An Analysis of the IMF's Extended Credit Facility and Austerity Impacts on Government Policy and Service Delivery

May 2024

actionaid

Abbreviations

BOZ	Bank of Zambia
CDF	Constituency Development Fund
CoSS	Cost of Service Study
ECF	Extended Credit Facility
ERB	Energy Regulation Board
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
HGSM	Home Grown School Meals
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
KGS	Keeping Girls in School
Kwh	Kilowatt Hour
LPG	Liquefied Petroleum Gas
MoFNP	Ministry of Finance and National Planning
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MSMEs	Micro Small and Medium Enterprises
MTBP	Medium Term Budget Plan
ODA	Official Development Assistance
OMCs	Oil Marketing Companies
PFM	Public Finance Management
SRR	Statutory Reserve Ratio
SCT	Social Cash Transfer
SDGs	Sustainable Development Goals
SSNs	Social Safety Nets
USD	United States Dollars
VAT	Value Added Tax
WBG	World Bank Group
WFP	World Food Programme
ZamStats	Zambia Statistical Agency
ZESCO	Zambia Electricity Supply Corporation
ZIPAR	Zambia Institute for Policy Analysis and Research
ZMW	Zambian Kwacha

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Introduction

A nation, just like a human, has needs. However, to meet these needs, resources are required. In Zambia, the revenue raised domestically has proven to be inadequate to fund government development plans, with expenditure often outstripping revenues. This has led to a growing fiscal deficit and has fuelled the need for external and domestic borrowing.

The unsustainable debt caused by excessive borrowing led to Zambia's debt default in 2020. Since then, debt restructuring discussions have resulted in an IMF deal that promises to enhance social protection but calls for enhanced revenue collection through a broadened tax base, removal of subsidies and reduced support to small scale farmers.

In a fiscally constrained economy, social sectors were the first to see cuts in budgetary allocations amidst increased allocations to debt service payments. In the education sector, low pay and teacher shortages have stemmed from decades of inadequate public funding, triggered most directly by the imposition of public sector wage bill constraints.

It is in this vein, that the expected large, upfront fiscal adjustment envisages an important shift in spending, away from 'inefficient' public investment and poorly targeted subsidies, towards greater investment in health and education and the delivery of more social benefits. This shift will be underpinned by an ambitious medium-term agenda to enhance revenue mobilisation through policy changes and administrative changes.

However, the wider policy direction tends to be characterised by austerity measures that disproportionately affect the poor more than the rich.

The study's general objective is to build further evidence on 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 social spending. The generated evidence will enable ActionAid Zambia to capacitate and support civil society organisations 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 advocates to contribute to changing the policy landscape.

The Specific Objectives will include to:

1. Examine the progress on the implementation of reforms /actions as part of the conditionalities and the associated tranche payments.
2. Assess the Impact of the IMF reforms on the economy and identify country by country comparisons with other developing countries that are supported by the IMF.
3. 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.
4. Assess the effect of Extended Credit Facility's conditions on the progressivity of Zambia's medium-term taxation regime.
5. Provide fair, pro-poor, anti-austerity alternatives to complement national development policies.

The methodology involved a desk analysis that involved gathering both quantitative and qualitative data focusing on the implications of 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 the Zambian Government and IMF were considered. Further, documentation of Zambia's past experiences with regards to IMF-Supported programs were reviewed. Additionally, comparator countries, Ghana and Sri Lanka, experiences were analysed and highlighted in the report. In particular, the secondary literature reviewed includes 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 the IMF were sourced.

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 progress on the implementation of the IMF – backed economic and policy reforms while, Section 3 discusses the implications of the IMF-backed economic and policy reforms on the Zambian economy. Section 4, highlights the experiences of other comparator countries (Ghana and Sri Lanka) while Chapter 5 discusses the social sector implications of these reforms and Chapter 6 highlights the effects of these reforms on Medium-Term Taxation. A conclusion is later drawn and anti-austerity alternatives to complement national development policies are provided in the recommendations.

Chapter 2

Progress on Implementation of Reforms

Progress in the implementation of the policies under the IMF ECF Programme is monitored through semi-annual reviews of the quantitative performance criteria, indicative targets, and structural benchmarks. Some of the recorded progress is discussed in-turn below:

Social spending. The Zambian Government has upscaled social sector support despite the on-going fiscal consolidation measures. Partly, this has been made possible by the debt relief secured, which has allowed for the reallocation of amounts that would be committed to debt service to other areas. Efforts have been made in the areas of health and education, with the hiring of new teachers and health personnel ((IMF, 2023)).

In the fiscal year 2024, the health sector experienced a significant budgetary boost, with allocations reaching K20.9 billion, up from K17.4 billion in 2023. This increase, amounting to 20.2 percent in nominal terms, highlights the government's commitment to strengthening the healthcare system. However, despite this augmentation, the sector's portion of the total budget stands at 11.8 percent, below the internationally recommended 15 percent stated in the Abuja Declaration. While the recruitment of 4,000 additional health personnel is a positive step towards improving healthcare delivery, it's essential to address the existing staff shortage, which currently hovers around 60,000 unfilled positions (ZIPAR, 2023).

The Water and Sanitation sector has experienced a significant reduction in funding, dwindling from K2.9 billion in 2023 to K1.9 billion in the 2024 budget. As a proportion of the national budget, this declining trend has persisted since 2020 when the sector's share stood at 2.5 percent, reaching a mere 1.1% in 2024. This continuous decrease raises alarming concerns about the sector's capacity to effectively tackle the urgent water and sanitation challenges faced by communities. Despite the diminished budget allocation, there are some positives as over 280,000 households are anticipated to gain access to improved water facilities in 2024. This development signifies a positive stride toward enhancing public health and sanitation, although the overall sector funding remains a concern. Additionally, the sector's heavy reliance on external financing, constituting over 80 percent of the 2024 budget, highlights the urgent need for strategic financial planning to ensure sustainable water and sanitation initiatives in the long run (ZIPAR, 2023).

Since the economic reform fatigue impacts the poor and vulnerable disproportionally more than the rest, the cash transfer scheme remains the most important safety net program, aiming to reach 1.4 million households in 2024. The rising urban poverty underscores the urgency of comprehensive government strategies aimed at supporting vulnerable urban populations, emphasising the critical need for robust social protection programs. Despite a nominal 10.7 percent increase in the social cash transfer allocation, a real-term decline of 2.7 percent raises concerns, particularly in the face of the escalating cost of living. Delays in SCT enrolment pose a significant challenge, highlighting the necessity for expedited processes to promptly assist vulnerable communities. Notably, the current SCT value of ZMW 200 falls drastically short of meeting nutritional requirements, especially amidst the looming cost of living crisis,

[1] ZamStats latest poverty report

emphasising the need for immediate attention and possible adjustment in benefit values.

Constituency Development Fund (CDF): Despite being well-funded, the CDF continues to face many challenges leading to poor fund absorption, at an average 50 percent as of 2023, and uneven among constituencies, prompting anticipated reviews of the Constituency Development Fund Act of 2018 and the Public Procurement Act of 2020. The central government transferred functions to Local Governments (LGs) alongside resources, but efforts are needed to boost LGs' Public Financial Management (PFM) capacity and to improve the oversight role of central government over LGs and their fiscal risks. The government delegated decision-making to the provinces to accelerate execution, which should not, however, dilute PFM and reporting rules ((IMF, 2023)). There is therefore, an urgent need to enhance the capabilities of local authorities in driving effective community development

Governance: As the Government continues to improve governance, accountability and transparency, some priority reforms are yet to be finalised. The Government plans to introduce necessary measures to ensure that top anti-corruption and anti-money laundering (AML) officials such as the Director General of the Anti-Corruption Commission, Director General of the Drug Economic Commission, the Director General of the Financial Intelligence Center and the Director of the Public Prosecutions are selected and appointed through transparent, merit-based and participatory processes. The Anti-corruption Act will be submitted to Parliament, in line with the recommendations envisaged in the IMF Diagnostic Report on Governance and Corruption **(proposed end-March 2025 Structural benchmark).** Additionally, the Government plans to prepare, with the participation of civil society, academia and the legal profession, a comprehensive reform strategy to strengthen the independence, professionalism and efficiency of the judiciary and prosecution authorities to be undertaken by end-December 2023;

To ensure the success of Zambia's ECF Programme, the IMF has put in place mechanisms used for monitoring and assessing the performance of Zambia on the Programme and ties the tranche payment disbursements to meeting specific criteria. This takes the form of Indicative Targets, Quantitative Performance Criteria and Structural Benchmarks, with the reviews happening every six months. The status on the Structural Benchmarks, our main focus here, is discussed in Table 1, while Tables 2 and 3 highlight the Benchmarks to be achieved within the next 12 months.

Table 1: Zambia's Structural Benchmarks for IMF ECF Second Review

Measure	Target Date	Status
A. Fiscal Measures		
1. FISP: Migration to e-voucher system Implement migration from Direct Input Supply to e-voucher system in at least 33 districts in line with the migration criteria and principles outlined in the published Action Plan (including private secto participation in inputs distribution and the farmers' choice to select inputs).	End-September 2023	Not Met
2. FISP contracts – Publish summary information on all procurement contracts related to the annual Farmer Input Support Program (FISP) or its successor.	Ongoing – within 3 months of contract award	Met
B. Public Debt Management and Transparency		
3. Publish a quarterly debt statistics bulletin.	Quarterly (on an ongoing basis)	Met
4. 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)	Met
C. Public Financial Management		
5. Ensure that at least 59 ministries, provinces, and spending agencies (MPSAs) register all purchase orders and other financial commitments in the IFMIS.	End-August 2023	Not met
6. In consultation with Fund staff, submit to Parliament an amended PPP Act.	End-July 2023	Met
D. Governance and Anti-Corruption		
7. Submit draft Access to Information Bill to Parliament.	End-October 2023	Not met

IFMIS (Expenditure control/measures): To improve the public finance management (PFM) systems, a Commitment Control Module was developed in the Integrated Financial Management Information System (IFMIS) that links procurement commitments to the approved budget, which became effective in July 2022. This reform is critical in improving spending efficiency and prioritisation. However, as of November 2023, the IFMIS system has been rolled out in 59 spending units, including all ministry-level spending units. Further actions are needed to expand the system among spending agencies and to register multi-year commitments and arrears. The Government has already mandated the use of the IFMIS system for all transactions currently able to be undertaken through the system and is making efforts to fully roll-out of the IFMIS. This structural benchmark (SB) under the IMF Extended Credit Facility (ECF) will be met when all of the following conditions have been met: (i) MoFNP has regulations in place that require all commitments where the government has a legal obligation to make expenditures at a future date (including contracts signed or purchase orders issued) to be entered into the IFMIS at the time when those commitments are made; (ii) the commitment module in the IFMIS is functional at 59 MPSAs or more; and (iii) those MPSAs are using the system to systematically enter all commitments as they are made. MoFNP will verify (iii) above through quarterly reviews, whereby total commitments, expenditures, and arrears will be compared to those registered in IFMIS (IMF, 2022).

The complete roll-out of IFMIS can not be overemphasised as it aims to attain transparency and reduce financial leakages and accountability in the way Government resources are being spent. Currently, the system has been expanded to the provinces for the Ministry of Education, with the rollout to continue to the ministries of Agriculture and Fisheries and Livestock by 2024 Q4. Budgetary institutions will input expenditure arrears in the IFMIS system by end-June 2024, and the Ministry of Finance and National Planning (MoFNP) will require them to record all multi-year commitments in the system by end-2024.

A substantial strengthening of fiscal controls and governance is needed to support the on-going fiscal adjustment, as well as address governance and corruption vulnerabilities. Strengthening governance and fighting corruption are critical to attracting investment and generating growth. Other ongoing reforms also include a new debt management bill, new public procurement regulations, and additional transparency requirements around the country's agricultural input subsidy program. These reforms will be key in enhancing governance and accountability and hence need to be expedited.

Table 2: Zambia's ECF Structural Benchmarks for the Next 12 Months

	Measure	Timetable/ Status	Macroeconomic Rationale	Monitoring / Verification
	Current Structural Benchmarks			
1	PFM – Cash management – Prepare an action plan to rationalise banking arrangements of local authorities, province-and district-level government entities, to discuss options for eventual inclusion in TSA, and to reduce account balances at commercial banks.	End-March 2024	Reduce financing costs and improve the efficiency and oversight of the use of public resources	Action plan approved by the Secretary to the Treasury and submitted to IMF.
2	FISP Contracts – Publish summary information on all procurement contracts related to the annual Farmer Input Support Program (FISP) or its successor.	Ongoing – within 3 months of contract award	To ensure ongoing Transparency on FISP given ongoing direct procurement of some inputs	Publish the specified information on procurement contracts on the Ministry of Agriculture Website within 3 months of contract award. The published information should include the types and quantities of inputs, the names of the companies awarded, their beneficial owners, the contract amounts, and the procurement method (open bidding or direct bidding).
3	Revenue Mobilisation Establish a unified Large Taxpayer Office (LTO) that will deal with all large taxpayers	End March-2024	Having a dedicated LTO is in line with tax administration best practices and will help improve taxpayer services and boost revenues	The SB will be met when the LTO is formally established (through ZRA Board approval), its role, responsibilities and structure are defined, and the unit is staffed and operational.
4	**Fiscal Risks** – Expand the scope of the Fiscal Risk Report (FRR) to include key risks stemming from SOEs, local authorities, public pension schemes, PPPs and other obligations as well as the potential consequences.	End-June 2024	Quantify and mitigate fiscal risks related to contingent liabilities.	Prepare and submit to IMF staff an expanded FRR by end-June 2024 (prior to publishing it no later than end-September 2024).

The Farmer Input Support Program, the flagship input delivery program for more than one million small scale farmers, is migrating to the more cost-effective e-Voucher system. In the 2023/2024 season, the Government only implemented fully the e-voucher system in 17 out of the planned 33 districts in line with the migration criteria and principles outlined in the published Action Plan (end-September 2023 SB). The other districts benefited from a hybrid system with government procuring the inputs to farmers who will redeem using the electronic payment system. For the 2024/2025 farming season, the Government intends to bring 73 districts to the full e-voucher system (proposed end-September 2024 SB), and 2025/2026 farming season: the last 42 districts will be brought on the electronic agricultural input support system, completing the coverage to all 116 districts. To enhance transparency related to FISP, the Government publishes summary information on all procurement contracts, including beneficial ownership (continuous SB) (IMF, 2023).

Table 3: Proposed New Structural Benchmarks

	Measure	Timetable/ Status	Rationale	Monitoring / Verification
1	Submit to Parliament a 2025 draft budget consistent with the parameters of the program	End-September 2024	Enhance budget credibility	Draft 2025 Budget submitted to parliament is in line with ECF program Parameters
2	Publish the retail and wholesale price structures for the previous month, with all line details, in the monthly fuel price announcements by the Energy Board	End-March 2024	Transparency in fuel pricing	Wholesale and retail price buildups (full detail) published in the Energy Regulation Board website when monthly price adjustment is announced.
3	Publish a State-Owned Enterprises Policy defining the different roles of line Ministries, the Industrial Development Corporation and the MoFNP	End-October 2024	Improve governance	The policy paper on State- Owned Enterprises that is published on the MoFNP website is submitted for Cabinet approval.
4	Adopt the procedures manual for the Debt Management Office	End December 2024	Improve debt management	The procedures manual is published on the website of the Ministry of Finance.
5	Complete the transition to issue government bonds at par in the domestic securities market	End March 2024	Provide greater flexibility to debt management	Coupons on government bonds are set within 100 basis points of prevailing yields.
6	Submit to Parliament a revised Anti Corruption Bill in line with the recommendations envisaged in the IMF Diagnostic Report on Governance and Corruption	End-March 2025	Improve governance	Anti-Corruption Bill is submitted to parliament and published on the website of the National Assembly.
7	Submit to Parliament the comprehensive review of the Banking and Financial Services Act	End-December 2024	Strengthen financial regulation and supervision	A draft bill on Banking and Financial Services Act is approved by the Cabinet and submitted to Parliament.

8	FSIP—Migration to full e-voucher system in at least 73 districts in line with the migration criteria and principles outlined in the published Action Plan.	End September 2024	Enhance competition	Publish the list of at least 73 districts migrated to full e voucher system in the 2024-25 farming season on the Ministry of Agriculture website by September 2024.

State Owned Enterprises (SOEs): Zambia has been employing the State-Owned Enterprise (SOEs) model to direct investments and oversee operations in critical sectors of the economy since 1968. Unfortunately, the performance of most SOEs has not been satisfactory, characterised by loss making, thereby placing a significant fiscal burden on the national treasury. This situation has improved but SOEs continue to perform poorly. The Government has been implementing various measures aimed at strengthening fiscal control and governance of SOEs in Zambia. These include enactment of the Public Finance Management Act No. 1 of 2018 and development of an SOE Policy. The Act gives the Treasury mandate to develop the code of governance guidelines and a supervisory and performance monitoring framework for SOEs. Additionally, it requires SOEs to submit to the Treasury annual financial statements for analysis of performance. Further, Ministry of Finance and National Planning will be preparing periodic reports with an in-depth analysis on the health of SOEs. Where an SOE's performance is poor, the Act empowers the Treasury to take appropriate action. Government has also drafted an SOE Policy that is envisaged to strengthen governance of these institutions. Additionally, the IDC has continued to put in place controls to ring-fence the Treasury from the operations of SOEs under its portfolio.

Measures instituted include limiting the contracting of debt financing by only permitting commitments for areas where a business case exists, and where debt is serviceable from incremental cash flows to be derived from the debt (IMF, 2022).

The on-going SOE reforms should therefore, aim at: (i) Improving company performance; (ii) reducing political interference and increase trust; and (iii) reducing risks and costs to the government budget. Under-performing SOEs place the Government at risk – reputational, political and fiscal. Many SOEs have been expensive drains on national budgets.

The COVID-19 pandemic was the last straw that 'broke the proverbial camel's back' and Zambia became the first country to default on its external debt obligations. This included three Eurobonds totalling USD 3 billion contracted between 2012 and 2015 in order to finance infrastructure development (ZIPAR, 2019). For keen observers, the Zambian economy had been struggling over time; subdued mainly by a huge debt overhaul and gradually declining economic activities partly from low productivity and output from the agriculture and energy sectors due to adverse weather conditions during the 2014/2015 and 2018/2019 seasons (ZIPAR, 2019). In 2020, Zambia's macroeconomic indicators worsened, with gross domestic product (GDP) contracting by 2.8 percent and the fiscal deficit widening to a decade high of 13.8 percent of GDP (see Table 4).

Table 4: Macroeconomic Indicators for Zambia (2020 - 2024)

Macroeconomic Indicators	**2020**	**2021**	**2022**	**2023prel.**	**2024proj.**
Real GDP Growth (%)	**-2.8**	4.6	5.2	5.8	4.8
Annual Inflation (%)	**15.7**	22.1	9.9	13.1	13.7
Nominal Exchange Rate (ZMW/USD)	**18.2**	19.9	18.1	20.1	24.3
Fiscal Deficit (% of GDP)	**13.8**	8.4	9.8	5.8	4.8
Copper Prices (USD per MT)	**6,174**	9,309	9,595	9,374	9,342

Source: Constructed by Author based on data from ZamStats, MoFNP and BoZ
Note: 2023 figures indicate preliminary estimates and 2024 reflect projection outlook and existing year data

Similarly, inflation soared to 15.7 percent which further eroded household's disposal income and pushed high the cost of living (Zambia Statistical Agency , 2020). With disrupted global value chains and logistics distribution networks, global demand for Zambia's main foreign exchange earner (copper) reduced, thus dampening the price of the commodity (Ministry of Finance and National Planning , 2021). The domino effect of an ailing Zambian economy extended to a weak local currency (kwacha) against major tradable currencies (Bank of Zambia, 2021). The depreciation of the kwacha was exacerbated by low foreign direct investment (FDI) inflows due to a weakened global economy and low supply of foreign exchange earnings from low copper production and prices on the international market (ibid).

With the economy almost on its knees as indicated by the downward trajectory of most macroeconomic indicators as well as limited domestic resources to finance the national budget and service debt obligations, calls for external support by stakeholders became loud overtime and the pursuit for an IMF deal was reignited. The IMF support programme was expected to result in a number of benefits for Zambia including:

• concessional loan with zero or low interest for balance of payment support;
• much-needed technical assistance on economic reforms and external impetus for accountability and transparency; and
• sending the right signal to investors and other development partners to re-establish international credibility.

To reopen negotiations for a possible deal with the IMF that almost broke down in 2019, Zambia was expected to take prior actions to show commitment in restoring prudent economic and financial management (Cheelo & Mungomba, 2019). This included:

i. fiscal and debt management reforms that ensure pragmatic and credible fiscal and borrowing adjustments;
ii. legal reforms that address gaps and weaknesses in key legal frameworks such as the Loans and Guarantees Act, Public Procurement Act, and Planning and Budgeting legislation; and,
iii. institutional reforms to ensure protection of social sector spending, reorganise and improve the agricultural sector, enhance business and investor climate, and address risks of corruption, and financial misappropriation, among others.

By 2022, the IMF approved a USD 1.3 billion Extended Credit Facility for Zambia, with the overall aim to restore macroeconomic stability, and foster higher economic resilience and inclusive growth (IMF, 2022). Below, we analyse the implications of the IMF-Programme with a special focus on fiscal and monetary policy, as well as specific sector impacts on the transport and energy sectors. Since Zambia is not an isolated case to seek support from the Fund, comparisons with other countries, particularly Ghana and Sri Lanka, are briefly discussed.

Contractionary Fiscal Policy

Fiscal consolidation is among the major conditionalities of the IMF Extended Credit Facility. The overall goal is to implement public sector reforms aimed towards prudent fiscal and economic management of public resources, limited debt acquisition, and increased domestic resource mobilisation (IMF, 2022). In that regard, the Medium-Term Budget Plan (Ministry of Finance and National Planning, 2022) projects the size of the national budget as a share of GDP to reduce overtime from 37 percent of GDP in 2022 to 33 percent of GDP by 2025. Figures from fiscal authorities indicates that austerity measures are likely to manifest in several forms including curtailing the growth of the public service wage bill and removal of 'poorly targeted' subsidies. For example, the government plans to maintain the expenditure on personnel emoluments at about 40 percent of domestic resources, which translates to around 8.9 percent of GDP by 2025 (ibid).

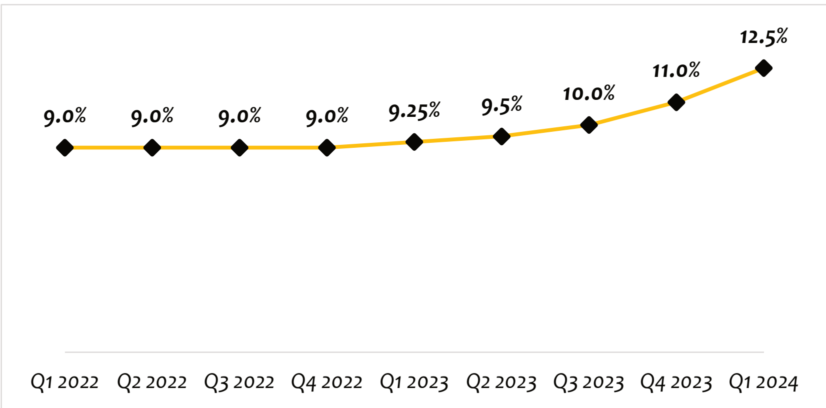
Although contractionary fiscal policy measures are essential for Zambia to restore fiscal fitness and budget credibility in the short to medium term, it is equally important to note the negative implications that these measures are likely to have on the economy, particularly on vulnerable groups such as the unemployed youths, women and children (Action-Aid Zambia, 2023). Specifically, the 'freezing' of the public sector wage bill overtime may result in high unemployment in Zambia, especially considering that government remains the main employer in the country (Ministry of Labour and Social Security, 2022).

Finally, in case of less than anticipated receipt of Official Development Assistance (ODA) from development partners, Zambia's progress to achieve sustainable development goals (SDGs) could also be hampered. In that regard, concerted policy efforts should be deployed to ensure maximum prudential fiscal management as well as tax justice (multi-national companies paying their fair share of taxes) at the national level. Similarly at the global level, the Government should work with its international partners and/or institutions to limit other financial leakages such as illicit financial flows (IFFs) and other forms of tax evasion. By doing so, this will facilitate the channelling of vital scare resources to development goals and programmes.

Tight Monetary Policy

To promote financial market stability and prevent the gains from contractionary fiscal policy from being eroded by inflation, the Bank of Zambia (BoZ) has adopted a tight monetary policy over the last eight quarters (see Figure 1 below). In line with the IMF Programme's objective of strengthening monetary policy and re-building external resilience, BoZ has either maintained or increased the Monetary Policy Rate (MPR) since Q1 2022; aiming to containing inflationary pressures and returning to the 6-8 percent policy target (Bank of Zambia, 2024). From Q1 2023 to Q1 2024, the MPR has been increased by a cumulative 350 basis points from 9.0 percent in Q4 2022 to 12.5 percent by Q1 2024. In addition, the Statutory Reserve Ratio (SRR) has been increased by more than 14 percentage points from 11.5 percent in Q3 2023 to 26 percent by Q1 2024 (ibid). With inflation still above target at 13.5 percent by March 2024 (Zambia Statistical Agency, 2024), BoZ is likely to maintain the path of contractionary monetary policy in the short-to-medium term. This is more so considering food shortages likely to be caused by the current drought which has negatively affected the 2023/2024 farming season (Office of the President , 2024).

Figure 1: Zambia's Monetary Policy Rate, 2022 - 2024



Source: Constructed by Author from Monetary Policy Committee (MPC) Statements

Besides containing the entrenchment of inflation by limiting liquidity in the economy, the tight monetary policy adopted by BoZ is likely to have significant negative impacts on employment, productivity and economic growth; by further constraining the ability of households and businesses (especially MSMEs) to have access to affordable finance (Ministry of Small and Medium Enterprise Development, 2023). A phenomenon which is already worsened by the wide gap between borrowing and lending rates in Zambia, with average lending rates remaining elevated at about 26 percent. With limited economic activity from businesses and industries, the government's ability to raise tax revenue will also be negatively affected, further dampening government expenditure, long-term public investment, and ultimately long-term economic growth and ability to service debt obligations (Action-Aid Zambia, 2023).

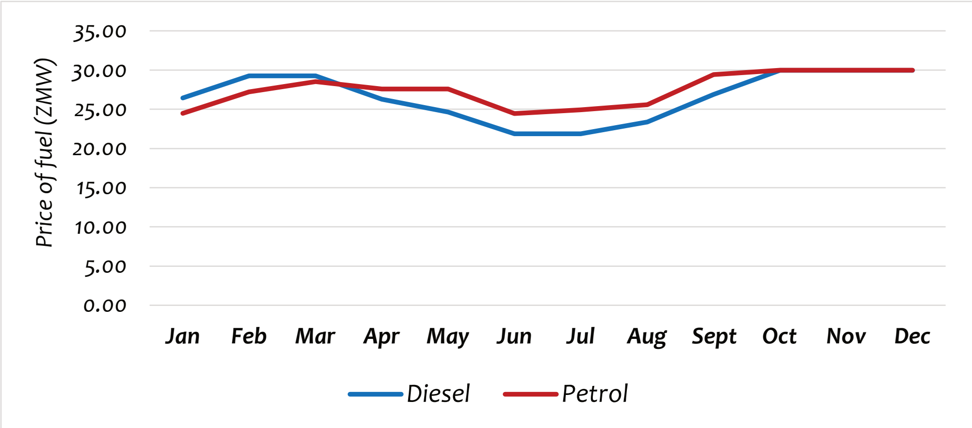
Therefore, as opposed to only focusing on containing inflation, the Government needs to broaden its scope of economic management and stabilisation agenda, to include more real economy measures such as employment targeting and promoting MSME development. This can be achieved by designing well targeted policy measures to increase access to affordable finance to priority sectors, including households (Rick Rowden, 2011). This requires concerted and deliberate policies going beyond the abated inflation risks, especially in face of economic shocks like the current drought.

Removal of Subsidies in the Petroleum Sub-sector

As part of other reforms in the petroleum sub-sector which includes government's disengagement from direct importation and supply of petroleum products, and conversion of TAZAMA pipeline from transporting petroleum feedstock to conveying finished products, the Government, through the Energy Regulation Board (ERB), adopted a monthly fuel price review policy since January 2022. The 30-day fuel review and pricing policy aims to align domestic pump prices with international commodity prices as well as take into account the volatility of the local exchange rate (Energy Regulation Board, 2023).

Essentially, the transition from 60 to 30-day fuel pricing policy aims to remove subsidies that government was paying to Oil Marketing Companies (OMCs) due to the price differential between the importation of the commodity and prevailing domestic pump prices (ibid). Further, upon recommendation of the IMF Programme, the Government by September 2022 reinstated VAT and excise duty on fuel (Ministry of Finance and National Planning, 2022). With volatile international fuel prices worsened by persisted geo-political tensions such as the Russia-Ukraine war and an unstable local currency (Kwacha), the reforms in the petroleum sub-sector have resulted in high domestic fuel pump prices (see Figure 2 below).

Figure 2: Domestic Fuel Pump Prices for Zambia, 2023



Source: *Constructed by Author based on data from ERB*

Although the reform has partly resolved the accumulation of fuel arrears which were estimated at USD 500 million by end of December 2021, the resulting high fuel prices and the 30-day pricing cycle has negatively affected businesses in different sectors including manufacturing, wholesale and retail, and agriculture (ZIPAR, 2023). This unpredictable policy environment highly inconveniences long-term business planning and distorts budgeting, thereby affecting production and overall economic output as fuel constitutes an important input in virtually all production processes (ibid).

At household level, reviewed case studies of fuel subsidy removal reforms across different continents and countries (Africa, Asia, Middle East and Latin America) all indicate negative effects of fuel price increments on household welfare by increasing the cost of living (Coady, et al., 2012) (Granado, Coady, & Gillingham, 2010). Negative welfare impacts emanate from both direct effects of transport (fuel) demand as well as indirect demand from higher costs of goods and services in the economy due to high fuel costs (ibid).

As depicted in Table 5 above, fuel price increments of about ZMW 2-4 per litre reduces real household income by about ZMW 100 and ZMW 200, respectively. Higher increments of about ZMW 5-8 per litre can significantly reduce real income of households by more than ZMW 250 and ZMW 400, respectively (ZamStats, 2022). Expectedly, low-income households experience the most impact because of their weak financial capacity to shoulder extra costs.

Although the reform may help to restore prudential fiscal management and budget credibility, it is important to note that poor Zambians are bearing the significant costs. Going forward, well-targeted welfare support reforms are required to alleviate these impacts.

Table 5: Estimated Welfare Impacts of Fuel Prices Increments on Household Income

	Welfare impacts (% of real household **income**)	**Fuel increase per litre (ZMW)**	**Welfare impacts (ZMW)**
0.1	2.4	2	101
0.2	4.8	4	202
0.25	6	5	253
0.3	7.2	6	303
0.4	9.6	8	405

Source: *Constructed by Author based on estimations from the study by Granado et al.,* (2010)

Note: *Exchange rate of* ***ZMW 20 per 1 USD*** *and average monthly income of* ***ZMW 4,215*** *from the 2021 Labour Force Survey.*

Finally, it is worth noting that certain vulnerable groups in society are more likely to disproportionately experience the negative cost impacts of these policy changes. For example, given that women on average have low incomes and earn less compared to their male counterparts, they are likely to bear the heaviest brunt of this policy (ZamStats, 2022). In that regard, any policy measures to alleviate these impacts such as targeted cash transfers should prioritise women headed households.

Cost Reflective Tariffs in the Electricity Sub-sector

Prior to the IMF Programme in September 2022, Zambia had already embarked on a process of shifting to cost-reflective tariffs in the electricity subsector. This was mainly premised on cost-of-service studies done in other countries indicating that the majority of electricity supply companies in Africa were charging lower tariffs than the actual cost of generation, distribution and retailing (World Bank, 2016). By 2022, Zambia's cost-of-service study (CoSS) was finalised and indicated that ZESCO, like most African energy corporations, was heavily being subsidised by the government, thereby contributing to the overall stock of domestic arrears (Ministry of Finance and National Planning, 2022). Based on the recommendations from the CoSS as well as the IMF programme, ERB approved a multi-year tariff adjustment schedule by April 2023 (see Table 6 below).

Table 6: Approved ZESCO Multi-Year (2023-2027) Tariffs for Residential Customers

	Band	Tariffs (K) per Unit Kwh					
		Current (2022)	2023	2024	2025	2026	2027
R1	<= 100	0.47	0.4	0.44	0.54	0.63	0.73
R2	101 - 300	0.85	0.95	1.05	1.28	1.5	1.76
R3	301 - 500	1.94	1.54	1.69	2.07	2.42	2.83
R4	> 500	NA	2.22	2.44	3.23	3.45	4.04

Source: *Constructed by Author based on data from ERB*

For example, the approved plan effects about 107 percent tariff increment for category two (R2) of residential customers over a 5-year period from ZMW 0.85 per unit Kwh in 2022 to ZMW 1.76 per unit Kwh by 2027 (Energy Regulation Board, 2023). On the other hand, the same category (C2: 100-300 Kwh) for commercial customers such as mining companies will see a reduction in tariff charges of about two (2) percent from ZMW 1.85 per unit Kwh to ZMW 1.81 per unit Kwh over the same period (ibid). Although the migration to cost reflective tariffs is vital to attract the much needed investments required to increase generation capacity, the reform will also negatively impact residential customers, especially low-income households.

Similarly, the majority of MSMEs will also be affected because of lack of resilience as well as limited financial capacity to adapt and invest in alternative energy sources (Action-Aid Zambia, 2023). With MSMEs constituting at least 60-70 percent of all businesses in Zambia, removal of subsidies is the electricity sub-sector is likely to impact employment, production, and overall economic out in the medium to long-term (World Bank Group, 2024). This is in addition to the current 8-hour power rationing (loadshedding) being implemented countrywide due to limited water levels in Zambia's major hydro power generating facility – Kariba Dam (Office of the President , 2024). With renewed impetus to increase electricity tariffs even more due to the current drought, the possible negative effects on vulnerable groups are likely to persist in the medium-term.

Figure 3: Charcoal Production and Trade in Zambia

Source: *Adopted from the 2013 study by Centre for International Forest Research (CIFOR)*

Further, the knock-on effects of limited power supply and high tariffs are likely to be experienced in form of increased deforestation in favour of biomass energy such as usage of firewood and charcoal production and trade; which are cheap alternatives to the majority of Zambians (Action-Aid Zambia, 2023) (Centre for International Forestry Research, 2013). In the process, this will exacerbate effects of climate change and slow down access to clean energy across the country. Going forward, the government needs to implement cost-appropriate and climate friendly policy measures such as promoting the use of LPG for cooking in order to alleviate the effects on the reform on most vulnerable households. Given low-income levels in the country, the affordability of proposed alternatives to the average Zambian will highly determine implementation success.

Chapter 4

Comparison with other countries

Zambia is not the only developing country that had recent engagements with the IMF for financial support amid the debt crisis and eventual default. Below, we make a comparison with other countries of their engagement with the Fund and aftermath economic situation. Specifically, we look at the case of Ghana and Sri Lanka.

The case of Ghana

Like Zambia, Ghana has a long history of engagement with the IMF that dates back from the 1960s. Specifically, Ghana had its first engagement with the IMF in 1966 after its economy was battered by a growing budget deficit from low foreign direct investments (FDIs), high inflation and low productivity due to declining industrial production, among others (ZIPAR, 2020). As depicted in Table 7 below, Ghana recently (in 2023) engaged the IMF for yet another round of financial support when it defaulted on its external debt which was estimated at 42.4% of GDP by 2022. In this latest round of engagement, Ghana received an IMF grant amounting to USD 3 billion by May 2023, with the support being valid for 36 months. Compared to Zambia's USD 1.3 billion loan facility, Ghana's facility was larger mainly due to its larger economy, however with a shorter facility duration (Abeyrathne, 2023).

Table 7: IMF Engagements with Zambia, Ghana and Sri Lanka

		External Debt (% of GDP)	Default Date	IMF Grant Date	IMF Loan Amount (Billion USD)	Facility Duration
Zambia	26.6 (Dec, 2020)	72.9% (2020)	June, 2020	Aug, 2022	1.3	38 Months
Ghana	29.1 (Dec, 2022)	42.4% (2022)	Dec, 2022	May, 2023	3	36 Months
Sri Lanka	49.6 (Dec, 2022)	74.7% (2022)	April, 2022	March, 2023	3	48 Months

Source: *Constructed by Author from the study by Abeyrathne, 2023*

On the back of a weakened economy emerging from the COVID-19 pandemic in 2020, Ghana's recent engagement with the IMF was similar to Zambia in that it was mainly necessitated by recurrent financial and economic mismanagement. This includes heavy borrowing from both the domestic and international market, huge domestic debt from independent power producers, and depleted international reserves, among others, which eventually affected the performance of the local currency (ibid).

According to the IMF (2023), Ghana's recent Extended Credit Facility (ECF) builds on the government's Post COVID-19 Program for Economic Growth (PC-PEG) aiming to restore macroeconomic stability and debt sustainability in order to build resilience and lay a foundation for stronger and more inclusive growth.

As expected, the fiscal austerity measures being implemented to restore fiscal consolidation and macroeconomic stability have a disproportionate impact on the country's poorest population. To alleviate those effects, the Ghanaian government has planned a number of socio-economic reforms including doubling the level of benefits of the existing targeted cash transfer program and the Living Empowerment Against Poverty (LEAP) in the 2023 budget and beyond (IMF, 2023). Similarly, Ghana's current IMF programme also aimed to design a systematic framework to protect vulnerable households from the expected impacts of electricity tariff adjustments under the programme (ibid). Initiatives that Zambia may need to explore given the already high cost of living being experienced in the country partly due to the removal of fuel and electricity subsidies that have been implemented.

Lastly, Ghana's IMF programme also aims to protect and prioritise social sector spending including increased allocation to the School Feeding Program to offset the impact of inflation, and expanding the coverage of the National Health Insurance Scheme (IMF, 2023). To what extent these objectives will be achieved remains to be seen given the economy's limited ability to raise domestic revenues, as well as competing demands on resources to service debt, pay arrears and support a large public sector wage bill (ibid).

The case of Sri Lanka

Apart from Zambia and Ghana, a number of countries beyond the African continent are also seeking support from the IMF with the common goal to restore macroeconomic stability and fiscal sustainability. As shown in Table 7 above, Sri Lanka's recent IMF deal was approved in March 2023, with a loan package of USD 3 billion to be effected over 48 months. Like Zambia and Ghana, Sri Lanka's recourse to the IMF was triggered by a combination of factors which include poor fiscal and macroeconomic management and exogenous shock like the COVID-19 pandemic.

Specifically, the Sri Lankan government after the 2019-2020 elections effected 'people-centric popular reforms' in hopes of reducing the cost of living and promoting production. For example, income tax and value-added tax (VAT) were significantly reduced in 2019 while automatic fuel pricing was discontinued (IMF, 2023). In the same vein, the central bank's autonomy (and with it the ability to manage monetary policy prudently) was significantly reduced with adverse legislative reforms. This was on the backdrop of a number of exogenous shocks to the economy including the 2017 drought, 2018 political crisis, and the 2019 terrorist attacks; which all conspired to aggravate Sri Lanka's economic vulnerabilities (ibid).

By 2022, Sri Lanka's economy was barely functioning with total external debt estimated at USD 50 billion while the ratio of debt to GDP soared to about 75 percent (see Table 7 above), and revenue losses from reduced taxes were estimated at 2 percent of GDP.

Since the commencement of the IMF programme, Sri Lanka's macroeconomic indicators are slowing turning around, with GDP growth projected to increase from -3.6 percent in 2023 to 1.8 percent in 2024 on the basis of prudent monetary policy and relaxed import restrictions (IMF, 2023).

Similarly, total tax revenue is also expected to increase to 9.2 percent of GDP in 2023 from 7.2 percent of GDP in 2022 (ibid). Finally, Sri Lanka has also pledged to increase funding to social safety nets (SSN) in order to help cushion the poor and vulnerable from the impact of the economic crisis and policy adjustments. Similarly, the IMF programme requires raising and protecting social sector spending to nutrition and education programmes over the medium-term. On the other hand, automatic monthly fuel price adjustments and cost-reflective electricity pricing mechanisms have been reinstated in order to mitigate fiscal risks arising from the energy sector (IMF, 2023).

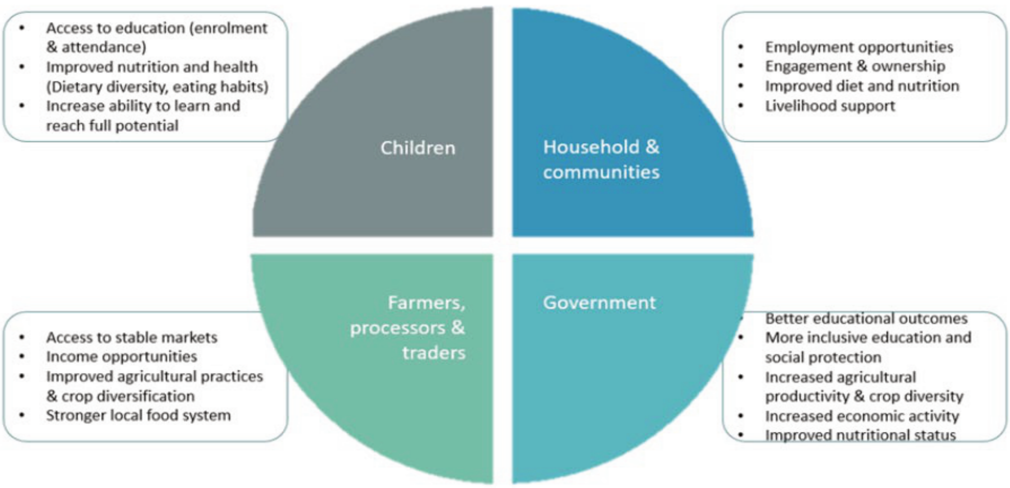
Chapter 5

Social Sector Implications Education

The importance of education to the overall socio-economic development of communities and countries has been well established. This is because educated people are likely to make rationale choices which affects resource allocation, production, and resource re-distribution within society (Burchi, 2006). Over the years, successive Zambian governments have made significant strides in investing in education infrastructure such as classrooms, teacher accommodation, and learning aids and instruments in order to encourage learning from early childhood, primary, and secondary education levels. Recently, notable programmes implemented by government to improve the quality of education include; 1) school feeding programmes, 2) keeping girls in school, 3) free education policy, and 4) massive recruitment of teachers.

School feeding programmes date as far back as the post-independence era, and were revived by the Zambian government, with support from the World Food Programme (WFP), during the early 2000s. In efforts to attain food and nutrition security, most African countries – including Zambia – embarked on implementation of school feeding programmes which aimed to feed school going children using food locally sourced from smallholder farmers in the Comprehensive Africa Agriculture Development Programme (CAADP). Overall, the programme has twin goals of feeding school going children, especially from low-income households, and encourage local farming activities by providing a readily available market for their produce (Ministry of Education, 2020).

Figure 4: Wider Benefits of Home-Grown School Meals



Source: *Adopted from the 2013 study by Centre for International Forest Research (CIFOR)*

To formalise the programme, Zambia launched a National Strategy on Home Grown School Meals (HGSM) (2020 - 2024), which targeted to feed 1 million pre- and primary school learners across 2,800 schools in 10 provinces. Figure 4 above summarises wider benefits of the programme. By 2020, the programme was implemented in 39 districts and planned to be upscaled to other schools and districts by 2024 based on certain criteria such as schools with high dropout rates, low net enrolment, low attendance, high rate of underweight, and extreme poverty rates, among others (Ministry of Education, 2020).

Another important programme to improve the quality of education in Zambia at primary and secondary school levels is the Keeping Girls in School (KGS) initiative. With funding from the World Bank's Girls Education and Women's Empowerment and Livelihoods (GEWEL) programme, the KGS was launched in 2015 mainly to address inequalities in promoting education among adolescent girls and thereby reduce overall school drop-out rates. The programme targets vulnerable girls in rural areas, with different initiatives aimed to encourage and incentive girls to remain in school.

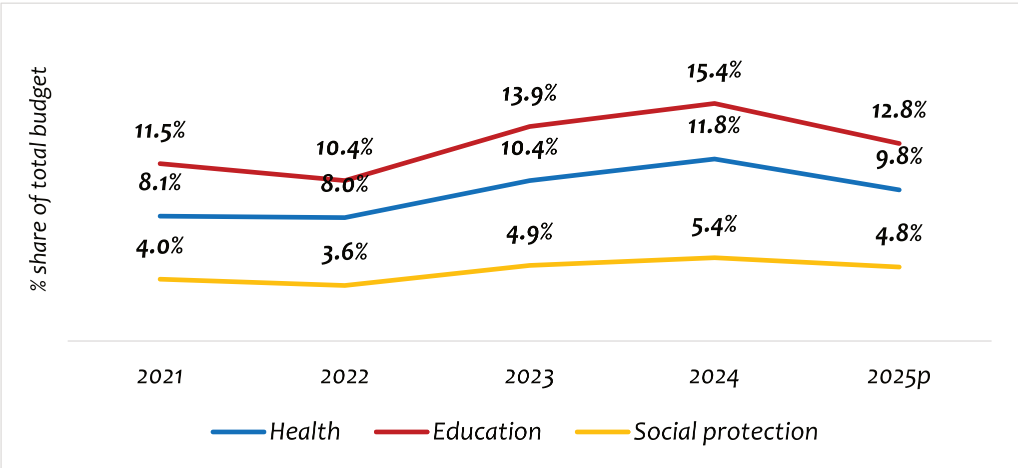
Despite these programmes, low-income families, especially in rural areas, have always complained about the challenges in accessing education due to prohibitive high school fees requirements, particularly at secondary school level. It was argued that school user fees, however low, were preventing many children from poor families to continue their secondary school education because they could not afford to pay; and in the process creating generations of uneducated Zambians, who may not reach their full socio-economic and development potential (Ministry of Finance and National Planning, 2021). Partly due to these concerns, government expanded the free education policy from primary to secondary schools in 2022.

The "Free Education Policy" thus abolished all forms of user payments from primary and secondary schools, and in turn government pledged to significantly increase funding to public schools in order to meet operational costs that were supposedly covered by abolished fees (ibid). Expectedly, the implementation of the free education policy saw an influx of children who could not afford user fees return to school, and in the process worsening the teacher to pupil ratios that were already far above recommended standards (Action-Aid Zambia, 2023). That stated, a few user fees such as boarding fee still exist in some schools. Despite local financial support in form of CDF bursaries being introduced to support vulnerable children, the government should ensure that most deserving children can receive the necessary support going forward. In addition, more pupils per classroom also entails more demand for classroom infrastructure such as desks and chairs; another unforeseen consequence of the Free Education Policy which affected the quality of education. To partly resolve this problem, government undertook a massive teacher recruitment process by recruiting 30,496 teachers in 2022 and 7,221 more in 2023.

As indicated, this massive recruitment of teachers was important to improve the quality of education by addressing high teacher to pupil ratios in Zambia that were estimated at an average of 1:58 for primary and 1:38 for secondary schools (Ministry of Education, 2024). For Zambia, targeted teacher to pupil ratios are 1:45 and 1:35 for primary and secondary schools, respectively (ibid).

Similarly, government has directed that part of the Constituency Development Fund (CDF) – ZMW 30.6 million per constituency by 2024 – should be used to provide school infrastructure such as construction of classrooms and laboratories, and acquisition of desks and chairs, in an effort to realise the country's aspirations of achieving Sustainable Development Goal (SDG) 4 – inclusive and equitable quality education for all (Ministry of Finance and National Planning, 2023). That stated, the usage of CDF resources across constituencies varies widely.

Figure 5: Percentage Share of Social Sector Expenditure in Zambia (2021 - 2025)



Source: *Constructed by Author based on National Budgets (2021-2024) and MTBP (2025), MoFNP*

In order for the country to continue funding similar programmes to ensure quality education and make sure no child is left behind, more resources through the National Budget are required going forward. In that regard, it is comforting to note that one of the objectives of the IMF Extended Credit Facility for Zambia is enhanced social sector spending, especially given the downward trend in education spending over the past years (Action-Aid Zambia, 2023). However, since 2023, spending on education has increased, from 10.4 percent of the total budget in 2022, to 13.9 and 15.4 percent, in 2023 and 2024, respectively (see Figure 5 above). Although some progress has been made, more work remains to done if Zambia is to meet the 20 percent SADC minimum threshold on financing the education sector (ibid).

Despite the need to safeguard social sector spending, including education, being a priority of the IMF Programme (IMF, 2022), achieving this may be difficult given the country's limited ability to economically produce and raise revenues for various spending activities in the medium-term. Going forward, sufficient spending in the education sector will be vital to provide relevant infrastructure such as construction of classrooms and teacher accommodation facilities, funding various education programmes like the school feeding programme, and recruiting more teachers to reduce the teacher to pupil ratio in primary and secondary schools. To what extent government will prioritise these objectives will be a testament of their resilience and commitment to safe guarding social sectors spending, particularly education, during this IMF programme.

Gender considerations

Promoting gender equality 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). As has already been established in this report, the IMF Programme is expected to have some significant social and economic impacts on the Zambian economy. 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. 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 2020 Labour Force Survey conducted by the Zambia Statistics Agency reveals 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, as women, on average, are paid less than men. The survey results indicate 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.

In an effort to bridge these legacy gender gaps, Zambia has in the past adopted international, regional, and sub-regional gender commitments at the national level, which are enshrined in the National Constitution and reflected in various policies and development processes, as well as the country's 2030 gender equality vision. The 2014 National Gender Policy outlines the overall gender principles that must be incorporated and mainstreamed across all sectors of the country in order to address the country's current gender disparities.

This policy seeks to address and resolve this need by empowering policymakers and decision-makers at all levels to ensure equal opportunities for men and women in governance and decision-making, which is critical in the national development process. The national policy also specifies the long- and short-term processes for determining the level of gender justice and equality.

Generally, gender mainstreaming has made slow progress in all sectors of Zambia's economy. This weakness is primarily due to a lack of awareness about gender and gender mainstreaming, coupled with a widespread lack of recognition of the importance of gender issues among those working in the public and private sectors. This leads to reluctance to properly implement gender mainstreaming techniques and engage in gender and development programs. While the country oversees these institutional, legal and policy tools, there are other programs aimed at empowering women. Among these are the Girls' Education and Women's Empowerment and Livelihoods (GEWEL) and Women Economic Empowerment (WEE) Projects. Below are summaries of these projects:

i. The GEWEL Project in Zambia is an innovative program that aims to empower women and promote sustainable lives in rural areas. The United Development Programme (UNDP) began the GEWEL initiative in Zambia in 2017, in conjunction with the Zambian government and other stakeholders. It primarily aims to combat gender inequality and poverty by empowering women via business and skill development, increasing women's economic empowerment by providing them with the necessary knowledge and tools to start and operate their own company. The second goal is to promote gender equality and women's rights by addressing the societal conventions and preconceptions that impede women's advancement. Another goal is to increase female entrepreneurs' access to financial services and markets. This ambitious initiative also aims to strengthen the ability of local institutions and organizations to assist women's economic empowerment. The GEWEL Project incorporates a variety of tactics to achieve its goals through different channels including entrepreneurial training. The training exposes women to company management, financial literacy, marketing, and product creation and most importantly access to finance. The initiative improves access to microfinance services and assists women in obtaining loans and grants to start or grow their enterprises. It also encourages the formation of savings and credit organizations to increase financial inclusion. The second option is mentorship and networking. Mentors and business networks link female entrepreneurs to promote information exchange, cooperation, and peer support.

The GEWEL Project has achieved great progress in Zambia by empowering women and creating sustainable livelihoods. Some major successes include economic empowerment, with over 2,000 women receiving entrepreneurship training, resulting in the formation of multiple successful enterprises in industries like as agriculture, handicrafts, and retail. Financial Inclusion: The project has helped over 1,500 women get access to microfinance services, allowing them to obtain loans and develop their companies. Furthermore, more than 100 savings and credit organizations have been formed to promote financial resilience and independence.

However, one of the most significant obstacles faced by the GEWEL Project is women entrepreneurs' limited access to resources such as land, finance, and technology. This limits their capacity to develop and grow firms efficiently. Additionally, deep-rooted socio-cultural norms and prejudices continue to undermine women's economic empowerment. Traditional gender norms and expectations frequently deny women access to education, decision-making, and economic possibilities. Many women in rural regions lack financial literacy skills, making it difficult for them to run their enterprises and obtain financial services. This limits their capacity to expand and sustain their businesses. Furthermore, women entrepreneurs frequently encounter barriers to accessing markets for their products and services. Limited market links and poor infrastructure limit their capacity to reach a larger consumer base and produce long-term profits.

i. The Women Economic Empowerment (WEE) Project in Zambia has made positive strides towards gender equality, economic empowerment, and sustainable development. Through training and capacity-building initiatives, the project has provided women entrepreneurs with critical business skills such as financial administration, marketing, and product creation. The project has created market connections for women entrepreneurs, allowing them to grow their firms. This has created a sense of camaraderie and solidarity among women, resulting in enhanced confidence and resilience (CARE International, 2021).

However, one of the project's primary obstacles is a lack of available resources, such as financing, infrastructure, and technical assistance. Insufficient finances limit the project's capacity to reach a larger number of female entrepreneurs and provide full support. Additionally, deep-rooted socio-cultural norms and gender stereotypes offer considerable barriers to women's economic empowerment in Zambia. Discriminatory practices, such as restricted access to land and property rights, impede women's capacity to establish and expand enterprises (CARE International, 2021). Despite attempts to improve market connections, women entrepreneurs continue to encounter barriers to reaching markets owing to poor transportation infrastructure, a lack of knowledge, and unfair competition, limiting their capacity to grow.

[2] ActionAid Zambia, Analysis of Zambia's IMF Programme and Fiscal Austerity Impacts on National Government Policy and Commitments to Free Education, MAY 2023

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Chapter 6

Effects of Extended Credit Facility on Medium Term Taxation

Domestic resource mobilisation remains a pillar for providing for development needs, social sector spending and preserving fiscal sustainability.

During the Programme period, the Government intends to marginally increase domestic revenue mobilisation to about 21.2 percent of GDP by 2025 from 20 percent of GDP in 2022. The tax policy will take different forms, including tax reforms and enhanced administration to promote tax efficiency.

During the period under review, the Government has continued to strengthen tax policies and administration to improve compliance and revenue collection. To this end, it has reformed the mineral tax regime in 2022 to attract investment and improve tax predictability.

In 2023, for instance, the Government set up progressive marginal tax rates for the mineral royalty tax (MRT) and reintroduced its deductibility from the Corporate Income Tax (CIT). Mineral royalty payments are typically treated as deductible costs. By design, they are intended to compensate countries for the deletion of exhaustible mineral resources. But at the same time, their simplicity entails that they are a more reliable form of revenue for governments that ensures that the country derives some form of benefit even when mining firms genuinely or otherwise, do not declare profits. However, this measure contributed to revenue losses loss of about K3.2 billion in tax revenues. To compensate for the revenue losses in the short term, the Government removed the VAT and excise exemptions for fuel, despite contributing to the elevated fuel prices as highlighted in the preceding chapter.

In the 2024 Budget, the Government proposed measures that are expected to raise revenues by 0.4 percent of GDP. These include increases in excises for cigarettes, some alcoholic and non-alcoholic beverages and an introduction of a levy for mobile transactions. Furthermore, the Government will apply a 15 percent withholding tax not only to the coupon income but also to the discount of government securities (which were tax-exempt). To alleviate the impact of inflation on households, they propose an increase of the tax-exempt threshold for personal income tax and lowering the upper band marginal rate by 50 basis points.

Despite these efforts however, not all revenue measures go in the right direction. While the higher threshold for personal income tax will protect low-wage earners from rising cost of living, the reduced top rate for high earners, by 0.5 percentage points to 37 percent, hampers tax progressivity [(IMF, 2023)]. Furthermore, the use of excises and custom duties to protect domestic manufacturing or tax incentives (i.e., reduced CIT rates or tax holidays) to promote investment in selected activities are unlikely to yield expected results, create loopholes in the tax system and complicate tax administration (Ibid).

In an effort to widen the tax base, the Zambian Government has expanded the base for the withholding tax by including the discounts on government bonds paid at maturity.

Additionally, the Government plans to rescind the exemption of government cars from import duties and registration tax and introduce a modest levy on mobile money transactions and adjust upwards fees and fines. To protect the tax base from inflation erosion, the authorities have indexed excises for cigarettes and sugary drinks.

Low tax compliance still remains a huge challenge. A narrow tax base, with 0.3 percent of registered taxpayers contributing 80 percent of revenues, makes revenues vulnerable to a few sectors and companies. To improve compliance, the authorities established a specialized mining unit focused on small and medium-sized mines. The Government has engaged in efforts to improve tax administration via better data processing and integration among government systems (such as IFMIS and the land registration database ZILAS). Despite all these efforts, a lot remains to be done to strengthen tax policies, leveraging technology to enhance tax administration and improve tax compliance.

Chapter 7

Conclusion

From the foregoing analysis, Zambia's recourse to the IMF was almost inevitable. With sluggish economic growth weighed down by a huge debt overhaul; limited domestic resource mobilisation from subdued economic activities; declining mining production; and overall limited foreign direct investments; among others, Zambia's economy was steadily contracting with the COVID-19 pandemic being the last straw. As such, the IMF's extended credit facility was a much-needed lifeline to the economy to bring back fiscal alleviation, international confidence, and more importantly, the technical fiscal and economic management and oversight.

That stated, it is now commonly accepted that the impact of the economic crisis and the subsequent policy adjustments of an IMF programme to bring back fiscal sustainability and economic stability comes at a cost, especially for the poor and vulnerable members of society. Specifically, the tight monetary policy adopted by the Bank of Zambia to rein in inflation also entails limited liquidity and subsequently high cost of borrowing for the private sector and households. This results in reduced economic output, high employment and overall subdued economic activities.

Similarly, the fiscal authorities' contractionary fiscal policy to reduce fiscal deficits and further debt accumulation also limits the government's ability to spur economic activities such as business for government contractors and suppliers of various goods and services. In the short- to medium-term, this reduces the government's ability to mobilise domestic revenues through taxes as well as much needed resources for debt servicing.

Recommendations

From the above analysis, the study makes the following recommendations:

1. The government should continue to protect and prioritise spending to critical social sectors such as education, health and social protection. Specifically, funding to social protection programmes targeting the poor and vulnerable such as social cash transfers and food for work programmes should be scaled up to alleviate the effects of the IMF reforms which are increasing the cost of living and poverty levels in the country. To ensure fiscal sustainability, the criteria for selecting beneficiaries should be properly designed to ensure that only deserving households receive the support;

2. In the transport sector, the government should explore ways to reduce the direct effects of automatic monthly fuel price reviews on the cost of transport for the poor and vulnerable. Learning from other countries (e.g., Ghana and Gabon) that have implemented the reform before, the government should invest in and subsidise urban public transport routes leading to and from low-income residential areas. Unfortunately, this policy option will only be available in Zambia when public transport is organised; an agenda which is long overdue given growing urban populations and increasing congestion levels, especially in Lusaka;

3. In the energy sector, the government should continue implementing the life-line band for electricity as the country transitions to cost reflective tariffs in order to attracts the much-needed investments. More importantly, this life-line band should be priced approximately in order to remain affordable for the targeted population. By so doing, this will promote access to clean energy as well as discourage recourse to unsustainable alternatives such as the usage of charcoal which increases carbon emissions and exacerbates the effects of climatic change;

4. In order to maximise resources available for national development programmes, the government should ensure maximum prudential fiscal management as well as tax justice (multi-national companies paying their fair share of taxes) at the national level. Similarly at the global level, concerted policy efforts should be deployed to limit other financial leakages such as illicit financial flows (IFFs) and other forms of tax evasion;

5. To address tax loopholes in the VAT system and other transaction taxes, the Government must expedite the implementation of an electronic invoicing system starting in 2024, to better monitor taxpayers' supply chains and reduce false VAT refund claims. This will enable the acceleration the pace of valid VAT refunds. However, indirect taxes such as VAT are less progressive than direct taxes because low-income households spend a larger share of their income to fulfil basic needs. There is, however, room to enhance the progressiveness of the system through reduction of the VAT and exempting or zero-rating most basic products such as essential commodities. In a quest to progressively broaden Zambia's tax base, there is an urgent need to establish modalities within which wealth taxes can be introduced.

6. As the Government is preparing to draft the 2025 National Budget, it must stay true to its proposed commitment of refraining from providing any new tax exemptions, reviewing their effectiveness, and expanding the tax base. The 2024 budget included measures to remove tax exemptions on registration tax for government cars, a progressive move if eventually implemented.

7. Rather than provision of tax incentives, cost-based measures are better at targeting business investment and economic growth.
While mobilising revenues predictably, the levy on mobile transactions could have a negative effect on financial inclusion.

8. Placing greater emphasis on indirect taxes has been shown to increase gender inequality, putting an unfair burden on women, especially those in low-income households. Therefore, if this burden is not considered in the reforms, women are likely to bear a large negative share of the impact from the reforms. There is urgent need for exploring gender sensitive tax progressivity, and consistently pushing for wealth taxes which remain largely untapped in Zambia.

9. The GEWEL Project should focus on financial literacy training for female entrepreneurs. This can be accomplished through collaboration with financial institutions, non-governmental organisations (NGOs), and community-based groups. Customised training programs should emphasise budgeting, saving, investing, and financial management skills.

10. The WEE project should seek more support from the government, foreign donors, and business sector partners. This would allow the initiative to increase its scope, offer comprehensive assistance, and maintain its long-term effect. The initiative should conduct policy lobbying to overcome socio-cultural obstacles and support gender-responsive policies. This could take the form of lobbying for equitable access to land and property rights, encouraging women to participate in decision-making processes, and calling out discriminatory behaviours.

Due to Zambia's limited capacity in primary data collection, the tracking of policy impacts on gender remains constrained in Zambia. For example, all important recurrent national surveys by ZamStats such as Census of Population, Living Conditions and Monitoring Survey (LCMS), and Labour Force Survey (LFS), are sparingly conducted, rendering impact evaluation of periodic policies difficult. A case in point is the 2022 LCMS which was just launched recently in 2024. In addition, these surveys collect general data on population, which further makes it difficult to use in policy impact evaluation processes. There is, therefore, need for timely and accurate gender specific data, key for policy formulation.

[4] CARE International, 2021

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