stakeholders ensued about the relevance of IMF support to the economic Programme and its implication for Zambia's socio-economic development. These include the academia, the civil society organisations, think tanks and the general public.

3.2 The IMF Current Loan to Zambia: What are the Conditions?

In August 2022, the IMF Board approved SDR 978.2 million (about US$1.3 billion) 38-month Extended Credit Facility (ECF) arrangement for Zambia to help restore macroeconomic stability and foster higher, more resilient, and more inclusive growth (Zambia's 2022-2025 IMF ECF Programme). The Programme is to run for three years, from 2022 to 2025. However, as a prerequisite to access the funds, the conditionalities the loan comes with must be fulfilled and a wider package of policy reforms are agreed. These conditions include agreements to adjust the national economy in ways specified by the IMF ("IMF Conditionality," 2018). Additionally, prior to the Programme, the IMF also sought financing assurances from Zambia's Official Creditors Committee.

Conditionality covers the design of IMF-supported Programmes—that is, macroeconomic and structural policies—and the specific tools used to monitor progress toward goals outlined by the country in cooperation with the IMF.

The Programme contains both "Prior Actions" and "Structural Benchmarks". Prior Actions are steps a country agrees to take before the IMF approves financing or completes a review while Structural Benchmarks are reform measures often non-quantifiable (IMF Conditionality February 22, 2021). These Prior targets, Structural Benchmarks and Quantitative Targets constitute the conditionalities under Zambia's IMF's Extended Credit Facility arrangement are summarized in Tables 3, 4 and 5 respectively.

Table 3. Zambia: Prior Actions	
Measure	**Status**
Publish an updated Medium Term Expenditure Frame revised in line with Programme objectives.	Completed and is now referred to as the Medium-Term Budget Plan
Publish summary information on all procurement contracts related to the 2021 Farmer Input Support Programme (FISP), including types of inputs the names of the companies awarded, and the contract amounts.	Completed.
Provide detailed information to Fund staff on all external debt contracted or guaranteed by the public sector, for both disbursed and undisbursed debt.	Completed.
Publish a list of priority foreign-financed projects that the government intends to continue. Government to confirm to contractors on non-priority projects that any arrears incurred would be subject to restructuring. Government to confirm to IMF staff the list of priority and non-priority projects.	Completed.
Submit to Parliament amendments to the Bank of Zambia Act, in line with IMF advice to safeguard the central bank's autonomy (operational and financial) and strengthen its governance	Completed.
Restore the practice of adjusting the price of petroleum prices in line with the cost-plus pricing model, with the pricing cycle reduced from 60 to 30 days.	Completed
Publish the electricity sector cost-of-service study and government response.	To be completed.
Publish a strategy for clearing expenditure and VAT refund arrears, including criteria for prioritization and timing of payments, and consistent with Programme parameters.	Completed.
Publish the implementing regulations for the new Public Procurement Act, reflecting feedback from the World Bank and Fundexperts.	Completed.

Source: Zambia's 2022-2025 IMF ECF Programme

Table 4. Zambia: Structural Benchmarks		
Measure	**Target Date**	**Macroeconomic Rationale**
A. Fiscal measures		
Reinstate VAT and excise taxes on fuel, adjusting fuel prices accordingly.	End-September 2022	Eliminate implicit fuel subsidies.
Publish the guidelines to implement the new comprehensive agricultural support Programme and ensure a full migration of FISP to an electronic agro-input system.	End-December 2022	Reduce the cost of FISP.
Adopt an action plan to boost revenue collections through changes in tax policy and improvements in revenue administration.	End-October 2022	End-October 2022
B. Public debt management and transparency		
Publish a quarterly debt statistics bulletin.	Quarterly (on an ongoing basis)	Improve debt management and transparency.
Publish summary information on the financing agreements for all newly contracted external loans by the general government, including new loan contracts guaranteed or new guarantees on existing loan contracts.	Quarterly (on an ongoing basis)	Improve debt management and transparency.
Enact a revised Loans and Guarantees Authorization Act.	End-September 2022	Improve debt management and transparency.
C. Public financial management		
Ensure that at least 59 ministries, provinces, and spending agencies (MPSAs) register all purchase orders and other financial commitments in the IFMIS.[2]	End-June 2023	Strengthen fiscal governance, reduce corruption risks, and prevent the accumulation of arrears.
In consultation with Fund staff, submit to Parliament an amended PPP Act.	End-June 2023	Strengthen the manage-ment of fiscal risks related to PPPs.

Source: Zambia's 2022-2025 IMF ECF Programme

[2]Integrated Financial Management Information System (IFMIS): used to monitor how ministries, departments and other state agencies spend funds on a real-time basis in order to improve budget implementation

Table 5. Zambia: Quantitative Performance Criteria and Indicative Targets for 2022–23
(Millions of kwacha; cumulative from the beginning of the calendar year; except where indicated)

	September 2022		December 2022		March 2023		June 2023	
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.
I. Quantitative Performance Criteria								
1. Floor on the central government's primary balance (cash basis)	-5,296		-8,533		1,644		1,866	
2. Ceiling on new central bank credit to the central government	0		0		0		0	
3. Floor on the net official international reserves of the Bank of Zambia (millions of US dollars)	2,169		2,225		2,244		2,403	
II. Continuous Performance Criteria								
4. Ceiling on new external debt arrears by central government, the Bank of Zambia, and ZESCO (millions of US dollars)	0		0		0		0	
5. Ceiling on the contracting or guaranteeing of new non-concessional external debt by central government, the Bank of Zambia, and ZESCO (millions of US dollars)	0		0		0		0	
III. Monetary Policy Consultation								
6. Average CPI inflation Upper outer band	17.3		17.1		15.9		14.4	
Upper inner band	15.3		15.1		13.9		12.4	
Mid-point	13.3		13.1		11.9		10.4	
Lower inner band	9.3		8.5		8.2		8.0	
Lower outer band	7.2		6.3		6.0		6.0	
IV. Indicative Targets								
7. Floor on the fiscal revenues of central government excluding grants and mining revenues, adjusted by the backlog of VAT refunds	55,421		74,939		20,731		44,099	
8. Ceiling on the present value of new external borrowing (millions of US dollars)	75.0		75.0		0.0		0.0	
9. Ceiling on the disbursement of contracted but undisbursed external debt to central government and ZESCO (millions of US dollars)	205.0		205.0		200.0		200.0	
10. Floor on social spending by the central government	26,560		36,022		8,551		18,103	
11. Floor on the net clearance of arrears on expenditure and tax refunds	8,743		11,657		2,954		5,908	
V. Memorandum Items								
12. Expected public sector disbursements into the Treasury Single Account at the Bank of Zambia (millions of US dollars)	274		547		71		141	

The achievement of these time-bound targets by the Government of Zambia is not only a pre-requisite to access the disbursements under the IMF arrangement, but also serves as a de facto measure of government performance (Benjamin Addo et. Al, 2010). These targets are often referenced in government documents and political elites to justify their actions and arguments. Although these targets are supposed to be a means to an end, they are hardly treated as such. As a result, their real impact in terms of development results – for instance on poverty, hunger, illiteracy, vulnerability, maternal and infant morbidity and mortality is often overlooked (Benjamin Addo et. al 2010). Granted, these targets are important, it is problematic to treat them as development goals.

Given that it is not under every circumstance that a reduction in inflation, as it is generally assumed, helps the poor; sometimes policies implemented to reduce inflation disproportionately hurts the poor, especially in the short run. It is thus essential to extend the discussion beyond the achievements of these performance targets to cover the development outcomes. As shown in Table 5, the Zambian Government is expected to comply with such Programme performance criteria as: a ceiling on the overall fiscal deficits; a floor on the net international reserves; a continuous zero ceiling for the accumulation of new external arrears; and a ceiling on the contracting or guaranteeing of new external non concessional debt.

As indicated earlier, achieving these targets will be key in determining whether or not Zambia receives tranche payments from the IMF (See Table 6). Upon the IMF Board approval of the arrangement, the IMF immediately disbursed US$190 million. However, access to the remaining funds will be phased uniformly over the life of the Programme, in line with the proposed schedule of reviews and disbursements. The completion of each round of review enables the disbursement of SDR 139.88 million (about US$192.7 million on average), bringing total disbursements under the arrangement to SDR 978.20 million (about US$1.3 billion) after all the six rounds of reviews by 2025.

Table 6. Zambia: Schedule of Reviews and Disbursements			
Availability Date	**Millions of SDR**	**In Percent of Quota**	**Conditions**
August 31, 2022	139.88	14.3	Board approval of arrangement.
April 1, 2023	139.88	14.3	Observance of end-December 2022 and continuous performance criteria and completion of first review.
October 1, 2023	139.88	14.3	Observance of end-June 2023 and continuous performance criteria and completion of second review.
April 1, 2024	139.88	14.3	Observance of end-December 2023 and continuous performance criteria and completion of third review
October 1, 2024	139.88	14.3	Observance of end-June 2024 and continuous performance criteria and completion of fourth review
April 1, 2025	139.88	14.3	Observance of end-December 2024 and continuous performance criteria and completion of fifth review
October 1, 2025	138.92	14.2	Observance of end-June 2025 and continuous performance criteria and completion of sixth review
Total	**978.20**	**100.0**	

Source: Zambia's 2022-2025 IMF ECF Programme

SECTION 4

IMPLICATIONS OF THE IMF PROGRAMME

SECTION 4: IMPLICATIONS OF THE IMF PROGRAMME

4.1 Implications of the IMF Conditionalities on Zambia's Economy

a. Contractionary Fiscal Policy Stance

In the period 2022 to 2025, during the period of the IMF Programme, the Zambian Government plans to take an austere stance. As a percentage of GDP, the size of the Budget is planned to contract to 33 percent in 2025 from 37 percent in 2022 (MTDS 2023 - 2025). Such a pro-cyclical contractionary policy approach is likely to worsen unemployment, lower economic growth rates and tax revenues. The projected less than anticipated growth in GDP is expected to result in elevated levels of debt to GDP ratio. Infrastructure development is expected to slow down since the IMF deal restricts the Zambian Government to contract only concessional loans from multilaterals and Official Development Assistance (ODA) sources for its development financing. This, therefore, limits the number of options open for the country's development financing.

b. Contractionary Monetary Policy Stance

The IMF Programme obsesses with price (inflation) stability. The major problem with the IMF's contractionary monetary policies is that focusing more on inflation reflects to narrow a view of stabilization. Zambia's average lending rates have remained elevated at around 26 percent, with the Monetary Policy Rate (MPR) raised to 9.25 percent in February 2023 from 9.0 percent in (BOZ 2023 quarter 1 Monetary Policy Committee Statement). Tight monetary policy, as has been the case for Zambia, has the immediate effect of making credit less affordable for domestic industries, which constrains the productive capacity, employment and GDP output, and thus, tax revenues, than otherwise could be the case under more expansionary fiscal and monetary policy options. With the Government's agenda of enhancing the private sector to foster growth, the MPR has a bearing on the private sector's access to credit. This deprives governments of higher levels of tax revenues for both Government expenditure and for long-term public investment. The high-interest rates also make any deficit financing by the government more difficult to afford, so it slows down the levels of essential long-term public investment and undermines the ability of long-term GDP growth.

Economic stabilization, therefore, needs to be defined more broadly to include stability of the real economy with smoothened business cycles and reduced fluctuations of output, investment, employment and incomes. A "real targeting" framework for monetary policy should include more important real variables such as "employment targeting" as a goal of monetary policy (Rick Rowden, 2011). Achieving stability of the real economy may require more than reduced inflation rate as prescribed by the conventional IMF macroeconomic policy mix, especially in the face of economic shocks.

c. Cost Reflective Tariffs on electricity following the Cost-of-Service Study (COSS)

The Government's commitment to migrate to cost-reflective tariffs on electricity is one of the Prior Actions on Zambia's IMF Programme and the migration path was to be published by end-December 2022 as a Structural Benchmark (not done). Generally, most African countries charge tariffs much lower than the actual cost of generating, distributing and retailing electricity. The difference between the tariffs most customers pay and the actual cost of electricity is subsidised by Governments. However, the Energy Regulation Board (ERB) indicates that the current electricity tariffs will need to rise by an average of 17 percent between 2020 and 2025 [ERB 2022]. The implementation of cost reflective tariffs will affect different consumer categories differently, placing more burden on poor households, as they will spend a larger proportion of their income on electricity compared to the rich. The resultant increase in the production costs of various industries, particularly micro, small and medium enterprises (MSMEs); making them less competitive. The small enterprises will be most affected mainly due to their lack of resilience and limited capacity to invest in alternative energy sources. Therefore, reduced use of electricity, a key input in production processes may lead to decreased economic activities. Additionally, for households, a cost reflective tariff may present new challenges of increased deforestation through increased consumption of charcoal and firewood. This would exacerbate the effects of climate change and erode progress in attaining access to clean energy.

d. Adjustments to petroleum prices

As a Prior Action to the IMF Programme, the Zambian authorities restored cost-plus pricing for petroleum products in December 2021, and shortened the pricing cycle from 60 to 30 days (prior action). In addition, as a Structural Benchmark, the Programme recommended for the reinstatement of VAT and excise taxes on fuel by September 2022 (done). The monthly (30 days) reviews of fuel prices have increased uncertainty not only in the energy market but in other markets which rely on energy as an input into production. This is not conducive for business and may negatively impact production plans and exacerbate the supply chain disruptions caused by the Covid-19 pandemic. Given an unstable currency like the Zambian Kwacha and volatility in the international oil prices which might worsen on account of the Russia-Ukraine conflict, international fuel prices are likely to rise further, and regular fluctuations of higher domestic fuel pump prices should be anticipated. Consequently, manufacturers will face a problem with accurate budgeting and cost planning in the medium to long term, as fuel remains a key resource in the production process (ZAM 2022). This situation, coupled with the removal of implicit subsidies (reinstatement of VAT and excise duty) on Petroleum products, will leave petroleum prices elevated, further slowing down economic activities.

4.2 Implications of the IMF Conditionalities on the Free Education Policy

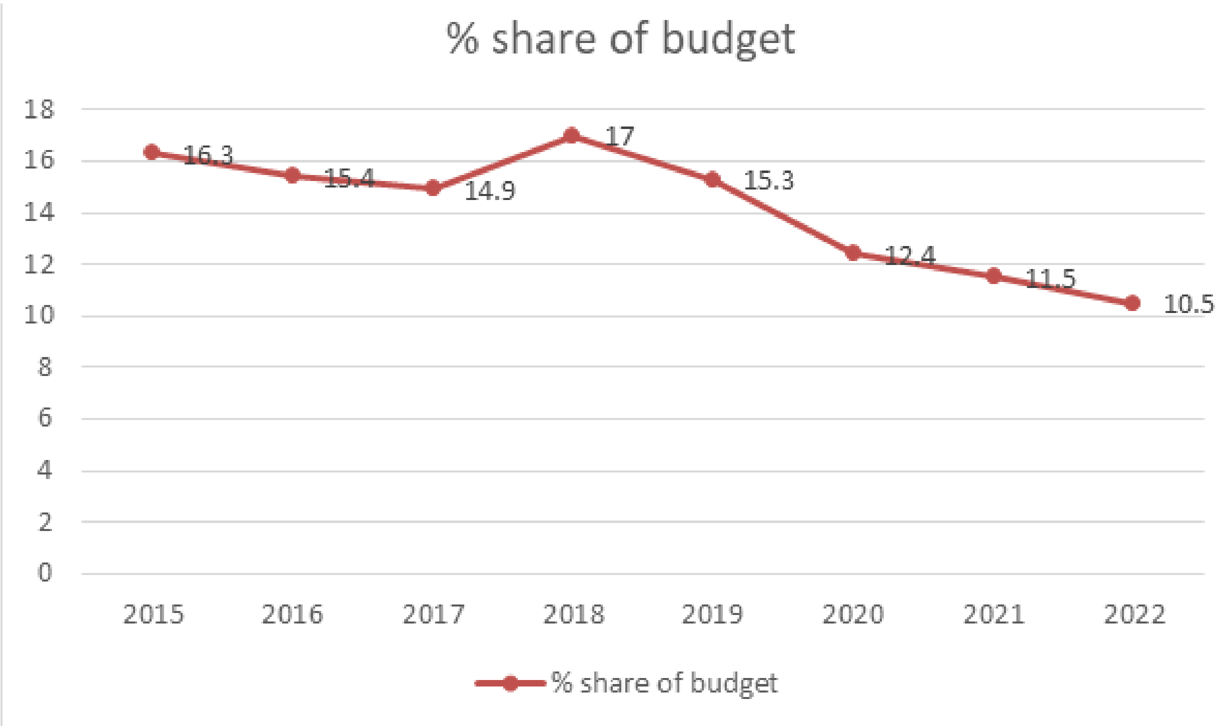
The Zambian government has made significant investments in infrastructure for education, such as additional schools, classroom and desk space, and more recently early childhood learning centres. Successive governments have also implemented progressive and affirmative policies such as the "Keeping Girls in School" policy. The Keeping Girls in School (KGS) initiative of the Government of the Republic of Zambia was launched in 2015 to address inequalities in educational attainment related to gender and poverty and reduce secondary school drop-out rates among vulnerable adolescent girls. KGS is led by the Ministry of General Education (MOGE), and funded through the World Bank's Girls Education and Women's Empowerment and Livelihoods (GEWEL) program. Nevertheless, access to quality education, especially in rural and among the poorest in peri-urban areas, remains a challenge, mainly due barriers such to school fees. However, the Government's declaration in the 2022 National Budget of free education ("Education for All") from early childhood to secondary school level has, to some extent, increased school attendance at all levels, allowing many girls and children from disadvantaged groups to attend school. However, it is also adding extra workload to already overstretched Zambian teachers and exacerbating pressure on strained infrastructure. It is estimated that the pupil-teacher ratio, especially in rural schools, significantly increased after this declaration of free education.

The 2022 recruitment of 30,496 teachers nationwide is an important milestone and is expected to narrow this ratio. Additional recruitments are expected in 2023 as there still is a significant deficit of teachers in schools. This shows the government's commitment to invest in the sustained social and economic development of the country. The continued recruitment will be critical in reducing the teacher-pupil ratio which stood at 1:60 in primary schools against the recommended 1:40. However,, both 2022 and 2023 recruitments are silent about recruiting teachers for Learners with Special Needs (LSEN). The current pupil teacher for LSEN is 1:80. This is alarmingly high as it is above the Ministry of Education recommendation of 1:15, and above the pupil-teacher ratio for ordinary learners at both primary and secondary levels (ZIPAR 2023 Budget Analysis). Furthermore, engagements with the Zambia National Union of Teachers (ZNUT) highlighted that the number of science, technology, engineering and mathematics (STEMs) teacher recruitments remain inadequate. A teacher's role in providing quality education will undoubtedly play a major role if Zambia is likely to meet its SDG 4 which aims to "ensure inclusive and equitable quality education and promote lifelong learning opportunities for all" by 2030.

The implementation of the free education has successfully increased enrolment but has also exposed the need to invest in infrastructure to support the delivery of quality education. The Education Statistics Bulletin of 2020 (published in 2022) show that there is 1 secondary school for every 9 primary schools in Zambia (about 1200 secondary schools for about 9400 primary schools). To a large extent, it is presumed globally that adequate education funding at all levels determines the quality of the educational system. Zambia's Medium-Term Budget Plan (MTBP 2023-2025) indicates that the Government's allocation to free education grants will marginally reduce from 0.3 percent of GDP in 2022 at the start of the IMF Programme to 0.2 percent of GDP in 2025 as the IMF Programme closes. This reduction is of concern since achieving SDG 4 will require significant additional financing. Research shows that annual total spending for SDG 4 on quality education would need to more than triple to achieve the first two—and costliest—education targets, namely universal pre-primary, primary and secondary education in low-income countries alone (UN-DESA 2019). The United Nations Sustainable Development reports identified some major challenges that can hinder low-income countries from achieving this goal including poor funding of education in the budgets and prolonged neglect of learning environments and facilities, among many others. Given the foregoing, although the hiring of extra teachers and the implementation of the free education are right steps, without an increased share of the national budget and GDP allocated to education, it would be reasonable to conclude that, Zambia may face challenges in attaining the SDG 4 indicators, especially those focusing on quality of education and learning outcomes. Improving school infrastructure is critical in providing quality education. Improvements in infrastructure must meet the recruitment of teachers. As a percentage of the National Budget, the education sector takes up 14 percent (2023 Budget Speech), therefore, the Government must work towards meeting the minimum SADC threshold for financing the education sector by allocating at least 20 percent of the National Budget to the Education Sector.

Figure 3 shows that the education budget stood at just 11.5 percent of the budget share (and 3.9 percent of GDP) in 2021 and 10.5 percent in 2022, showing a consistent downward trend as shown in the Figure. Zambia needs to find a new way to urgently reverse the decline in their public spending capacity: this is increasingly important given that debt servicing is draining precious revenues. Progressive tax reform could offer a sustainable solution to counter the negative effects of debt. Tax losses are estimated to range from 0.8 – 3.5 percent of GDP. In 2021, foregone revenue due to tax abuse was estimated to be $635.3 million.

Figure 3: Zambia share of the budget on education, 2015-2022



Source: UNESCO Institute of Statistics and Zambian Government documents

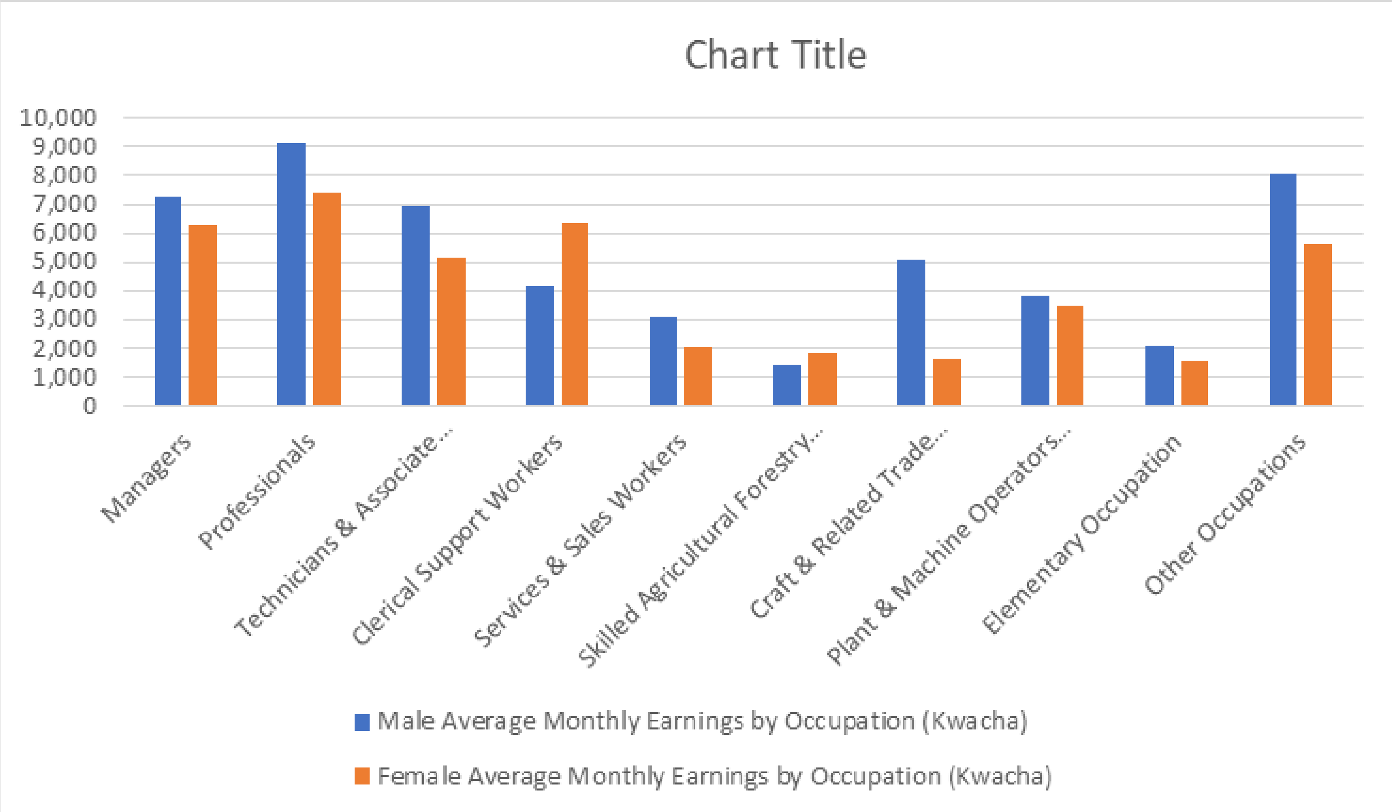
4.3 Implications of the IMF Conditionalities on Gender and Tax Progressivity

Gender equality in economic opportunities and outcomes is demonstrably critical to inclusive and sustainable economic growth. Though much progress has been made in the last half century, gender gaps remain significant on a global scale, either due to legal restrictions or non-legal barriers to women's access to education, healthcare, financial services, and the labour force. Promoting gender equality along those margins has been shown to play an important role in boosting economic productivity and growth, enhancing economic resilience, and reducing overall income inequality (Hsieh and others 2019, IMF 2013, IMF 2018). Those most affected by macroeconomic policies, especially policies based on austerity measures, are people at the bottom of the economic ladder, where women are disproportionally affected due to existing and entrenched gender-based discrimination and inequalities.

A study conducted by Oxfam in 2019 indicate that while the IMF has done better at recognizing gender inequality, this has not yet been reflected enough in its policy and Programmes. It has not managed to integrate gender concerns into the design of its programmes systematically. As a result, the gendered impact of macroeconomic policies supported by the IMF has been seemingly ignored, and women have paid the price.
Another study by Action Aid International (2022), "The Care Contradiction", explains that the IMF proposed new strategy gives a mandate for a central 'gender and inclusion unit' to be established and to 'integrate gender' across IMF core functions of surveillance, lending and capacity development (or technical assistance). The strategy also states that it will evaluate "the gender-differentiated impact of shocks and policies, and providing granular and tailored macroeconomic and financial policy advice." This kind of assessment of gender-differentiated impacts of shock and policies is something that women's rights organisations, feminist economists and others have called for, as the current gender-blind approach has led time and again to harmful gendered impacts. However, it is not clear that these will be systematically applied.

As has already been established in this report, the IMF Programme is expected to have some significant social and economic effects on the Zambian economy. However, evidence suggests that women's capacity to absorb economic shocks is less than that of men. Therefore, women's economic and productive lives will be affected disproportionately and differently from those of men as women earn less, save less, hold less secure jobs, and are more likely to be affected by Government spending cuts. The recent 2020 Labour Force Survey conducted by the Zambia Statistics Agency reveal that indeed women earn considerably lower than men. The gender income gap is pervasive, reflecting a variety of factors, and this income gender gap is partly explained by wage rate differentials (Figure 4), as women, on average, are paid less than men. The Figure shows that on average, women earn less than men in several occupations. This is very evident especially in occupations dominated by men. For instance, men earn on average K9000 as Professionals compared to an average of about K7000 for women. Such pay gaps are further observed in the managers category, technicians and associates category, crafts and related trade category (men K5000 compared to K1500 for women) and so on and so forth.

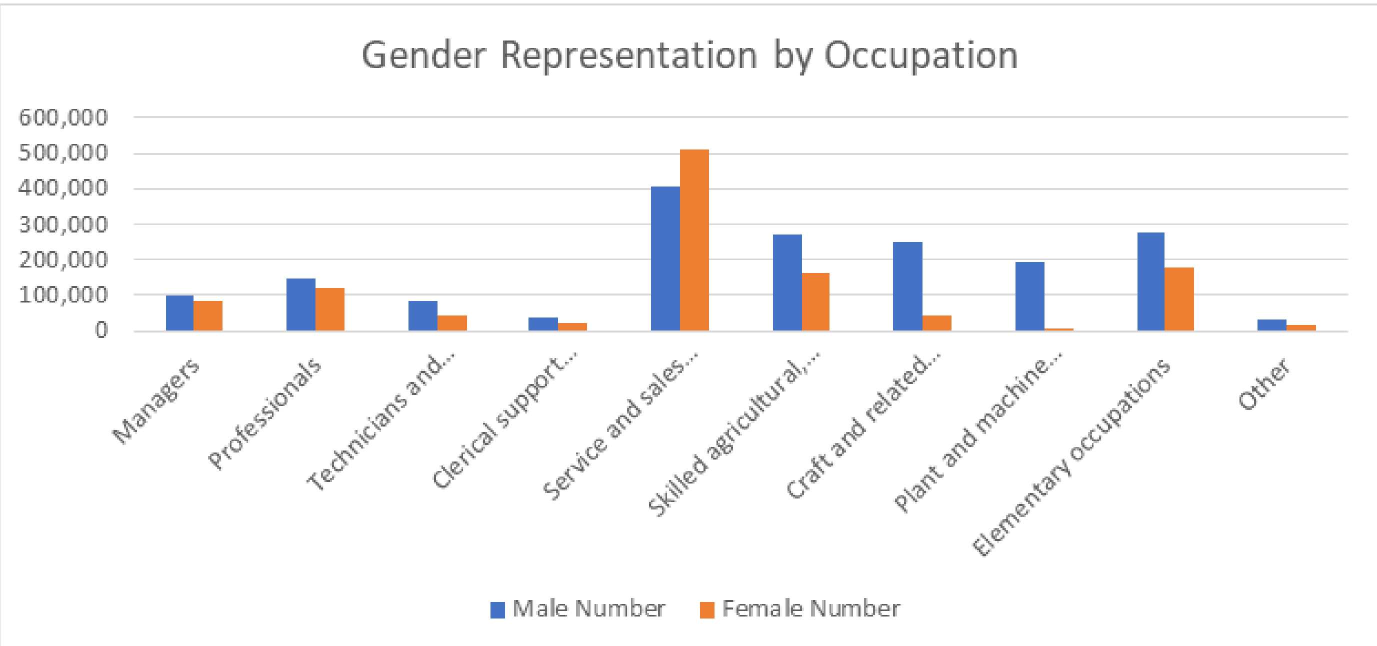
Figure 4: Average Monthly Earnings by Occupation and Sex, Zambia 2020 (Kwacha)



Source: ZamStats Labour Force Survey 2020

The income gap is also reflected in the composition of the workforce across genders and income levels. If we compare Figures 4 and 5, we observe that women tend to be overrepresented in low income earning occupations while men have a higher representation in relatively higher paying occupations.

Figure 5: Number and Percentage Distribution of Employed Population by Occupation and Sex, Zambia



Source: ZamStats 2020 Labour Force Survey

The existing gender income gap indicates that a more progressive tax system can both address general inequality and narrow gender gaps in net incomes. In progressive tax systems, the average tax rate rises with income. As already highlighted, women' average earnings are lower than men. As a result, even in the absence of gender-specific taxes, the impact will differ across genders since their average incomes are not the same. Furthermore, a study conducted by Global Tax Justice indicate that Tax policy can play an important role in redistributing wealth and power within an economy. Providing services is one way of addressing poverty and inequality through taxation, as the poor tend to depend more on key services such as publicly funded healthcare and education services. With an ever-shrinking pool of international development aid, tax is one of the only long-term, sustainable and reliable ways of resourcing women's rights, and it comes without many of the ties and constraints linked to aid or loans. However, how tax systems are designed and implemented directly impacts who they benefit and who they unfairly burden. And this speaks to the importance of progressive tax.

The term 'progressive taxation' is used to describe tax systems that redistribute from wealthier individuals and institutions to those with fewer resources. Progressive taxation systems are more compliant with human rights obligations. Conventional advice by the IMF on tax policies attaches the greater importance to domestic indirect taxation, and to value added taxation (VAT) in particular (Mckinley and Kyrilii 2009). For instance, this IMF Programme calls for tax policy changes and targets increasing government revenue to 4.5 percent of GDP for CIT compared to 5.7 percent for VAT. Taxes on domestic goods and services, such as VAT, are often regressive in their impact, disproportionately hurting the poorest citizens. Several studies, including Barnett (2004) and Grown (2004) indicate that women, compared to men, tend to spend a higher proportion of income under their control on goods such as food, education and health care that enhance the well-being and capabilities of children. Placing greater emphasis on indirect taxes has shown to increase both economic and gender inequality, putting an unfair burden on women, especially those in low-income households. Therefore, if this burden is not taken into account in the reforms, women are likely to bear a large negative share of the impact from the reforms, as women are a larger share of low-income households.

This situation is compounded by the systematic cut in fuel and energy subsidies without adequate efforts to avoid the devastating effects on poor people caused by even slight changes in prices. The current fuel and energy subsidy reforms is expected to lead to cumulative increases in electricity bills for the poorest people, of which women make a disproportionate share, and can have adverse effects on women, especially when it comes to fuel products which are used for cooking.

Given the consequences of IMF conditionalities on commitments to free education and gender as discussed above, one is tempted to ask whether there are no alternative policies than the ones recommended by the IMF Programme. The next section explores this issue.

SECTION 5
POLICY ALTERNATIVES

SECTION 5 POLICY ALTERNATIVES

a. Plugging Government Revenue Leakages

Zambia continues to face challenges in domestic revenue mobilization, as seen in the huge revenue losses the country has suffered from tax evasion, corruption, fraud, money laundering, illegal mining activities, and other forms of Illicit Financial Flows (IFFs). For instance, the Financial Intelligence Centre's (FIC) 2021 Trends Report reveals that IFFs increased from the tune of ZMW3.7 billion (USD $211 million) in 2020 to ZMW4.4 billion (USD $260 million) in 2021 , with tax evasion recording the largest increase of 48.4 percent. These leakages cost the Government much potential revenue. According to Tax Justice Network, Zambia loses $635,288,588 in tax yearly to global tax abuse .Furthermore, Tax Justice Network has estimated that the effective tax rate paid by corporations in Zambia is 19 percent, while the statutory corporate income tax rate is 30 percent. The potential revenue that would result from closing the gap between these rates would amount to USD$406 million per year.

b. Withholding Taxes on Gaming and Betting

World over, the gaming and betting sub-sector has grown significantly. Despite the phenomenal growth in Zambia, the sector faces significant challenges, including a weak and fragmented regulatory framework which may be ineffective in monitoring the tax and regulatory compliance in the sector. The 2023 National Budget proposed reductions in withholding tax on winnings from 20 percent to 15 percent and proposed reduction in presumptive tax from 25 percent to 15 percent for land-based betting. The timing of this downward revision is questionable.

Firstly, betting should be taxed at relatively high rates to manage the risk of addiction and discourage entry of young underage punters into the sector. Secondly, gaming and betting is also relatively tax-inelastic sector, and so Government should have used the opportunity to raise rather than reduce potential revenue collections from the sector. Thirdly, the reduction in the tax rates jeopardizes Government's effort of achieving its own outlined revenue targets prescribed in the Medium-Term Budget Plan 2023 to 2025.

c. Increase Revenue Generation from the Mining Sector

The Zambian Government favours the use of incentives as a means of fostering economic growth. As such, the Zambian tax system offers several incentives, such as low tax rates and tax breaks. However, care has to be taken in designing these incentives if they have to yield the desired results. Despite limited evidence on the effectiveness of fiscal incentives in boosting mining investments, the 2023 Budget has proposed additional tax incentives for the sector. The Government may need to reconsider these incentives and stabilise the mining fiscal regime (ZIPAR). While government effort is acknowledged with regard to attempt to reviewing these rates, several challenges still remain. In the medium term, Government has proposed to collect at least 22.8 percent of GDP by

2025 as domestic revenue, and this is to be achieved through a number of reforms as outlined in the MTBP. Despite the MTBP mentioning various reforms in VAT, it does not highlight how Government aims to deal with the VAT refund problem. Furthermore, issues relating to stability of the mining sector such as the fiscal regime and general mining operations still pose significant challenges. Addressing these challenges would enhance the nations revenue, given that copper prices have been relatively high, trading at US $10,200 per metric tonner at some point in 2022 (March/April) (ZamStats Monthly Bulletin January 2023).

d. Expansionary Monetary Policy

The Government must adopt more expansionary monetary options that better enable domestic firms and consumers to access affordable credit for expanding production, employment, and increased contributions to the domestic tax base. Monetary policy should thus maintain low real interest rates, rather than ineffectively trying to keep inflation low with high interest rates which dampen aggregate demand. As Nayyar (2001) notes, lower interest rates would also enable the government to engage in more affordable deficit spending, and if that deficit spending was targeted on infrastructure and other future productive investments, these could create new investment opportunities for private sector companies, thus "crowding in" the private sector, further enhancing job creation and tax revenues.

e. Electricity Tariff Reforms

A cost reflective tariff is needed for Zambia's electricity market to thrive. However, its impacts on welfare and firm production costs cannot be ignored. As such, mitigation measures such as continued implementation of the life line band and a phased implementation of the tariff adjustment to reduce shocks to the economy will be critical. Future reforms should focus on targeting any electricity subsidies to the poor to improve equity in electricity subsidy benefits. This also calls for the need to accelerate the rural electrification Programme in order to improve access to the grid, especially for the rural poor.

f. Tax Progressivity

The Government to embark on a more progressive tax system where higher income earners pay greater taxes on earnings than people with lower income. Thus, the tax system should be a means of wealth re-distribution in society. This is also another way of mitigating gender inequality as statistics show that on average, males earn significantly higher than females in many occupations (2020 Labor Force Survey). Additionally, placing greater emphasis on indirect taxes has shown to increase both economic and gender inequality, putting unfair burden on women, especially those in low-income households. Therefore, if this burden is not taken into account in the reforms, women are likely to bear a large negative share of the impact from the reforms. There is urgent need of exploring all possible avenues to enhance tax progressivity and gender responsiveness, including consistently pushing for greater taxation of wealth, multilateral corporations and the incomes of the richest in society. Currently, wealth taxes are under explored in Zambia and that is one area of potentially public revenue which is otherwise lost.

SECTION 6

CONCLUSION AND RECOMMENDATIONS

SECTION 6 CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

The discussion so far in this report has shown that although the IMF generally succeed in achieving its goal of stabilizing the macroeconomy in successive years, stability is achieved against the backdrop of high unemployment, poverty, and increased inequality (Benjamin Addo et al. 2010). Focusing on macroeconomic benchmarks /criteria has not helped in improving pro-poor outcomes. The IMF should therefore be deliberate and tie some of its performance criteria to pro-poor Programmes. This is so because while the IMF sets targets and benchmarks for measuring results in relation to macroeconomic stability, the same cannot be said for employment generation, poverty reduction, and inequality. It is clear from the foregoing that IMF policies are not as pro-poor as perceived, nor do they promote sustainable growth and development.

Additionally, the IMF Programme was supposed to pave the way for Zambia's debt restructuring under the Common Framework for Debt Treatment applied for in early 2021. So far, progress with both the Official Creditors committee and the Eurobond holders has since been made, albeit at a slow pace. The need to hasten the debt restructuring process cannot be over-emphasized. Some notable benefits of restructuring the debt will include relief on the country's fiscus resulting from debt cancellation and extended repayment period, improved market sentiments and mitigation of some of the key upside risks to economic growth, inflation, and exchange rate outlooks.

Going forward, CSOs will need to closely watch the progress to the debt restructuring negotiations as that has a bearing on the 2023 and future national budget plans and executions, including social sector spending. Furthermore, the IMF deal restricts the Zambian Government to contract only concessional loans from multilaterals and Official Development Assistance (ODA) sources for its development financing. Therefore, CSOs will have to closely watch and investigate the Governments development financing policies and programmes from 2023 to 2025.

6.2 Recommendations to the IMF and the Zambian Government

a. The IMF must integrate a gender perspective in its policies and programme design, not only as an add-on. Therefore, the IMF should tailor make programmes and not use a one size fits all approach.

b. The IMF and the Government revenue mobilization focus must move away from shifting the tax base towards indirect taxation, enhance tax progressivity and emphasis on wealth tax.

To do so, focus should be on :

- o Ending harmful incentives;
- o Reviewing tax and royalty agreements in the natural resource / extractive sector, in particular;
- o Reviewing and cancelling harmful double tax treaties
- o Closing loopholes which enable tax avoidance and evasion in the private sector;
- o Promoting and enforcing fair corporate tax;
- o Promoting and enforcing progressive taxes on personal income and wealth, including capital gains tax.

c. The Government should consider adopting the alternatives provided in Section 5 of this report including the need to increase the share of the budget allocated to education.

d. The Government must enhance and encourage the scrutiny of national budgets and programs. This could take the form of facilitating for scrutiny of education budgets and expenditure to promote transparency and accountability and improve efficiency through timely disbursement of funds and the efficiency use of the funds. For this to be effective, the Government should consider conducting periodic economic literacy trainings for CSO's to help them understand and appreciate the prevailing macroeconomic challenges.

6.3 Recommendations to Civil Society Organisations:

a. Conducting Economic Literacy Trainings

Conducting economic literacy trainings would be key in helping the general public understand and appreciate the many macroeconomic challenges the country is faced with. CSO's should reach out and work with progressive economists at universities, research institutes and other NGOs to acquire information and easily explain and deconstruct the basic information about economics in a non-technical manner that will be accessible, relevant and useful for advocates. CSOs can help raise awareness and provide recommendations to the Government of alternative macroeconomic policies that can enhance domestic revenue mobilization without disproportionately impacting women and the poor at large.

b. Programme Tracking Initiatives

One of the many examples of such initiative groups is the International Budget Partnership (IBP). It supports and collaborates with CSOs in developing countries to analyse, monitor, and influence government budget processes, institutions, and outcomes in order to make budget systems more responsive to the needs of poor and low-income people in society and, accordingly, to make these systems more transparent and accountable to the public.

The Zambian Government has committed to a number of programmes, and it would be worthwhile for CSOs to monitor and track the progress made on the various commitments. Some of the notable Governments commitments worth tracking include:

- To publish the guidelines to implement the new comprehensive agricultural support Programme and ensure a full migration of FISP to an electronic agro-input system by December 2022 (not done);
- To publish the electricity sector cost-of-service study and the Government's response by (yet to be done).
- To publish a quarterly debt statistics bulletin (to be done quarterly);
- To publish summary information on the financing agreements for all newly contracted external loans by the general government, including new loan contracts guaranteed or new guarantees on existing loan contracts (to be done quarterly).

c. Tax Justice

Illicit financial flows (IFF) have been identified as one of the many leakages of potential public revenue. Traditionally, governments like the Government of Zambia are expected to take centre stage in addressing IFF issues. However, IFFs requires global change to the international financial system. This therefore calls for more concerted efforts from CSOs to take on issues such as tax evasion, illicit capital flight and the stopping the role of off-shore tax havens in an effort to help national authorities increase and improve tax collections. Zambia is strategically placed to contribute to improving the global taxation architecture as it occupies one of the six seats held by African countries on the UN tax committee.

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